POLICY BRIEF

The Potential for SDRs and Reducing Outflows on SDG Progress

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Solidarity for the Achievement of the SDGs

Abstract

The aim of this policy brief is to identify the major barriers to scaling-up financing for the UN Sustainable Development Goals (SDGs) and to quantify the impact of four remedies which could help close massive SDG financing gaps, currently estimated at over $ 4 trillion per year. Our research suggests that the most effective remedy to the current financing challenges for the SDGs is regular SDR allocation according to need between 2025-2030. However, to maximise the impact of these allocations, reducing outflows by reforming the international tax system, measures to minimise tax exemptions, and the provision of comprehensive debt relief are also required.

If these measures were taken in combination, the world would be much closer to achieving several SDG targets. For example, according to our model, by 2030, 100% of people who lack access to electricity would be able to access it, 90% would be able to access clean fuel, 93% basic water, 77% sanitation, and 58% of children who are out-of-school would be in school.

Diagnosis

The aim of this policy brief is twofold. First, it identifies four barriers to scaling-up financing for the UN Sustainable Development Goals (SDGs). Second, it proposes remedies to address these challenges through an analysis which realistically quantifies their potential impact on SDG progress. Finally, we present our recommendations.

According to our research, the most effective remedy to current financing challenges for the SDGs is regular SDR allocation according to need between 2025–2030. However, for the impact of these allocations to be sustainable, reducing outflows by reforming the international tax system, comprehensive debt relief, and minimising tax exemptions is essential.

We quantified the effects of our recommendations on the SDGs using the Government Revenue and Development Estimations (GRADE) Model.[1] We provide projections that capture both the immediate- and long-term effects of additional revenue on SDG indicators, taking into account governance conditions, and present the gains for one year in absolute numbers and as a percentage of under-five deaths, the school age population who are out-of-school, and those who do not have basic water, sanitation, electricity, or clean fuels.

As the G20 and international policymakers consider what measures are needed to accelerate progress on the SDGs in light of the estimated $4 trillion annual financing gap, the policy brief makes a set of practical recommendations for consideration.

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[1] The Government Revenue and Development Estimations GRADE is a model to analyse the impact of additional revenue on governance and on the SDGs. The feedback loop between revenue and governance is integral to the model, reflecting the virtuous cycle in which improved governance enhances revenue generation and boosts developmental outcomes.

Special Drawing Rights

Special Drawing Rights (SDRs) are international reserve assets created by the International Monetary Fund (IMF) to supplement global liquidity. They are not currencies but can be exchanged for freely usable currencies. Each IMF member is assigned a quota based on their economic size (GDP), openness (trade volume), foreign exchange reserves, and other financial factors. SDRs can be an important financing tool, particularly for lower-income countries with higher financing needs; however, SDR allocations are infrequent, with the last major SDR allocation in August 2021, when an amount equivalent to $650 billion was issued. However, the quota system used to allocate them resulted in most going to high-income countries, where 17% of the global population live (see Figure 1).

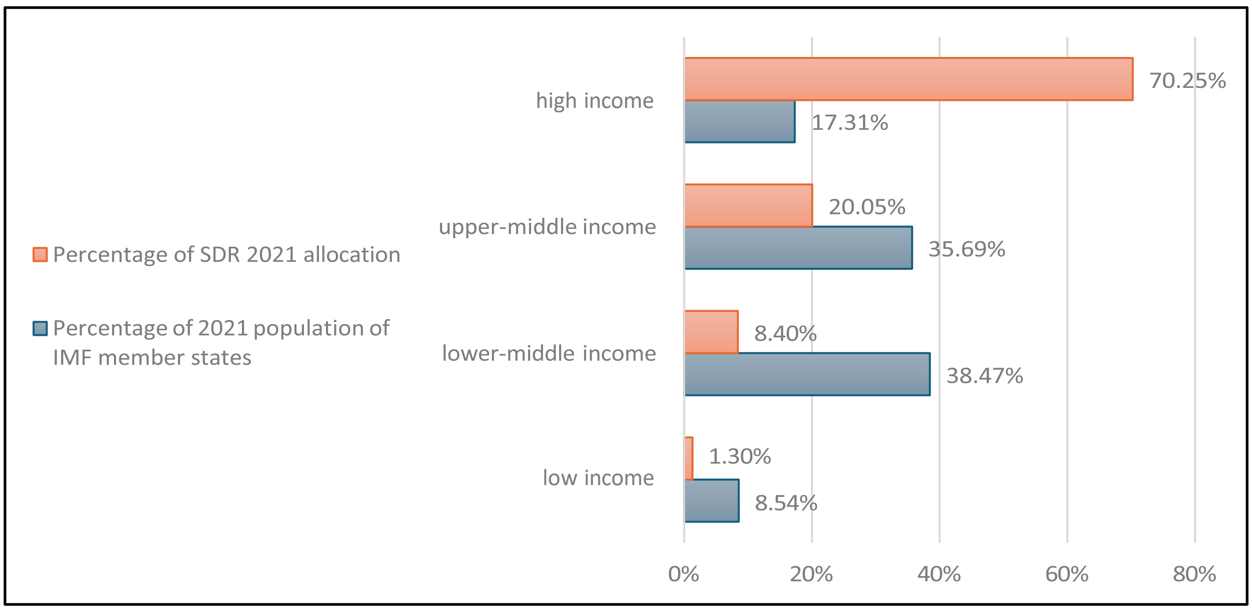

Figure 1 SDR allocations in 2021 by income group and population. Source: Authors' computation using IMF database

Nonetheless, an IMF report concluded that the allocation was successful, not inflationary, and that it contributed to global financial stability.[2] Allocations were

[2] IMF 2021 Special Drawing Rights Allocation—Ex-Post Assessment Report

mostly used to increase international reserves; however, some low-income countries converted them into tradable currencies to address their immediate financing needs, particularly in the wake of the COVID-19 pandemic. When used in this way, countries pay interest on their SDRs; however, this is at a low rate (currently about 3%, and 0.5% at the time of the 2021 SDR issuance).[3] Therefore, it is significantly cheaper than private borrowing. Thus, SDRs represent an extremely affordable source of financing. The 2021 allocation benefitted billions of people globally, including those living in high-income countries because the infusion of funds increased imports from high-income countries.[4]

Proposed Remedy with an Analysis of the Impact

We propose a regular SDR issuance allocated according to needs. What would this look like? For example, if $650 billion was allocated to 191 IMF member states in 2025 and weighted by the inverse of each country's GDP per capita, the allocation would favour low- and lower- middle-income countries (see Table 1).

Table 1. Allocation of SDRs by need

	$ 2025	Percentage of total
Low-income countries	332 166 005 889	51.10%
Lower-middle-income countries	223 046 207 141	34.31%
Upper-middle-income countries	73 699 135 030	11.34%
High-income countries	21 088 651 940	3.24%
Total	650 000 000 000	100%

We assumed an annual allocation of $650 billion between 2025 and 2030 weighted towards poorer countries, as per Table 1, and used GRADE to translate the impact on the SDGs. We found that additional revenue created through SDRs

[3] IMF: https://www.imf.org/external/np/fin/data/sdr_ir.aspx
[4] Joseph Stiglitz and Mark Weisbrot A no-brainer for global growth and US Jobs

would increase access to critical SDG-related services. For example, 22,297,123 more children would be in school every day (representing, on average, 25.39% of out-of-school children) (see Table 2).

Table 2. Progress towards SDGs with regular SDR allocations according to need

	Number	As a percentage
Additional under-5 five deaths averted	744 423	30.81% of under-5 deaths
Additional children in upper secondary education	6 411 307	23.16% of children of upper secondary school age out-of-school
Additional children in lower secondary education	6 195 661	25.10% of children of lower secondary school age out- of-school
Additional children in primary education	9 690 155	27.90% of children of primary school age out-of-school
Additional people with basic water	94 904 552	36.32% of those without basic water
Additional people with basic sanitation	178 547 647	32.67% of those without basic sanitation
Additional people with electricity	204 713 492	65.65% of those without electricity
Additional people with clean fuels	262 559 338	53.19% of those without clean fuels
Number of countries analysed	190	

Illicit Financial Flows and Tax Abuse

Illicit financial flows (IFFs) reduce the capacity of governments to provide public services and pushes states into unsustainable debt positions,[5] perpetuating a vicious cycle of revenue loss, rising debt burden, and austerity. Currently, the global financial system facilitates IFFs, [6] through a complex web of tax havens, privacy laws, and corporate structures (such as anonymous shell companies) spread across multiple legal jurisdictions which enable wealthy individuals and

[5] African Union, Report of the High-Level Panel on Illicit Financial Flows from Africa
[6] African Union Commission and United Nations Economic Commission for Africa 2015 defined IFFs as financial movements that are illegal in origin, transfer, or use, and cross international borders

corporations to shield income and assets. Although high-income countries experience the largest losses in absolute terms, the impact is far more severe for lower-income countries, because their fiscal needs and SDG funding gaps are much higher. The main enablers of IFFs are high-income nations and their dependent territories, which function as secrecy jurisdictions or tax havens, allowing individuals and corporations to circumvent the tax rules and financial transparency regulations of their home countries.[7]

Recommendations

Proposed Remedy with an Analysis of the Impact

Curtailing IFFs would mean all governments in the world would have more revenue. Analysing the State of Tax Justice estimates on tax abuse (avoidance and evasion),[8] using GRADE, we found that if governments had additional revenue equivalent to losses due to corporate tax avoidance and tax evasion, this would increase access to critical SDG-related services. For example, 2 238 226 additional children would attend school every day (representing, on average, 5.20% of out-of-school children) (see Table 4). This demonstrates the importance of efforts that are currently underway to address this issue through the United Nations Framework Convention on International Tax Cooperation (UNFCITC). However, this process does not enjoy the support of all countries.[9]

External Debt Service

Government debt soared in the wake of the Global Financial Crisis (GFC) and has grown twice as fast in sub-Saharan Africa as in advanced economies.[10] The cost

[7] Tax Justice Network The State of Tax Justice 2024
[8] Tax Justice Network The State of Tax Justice 2024
[9] In 2024, countries including Australia, Canada, Israel, Japan, New Zealand, South Korea, the United Kingdom, and the United States voted against adopting the terms of reference for negotiating the UNFCITC. See United Nations General Assembly votes overwhelmingly to begin historic, global tax overhaul
[10] UNCTAD A World of Debt

of debt for the poorest countries is extremely high. For example, bond yields on African debt were, on average, 9.8% between 2000 and 2024, compared to 2.5% for the United States.[11] Higher debt levels imply high debt servicing costs, reduced public spending, and capacity to deliver essential services. Climate change has also exacerbated debt positions by incurring high relief and recovery costs and further driving up borrowing costs, making investments in climate adaptation and resilience more difficult and adding to the overall debt burden.

High debt service costs are incompatible with scaling-up spending on the SDGs. By 2022, 56 countries spent more than 10% of their government revenue on debt interest payments alone, 32 countries spent more than 15%, and 15 countries spent more than 20%.[12] Collectively, African countries will spend more than $88.7 billion servicing debt in 2025.[13] Evidence from the Heavily Indebted Poor Countries (HIPC) Initiative shows the positive impact of reducing external debt service to no more than 15% of revenue. This enabled beneficiary countries to scale up pro-poor spending by several percentage points relative to GDP.[14] Although some steps have recently been taken to address debt vulnerabilities, recent initiatives, such as the G20 Debt Service Suspension Initiative (DSSI) and Climate Resilient Debt Clauses (CRDCs), have been relatively unambitious and have not reduced beneficiary countries' debt to more sustainable levels. The limited impact may have been because these initiatives granted a temporary suspension of debt service, but the debt stock remained unchanged, and interest continued to accrue during the suspension period, which was added to the outstanding debt and needed to be repaid over three years.[15]

[11] UNCTAD A World of Debt
[12] UNCTAD A World of Debt
[13] Source: ONE Campaign: African Debt
[14] Debt Relief for Poverty Reduction: The Role of the Enhanced HIPC Initiative
[15] Alexander Nye and June Rhee, Yale School of Management, The Limits of the G20's Debt Service Suspension Initiative

One challenge to more meaningful debt relief is the diverse creditor bases of low- and middle-income countries.[16] To be effective, debt restructuring processes must involve all forms of debt, including private bondholder debt, which represents a significant fiscal burden, because interest costs are very high.[17] Currently, many debts owed to private lenders are governed by English or New York Law. However, there is no legal mechanism to ”force” these creditors to engage in a debt restructuring process and to ensure fair burden sharing or “losses” across different types of creditors.

Reducing external debt service would mean that governments would have more revenue. Analysing Debt Justice data,[18] using GRADE, we found that if the governments of low- and middle-income countries had additional revenue equivalent to external debt service, this would increase access to critical SDG-related services. We assumed that each government has additional revenue equivalent to its external debt service in 2024, between 2024 and 2030, and found this would drive SDG progress. For example, an additional 8 604 080 children would attend school every day (representing, on average, 13.73% of out-of-school children) (see Table 4).

This illustrates the importance of establishing better approaches to sovereign debt restructuring, which could be achieved through the creation of a fair and transparent sovereign debt workout mechanism, support for a UN Framework Convention on Sovereign Debt, and new laws to tackle predatory behaviour by private lenders and enforce their equitable participation in debt restructuring operations.

[16] Currently, external debt payments by lower-income countries are distributed among private lenders (39%), multilateral institutions (34%), other governments (excluding China) (14%), and public and private Chinese lenders (13%). Debt Justice External debt service: Latest World Bank figures
[17] Debt Justice External debt service: Latest World Bank figures
[18] Debt Justice External debt service: Latest World Bank figures

Tax Exemptions

All governments offer taxpayers various kinds of preferential tax treatments to achieve their various policy objectives, often to attract foreign investment. However, there are opportunity costs, and globally, countries forego revenues equivalent to approximately 3.5% of GDP due to tax exemptions,[19] which many experts consider unnecessary and ineffective. Short-term tax incentives can become longer-term and even permanent tax exemptions owing to power imbalances between large corporations and host countries. They can also create complex tax structures, which provide opportunities for tax abuse. Local businesses can also be at a competitive disadvantage.

Reducing tax exemptions would mean that governments would have more revenue. Masiya et al. used the average tax expenditure from the Global Tax Expenditure Database (GTED),[20] for the years 2017–2020, and used GRADE to analyse the impact of additional revenue equivalent to the forgone revenue.[21] We found that additional revenue increased access to critical SDG-related services. For example, an additional 17 million children could attend school every day (representing, on average, 13.62% of out-of-school children) (see Table 4).

This demonstrates the importance of regular review of tax exemptions, independent cost-benefit analyses, and the public reporting of exemptions with the annual budget.

Table 4. Progress towards SDGs if tax abuse, external debt service and tax exemptions are curtailed

SDG Indicator	Tax abuse		External debt service		Tax exemptions	
	Number	%	Number	%	Number	%
Additional under-5 five deaths averted	28 046	4.68% *	199 431	14.04%*	180 731	13.05% *
Additional children in upper secondary education	906 859	3.66% ^	2 548 873	11.47% ^	16 966 235	9.45% ^

[19] Global Tax Expenditures Database GTED
[20] Global Tax Expenditures Database GTED
[21] Michael Masiya et al. Tax expenditures and progress to the Sustainable Development Goals.)

Additional children in lower secondary education	895 780	6.58% ^	2 773 276	14.35% ^		17.32% ^
Additional children in primary education	435 588	5.36% ^	3 281 9322	15.37% ^		14.10% ^
Additional people with increased access to basic water	11 375 455	8.19% ^	41 814 461	25.38% ^	69 571 089	22.92% ^
Additional people with increased access to basic sanitation	10 693 869	4.16% ~	70 276 874	19.61% ~	145 743 38 8	20.34% ~
Additional people with increased access to electricity	7 001 425	10.16%~	50 745 433	24.71% ~	-	
Additional people with access to clean fuels	12 304 013	10.09%~	89 079 882	26.95% ~	-	
Number of countries analysed	217		122		97	

** As a percentage of under-5 deaths, ^ As a percentage of the school age population who are out of school, ~ As a percentage of those without basic water, sanitation, electricity, or clean fuels.*

The Impact of All Proposed Remedies in Combination

Regular SDRs allocations according to need, in tandem with a reduction in tax abuse and tax exemptions and external debt relief, would mean that between 50-100% of those without access to critical SDG-related services would have access (see Table 5). The SDR allocation has the greatest impact.

Table 5. A summary of the scenarios on SDG progress

Sustainable Development Goal Indicators	Tax abuse	External debt	Tax exemptions	Additional SDRs	Total
Number of countries analysed	217	121	97	191	
Deaths averted as a percentage of under-5 deaths	4.68%	14.04%	13.05%	30.81%	**62.58%**
Additional children in school as a percentage of children of upper secondary school age who are out-of-school	3.66%	11.47%	9.45%	23.16%	**47.74%**
Additional children in school as a percentage of children of lower secondary school age who are out of school	6.58%	14.35%	17.32%	25.10%	**63.35%**

Additional children in school as a percentage of children of primary school age who are out-of-school	5.36%	15.37%	14.10%	27.90%	**62.73%**
Additional people with basic water as a percentage of those without basic water	8.19%	25.38%	22.92%	36.32%	**92.81%**
Additional people with sanitation as a percentage of those without sanitation	4.16%	19.61%	20.34%	32.67%	**76.78%**
Additional people with electricity as a percentage of those without electricity	10.16%	24.71%	No estimates	65.65%	**100.52 %**
Additional people with clean fuels as a percentage of those without clean fuels	10.09%	26.95%	No estimates	53.19%	**90.23%**

Conclusion

- ## Allocation of Special Drawing Rights according to need

Given that the 2021 SDR allocation contributed to global financial stability and supported the immediate financing needs of developing countries,[22] we recommend an annual issuance of $650 billion, with allocation according to need between 2025–2030. This would see 51.23% of SDRs allocated to low-income countries and 34.4% to lower-middle-income countries and create reliable, affordable financing which would enable countries to increase spending on social sectors and to tackle climate change.

- ## Tax abuse

A new international tax regime is needed, and we recommend that all countries support the UNFCITC. This will mean all countries implementing measures, such as

[22] IMF 2021 Special Drawing Rights Allocation—Ex-Post Assessment Report

automatic exchange of information, public registers of beneficial ownership, and public country by country reporting. [23]

- **External debt**

A better approach to sovereign debt restructuring is needed. The G20, IMF, and World Bank are chairing the Global Sovereign Debt Roundtable initiative to build consensus on new mechanisms,[24] but more urgency is needed. The UN's current negotiations to develop a new Financing for Development agreement provide an opportunity to commit to more ambitious measures. We recommend that all countries support the proposal to develop a UN Framework Convention on Sovereign Debt and commit to extending debt relief to countries which experience major external shocks such as climate-related shocks.

Furthermore, we recommend that the UK and the US implement changes to the law to prevent predatory behaviour by private creditors.

- **Tax exemptions**

We recommend that all countries review their tax exemptions regularly, conduct independent cost-benefit analyses, and publicly report tax exemptions with the annual budget to ensure transparency and public accountability.

Appendix

The GRADE Model is built around a large econometric model which demonstrates the effect of an increase in government revenue on many of the UN's SDGs, given the differences in governance conditions. The model is built on a highly nonlinear set of relationships which reflects the various stages of economic development

[23] UNU IIGH, TJN, UNRISD, Tax systems and policy: Crucial for good health and good governance
[24] World Bank, G20, IMF The Global Sovereign Debt Roundtable (GSDR)

around the world.[25] In very low-income countries, increasing government revenues will have little effect, partly due to weaknesses in governance conditions; however, as an economy begins to develop, there can be substantial improvements in welfare from relatively small increases in government revenue as a positive feedback loop begins to take shape – increases in revenue support improved governance, and vice versa.[26] Finally, as an economy becomes more highly developed, many welfare measures will reach a saturation point, where it becomes very expensive to bring about further improvements. Figure 2 schematically illustrates these stages, with the plateau phase representing a 100% coverage of critical services.[27, 28]

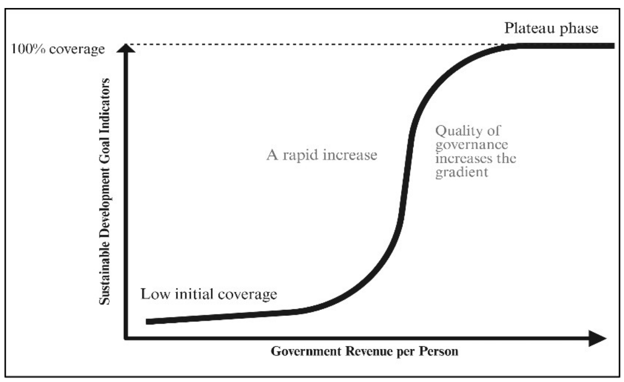

Figure 2. The relationship between government revenue and coverage of SDG indicators

[25] Hall and O'Hare, A Model to Explain the Impact of Government Revenue on the Quality of Governance and the SDGs
[26] O'Hare and Hall, The Impact of Government Revenue on the Achievement of the Sustainable Development Goals and the Amplification Potential of Good Governance.
[27] Lower-income countries are low- and lower-middle-income countries
[28] Hallegatte, Stephane; Rentschler, Jun; Rozenberg, Julie. 2020. Adaptation Principles: A Guide for Designing Strategies for Climate Change Adaptation and Resilience. World Bank.

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