United Nations Development Programme

FIG

Finance, Integrity and
Governance Initiative

Working Paper

2nd FIG Policy Symposium

Sovereign Debt and Professional Enablers of Tax Abuse and Illicit Financial Flows

See also associated working papers:
1st FIG Policy Symposium — International Tax Cooperation & the Challenge of Illicit Financial Flows

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Acknowledgements

This working paper has been produced by UNDP's Global Policy Centre for Governance with the support of the International Institute for Sustainable Development (IISD). The paper reflects discussions and ideas offered by participants during the Second Finance, Integrity, and Governance (FIG) Policy Symposium in New York City in October 2024. UNDP is grateful for the support, ideas, feedback, and advice provided by several participants and stakeholders. Without the symposium participants' thoughtful contributions and willingness to engage in frank and open conversations, the FIG process and outcomes would be much less compelling. UNDP would also like to thank the Norwegian Agency for Development Cooperation (Norad) for their generous support to the Finance, Integrity and Governance (FIG) Initiative.

Acronyms and Abbreviations

AAAA – Addis Ababa Action Agenda
BEPS – Base Erosion and Profit Shifting
BO – Beneficial Ownership
CbCR – Country by Country Reporting
CEPA – Committee of Experts on Public Administration
CF – (G20) Common Framework for Debt Treatment
CRAs – Credit Rating Agencies
CSO – Civil Society Organization
DMOs – Debt Management Offices
DSF – Debt Sustainability Framework
ESG – Environmental, Social and Governance
FACTI Panel – High-level Panel on Financial Accountability, Transparency and Integrity
FATF – Financial Action Task Force
FfD – Financing for Development
FfD4 – 4th International Conference on Financing for Development
FIG – Finance Integrity and Governance
GPCG – Global Policy Centre for Governance
IDA – International Development Assistance
IFFs – Illicit Financial Flows
SDGs – Sustainable Development Goals
SDRs – IMF Special Drawing Rights
SIDS – Small Island Developing States
SOE – State-owned Enterprise
OECD – Organisation for Economic Co-operation and Development
UN CAC – United Nations Convention Against Corruption
UNDP – United Nations Development Programme
TCSPs – Trust and Company Service Providers

Summary

UNDP's Global Policy Centre for Governance (GPCG), in close collaboration with the UN Department of Economic and Social Affairs (UN DESA) and UNDP's Sustainable Finance Hub, hosted the second policy symposium of its Financial Integrity and Governance (FIG) Initiative in October 2024. The FIG initiative serves as a co-creative knowledge track to examine emerging issues related to financial integrity and governance in the lead up to the 4th International Conference on Financing for Development (FfD4). After a successful First FIG Policy Symposium, the Second FIG Policy Symposium focused on sovereign debt arrangements and on professional enablers of tax abuse and IFFs. This paper provides an overview of discussions and recommendations offered by participants during the Second FIG Policy Symposium.

Professional Service Providers, Tax Abuse and Illicit Financial Flows

Several **high-profile leaks** have highlighted the role of professional service providers in facilitating IFFs – the Panama and Paradise Papers to name a couple. Since then, some progress has been made to better regulate professional service providers and empower them, as gatekeepers, to be agents of change in detecting and reporting financial wrongdoing. However, **more work is required to tackle these so-called professional enablers** of IFFs. With no explicit reference to professional service providers in the Addis Ababa Action Agenda (AAAA), FfD4 offers an opportunity to address this issue upfront, and in a comprehensive manner.

During the symposium, the following recommendations for FfD4 emerged to ensure that professional service providers contribute to financial integrity:

At the international level

- Acknowledge corruption and its cross-cutting impacts on the financing for development (FfD) agenda and advocate for the full implementation of UN Convention Against Corruption.
- Build on the suggestions of the High-level Panel on Financial Accountability, Transparency and Integrity (FACTI), including the establishment of a reporting mechanism on implementation.
- Establish a global standard on key enabling services to form a consistent regulatory baseline.
- Commit to greater transparency and information sharing through a Global Asset Register on beneficial ownership (BO) and by limiting professional confidentiality.
- Foster collaborative ecosystems across countries and authorities, while building coalitions.
- Increase accountability, scrutiny, and reputational costs for enablers (e.g. supporting journalists).

At the national level

- Rely more on public regulation rather than on industry associations' self-regulation: (a) regulate services rather than professions (b) strengthen cross-authorities cooperation; and (c) ensure comprehensive coverage of professionals under anti-money laundering (AML) rules.
- Insulate processes from enablers' undue influence, e.g. via rules on lobbying and disclosure.
- Encourage industry associations to step up rules and enforcement, increase awareness, and include ethics and IFFs in education to ensure 'serving the public interest' as a guiding principle.
- Boost capacity and public access to information: (a) central, publicly accessible BO registries; (b) mandatory BO data disclosure rules; (c) and more inclusive country-by-country reporting (CbCR).

Sovereign Debt

Since the 2015 AAAA, **debt sustainability has deteriorated significantly,** driven by a combination of factors, including the limited availability of concessional finance, the COVID-19 pandemic and other shocks, climate change, and continued domestic resource mobilisation challenges. Global public debt has hit an all-time high, with developing countries bearing a disproportionate increase. High public debt, in turn, leads to **high debt service costs**, especially since developing countries borrow at higher interest rates than advanced economies. This fiscal pressure has made spending on the Sustainable Development Goals (SDGs) increasingly difficult, especially in Africa, Western Asia, and Small Island Developing States (SIDS), where debt burdens are heaviest.

During the symposium, the following recommendations for FfD4 emerged to promote a more effective, inclusive, and accountable debt architecture:

At the international level

- Adopt debt relief initiatives and other measures to enhance fiscal space for developing countries to develop sustainably, including an inclusive, green economic transition.
- Establish an effective, inclusive, and accountable sovereign debt work-out mechanism to address debt distress, potentially under the auspices of the United Nations.
- Reform debt restructuring processes to address delays, inefficiencies, and inequities.
- Strengthen the methodologies used to underpin the Debt Sustainability Frameworks (DSF) and ensure that inclusive and accountable processes are in place.
- Enhance transparency through a comprehensive debt data registry to address information gaps, including by standardizing and reconciling existing frameworks.
- Strengthen the regulation around Credit Ratings Agencies (CRA), ensure greater transparency in their methodologies, and potentially establishing a CRA under the auspices of the UN.

At the national level

- Strengthen domestic debt management capacity building to ensure effective oversight.
- Strengthen legal frameworks in debtor and creditor countries to ensure stakeholder participation in borrowing decisions and debt restructuring under equitable treatment.
- Align debt and borrowing decisions with national development, climate, and SDGs priorities.
- Expand oversight for greater accountability and for development-aligned resource allocation.

Introduction: The Second FIG Policy Symposium

The UNDP Global Policy Centre for Governance (GPCG), in close collaboration with the UN Department of Economic and Social Affairs (UN DESA) and UNDP's Sustainable Finance Hub, hosted the second policy symposium of its Finance, Integrity and Governance (FIG) Initiative in New York City, from 30 to 31 October 2024. The FIG initiative provides a space to examine emerging issues related to financial integrity and governance in the lead up to the 4th International Conference on Financing for Development (FfD4) and serves as a co-creative knowledge track that is separate from but in support of Member States' formal FfD4 negotiations. Designed and facilitated by GPCG, the symposium was organised as a strategic input to FfD4, which will take place in Spain in 2025. The First FIG Policy Symposium, convened in May 2024 in Oslo, focused on International Tax Cooperation and the Challenge of Illicit Financial Flows.

The Second FIG Policy Symposium focused on two main topics (see below). These topics were selected based on a broad consultation with FfD4 stakeholders, including FfD4 co-facilitators, UN DESA, and participants to the first FIG symposium. Altogether, 69 participants from UN Member States, academia, civil society, international organisations, and the private sector attended the two-day event in New York City, United States.

1. **Professional service providers** and their role with regard to tax abuse and illicit financial flows (IFFs): While professional service providers - such as lawyers, accountants, financial advisors, management consultants or real estate agents - can enable tax abuse and IFFs, they are also in a privileged position as gatekeepers to help detect and prevent the activities across countries. The FfD4 provides an important opportunity to explore in what way this issue should be addressed globally to ensure that these professions contribute to financial integrity.

2. **Sovereign debt – international and national perspectives**: As debt levels in developing countries hit a record high, and debt risks rise, the FfD4 represents a unique moment to reimagine a more effective, accountable, and inclusive debt architecture, at both the global and national levels.

To explore these issues, the symposium convened stakeholders with a range of expertise from across Member States, international organisations, academia, private sector, and civil society. The event provided an opportunity to:

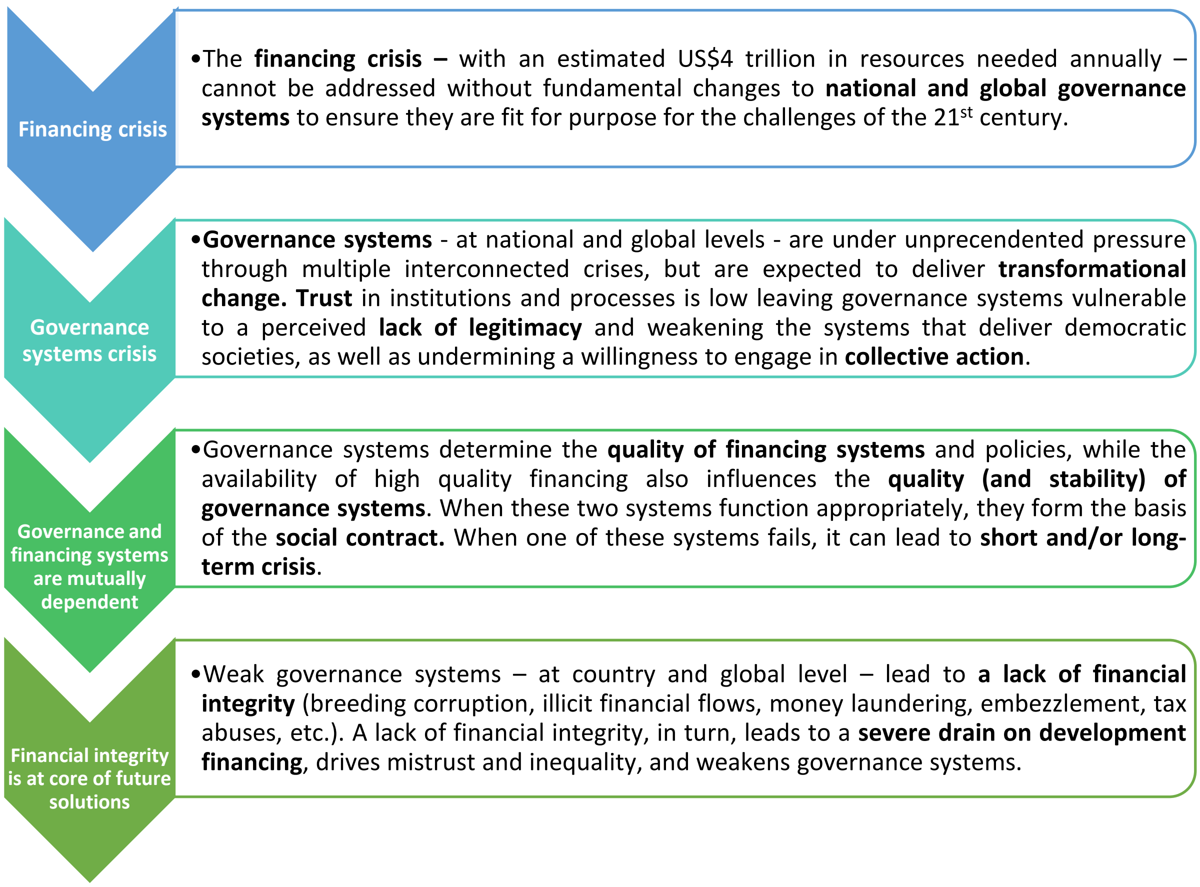
- Take stock of current progress towards strengthening debt sustainability and dealing with the role of professional service providers in relation to IFFs.
- Identify priority themes and areas of consensus.
- Identify specific policy proposals that can strengthen financial integrity through more inclusive, accountable, and effective institutions and policies, and provide practical input to FfD4 negotiations.

Why Focus on Financial integrity and Governance?

The FIG initiative is underpinned by the proposition that financing for sustainable development and the quality of governance systems – at both national and international levels – are deeply interconnected. This is rooted in four observations (see Figure 1).

Seen in this way, a future global framework for financing for development (FfD), which prioritises and seeks to strengthen financial integrity, can have positive feedback loops both on the quality of national and global governance systems and the quality and volume of financing available for sustainable development. The issue of financial integrity and governance is therefore of critical importance to FfD4 negotiations.

Figure 1. Key Observations on the Interconnection Between Financing and Governance Systems



Source: Authors' elaboration

In recognition of this, the FIG Policy Symposia take a financial integrity and governance perspective to FfD4, by focusing on the effectiveness, accountability, and inclusiveness of policies and institutions in the context of development finance. The FIG framework builds on the areas put forward by the High-level Panel on Financial Accountability, Transparency and Integrity (FACTI Panel) (values, policies, and institutions) and the United Nations Economic and Social Council (ECOSOC)-endorsed UN Committee of Experts on Public Administration (CEPA) Principles of Effective Governance for Sustainable Development (effectiveness, accountability, and inclusiveness). For the second FIG Policy Symposium, this meant looking at the effectiveness, accountability, and inclusiveness of policies and institutions that shape debt and public financing as well as the functioning of professional enablers.

Box 1. Financial integrity: What is it?

There is no universally agreed definition of financial integrity. However, the Financial Accountability, Transparency and Integrity (FACTI) Panel defines "financial integrity for sustainable development" as: "all economic and financial activities [...] conducted in line with the content, and spirit, of legitimate financial rules and standards, which must be fully compatible with – and contribute to – sustainable development." According to this definition, achieving financial integrity for sustainable development requires greater transparency, stronger institutions (at both national and international levels), enhanced accountability, and more cooperation at the national, regional, and global levels, with all people contributing towards financial integrity in all aspects of their lives.

Figure 2. ECOSOC-endorsed Principles of Effective Governance for Sustainable Development

Effectiveness	Accountability	Inclusiveness
• Competence • Sound policymaking • Collaboration	• Integrity • Transparency • Independent oversight	• Leaving no one behind • Non-discrimination • Participation • Subsidiarity • Intergenerational equity

The Second FIG Symposium allowed participants to dive deeper into the two issues of professional service providers and sovereign debt with colleagues and experts from Member States, academia, civil society, international organisations, and the private sector. On both topics, the ambition around financial integrity was to look ahead to examine what effective, accountable, and inclusive policies and institutions could look like and to identify concrete opportunities for FfD4 to accelerate progress in this regard. The symposium was conducted under the Chatham House rule, meaning statements are not attributed, and allowed for a safe space for informal and honest conversations. This paper provides an overview of discussions and recommendations offered by participants during the Second FIG Policy Symposium

The working paper is structured as follows. **Part 1** provides a summary of the discussion on professional service providers' role in enabling and tackling tax abuse and IFFs. **Part 2** provides a summary of the discussion on sovereign debt. Both parts are structured to address two key questions: understanding the problem and identifying solutions. Annex 1 contains the agenda and Annex 2 contains a digitalised version of the mapping of insights that was developed during the Second FIG Policy Symposium.

Part 1: The Role of Professional Service Providers in Enabling and Tackling Tax Abuse and IFFs

Understanding the Problem: professional service providers can either undermine or improve financial integrity.

Tax abuse, corruption, and other forms of IFFs involve a variety of actors. In recent years, increased attention has been paid to the role that professional service providers such as lawyers, accountants, financial advisors, management consultants, real estate agents, and other actors play in enabling tax abuses and in hiding and / or laundering proceeds from corruption, nature crimes, and other forms of organized crime. Many of these professions act as so-called 'gatekeepers' to the financial system – meaning that they can open access to the financial markets. These gatekeeper professions tend to be subject to specific obligations in accordance with international anti-money laundering (AML) standards. Others are not subject to these types of regulation. One example of the latter is management consultants who at times may play an important role in tax abuse. The Financial Action Task Force (FATF) focuses specifically on four non-financial gatekeeping professions: lawyers, accountants, trust and company service providers, and real estate agents.

High-profile exposés, such as the Panama and Paradise Papers and research from institutions such as Transparency International (TI), Tax Justice Network (TJN), and the International Consortium of Investigative Journalists (ICIJ) have helped increase awareness and calls for action. These investigations have revealed how cadres of highly qualified and specialized professionals across both developed and developing countries have enabled tax abuses, tax fraud, and corruption on behalf of wealthy individuals, political elites, and multi-national corporations (MNCs). Often, these "enablers" utilize tax havens and secrecy jurisdictions to hide their clients' illicit wealth, and they tend to escape accountability from prosecution. For instance, A 2024 FATF Report found that almost half of the 120 assessed jurisdictions across the FATF Global Network fail to apply the required obligations to professional service providers (or "gatekeepers").

During the symposium, the following points were raised regarding the relationship between professional service providers, IFFs, and financial integrity:

At the international level

- **Enablers exploit the cross-jurisdictional nature of IFFs, tax abuse, and corruption – features that also make it hard to investigate and tackle their role.** Enablers operate transnationally, for instance by being registered in one country, while operating in a second (e.g. where they set up a shell company) for a client based in a third country. Despite this, regulations (via industry or government) tend to take a national or sector-specific approach, making it hard to address the global aspect of IFFs or tax abuse. Country-by-country reporting (CbCR) is one form of regulation that aims to shed light on the cross-jurisdictional nature of IFFs, specifically tax-related IFFs, by requiring companies to report their profits and how much tax they pay in each country where they operate. This CbCR "map" should reveal any misalignments between the location of real activity and where profits are ultimately declared to hold both MNCs and tax havens to account. However, several developing countries still have **difficulty accessing CbCRs,** limiting their ability to identify and address IFFs and the professional enablers that help them.

- **Current global policy initiatives to address enablers of IFFs, tax abuse, and corruption are fragmented and have had mixed success at national level.** International standards on anti-corruption have been hard to implement at national level. The United Nations Convention Against Corruption (UNCAC), with its 191 Parties, provides a global framework for addressing corruption, but it has yet to be fully implemented at national level. Anti-corruption agencies have less power and are less able to implement change and affect laws. Definitions on corruption are lacking, as are resources to support anti-corruption efforts. Symposium participants agreed that the FATF is having more success through its system of peer reviewing country's legal and regulatory frameworks. The International Monetary Fund's (IMF) is also proposing a complementary approach that would focus on the jurisdictions where the macroeconomic risks of money laundering and financial flows are greatest. The Organisation for Economic Co-operation and Development's (OECD) Global Forum on Transparency and Exchange of Information for Tax Purposes has been effective because countries are motivated and, unlike anti-corruption agencies, tax authorities have enforcement power within countries. Participants flagged the **need for greater coherence between initiatives**, as well as **political coalitions across stakeholder groups** – for example, civil society, voters, companies, media, etc., nationally and across regions.

At the national level

- **Too much emphasis has been put on regulating professions rather than services.** This is problematic because the same services can be delivered by different professions, and these different professions are often regulated differently and with differing AML responsibilities. Instead, technical experts at the symposium recommended looking at and, subsequently, regulating the types of services that are most likely to be used to aide tax abuse and IFFs (e.g., company formation, transfer of funds, etc.). During the symposium, participants highlighted **'onestop shops'** as a concrete example of why regulating professions may be ineffective in tackling enablers of IFFs (see Box 2 for more details).

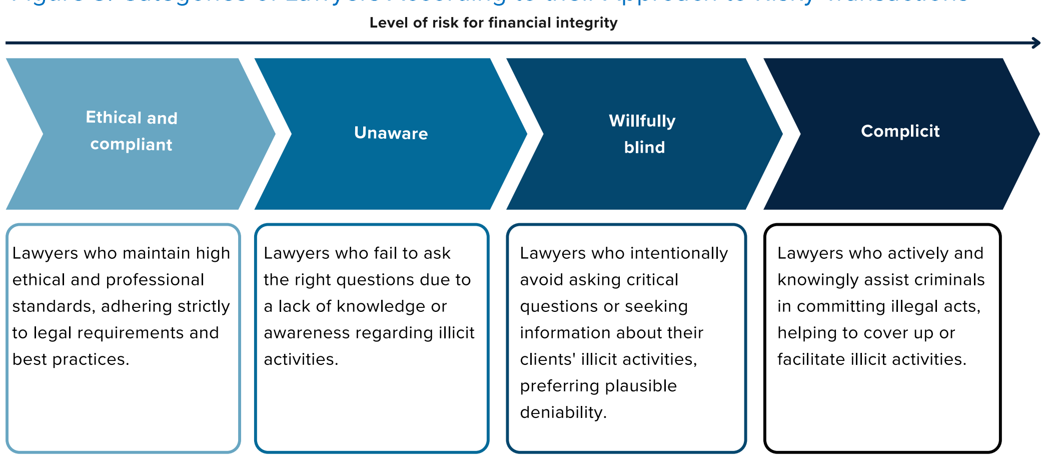
Box 2. One-stop shops may obscure enablers of IFFs, making them hard to regulate

'One-stop shops' are large or boutique firms that provide a suite of legal, accounting, financial, investment, and consulting services. These firms can provide services from both regulated or unregulated professions, leading to a blurring of professional lines and making it hard to regulate. These one-stop shops may not only construct the vehicles necessary to shield their clients' assets from international scrutiny; but also negotiate or aggressively deal with regulators, compliance officials, and journalists who take an interest in their clients' affairs. They may be hard to regulate since they do not adhere to neatly defined professional roles.

- **Self-regulation, while necessary and important, on its own is insufficient to address the problem of professional enablers of IFFs.** There are several reasons why self-regulation has not worked. First, self-regulation is implemented by professions, not services. Second, professions are subject to different regulations in different jurisdictions, creating a piecemeal approach that enablers can exploit, as well as making it an uncertain regulatory environment and uneven playing field even for well-meaning companies. For instance, in some countries the legal or financial professions are highly regulated, whereas in others they have no positive legal duty to report suspected criminal activity or verify the origin of the assets they handle. This patchwork of regulation and enforcement leaves service providers facing little risk if they facilitate tax abuse and IFFs. Third, self-regulation has also been limited by its national and / or sector specific approach, despite the problem being transnational in nature, and therefore requiring global solutions. Several more specific reasons why self-regulation has not worked are set out below:

- **Some professional service providers lack the awareness and capacity required to prevent tax abuse, corruption, and IFFs**. For instance, the ability to clearly distinguish between legal and acceptable behaviours and those that are illegal or unethical, as well as awareness of their legal obligations and the underlying policy rationale. This behaviour is on a spectrum ranging from enablers wilfully engaging in and facilitating illegal activity, to those who lack awareness of their obligations or basic knowledge of how to fulfil them. To illustrate this point in the context of the legal profession, one participant categorized lawyers into four groups based on their approach to risky clients or transactions (the legal profession was mentioned several times during the symposium because of the role they play in offering a suite of important services, including as trust and company service providers TCSPs). Figure 2 provides an overview. The middle two categories (wilfully blind or unaware) refer to lawyers who either deliberately fail to ask the right questions, to maintain plausible deniability, or out of ignorance. Participants agreed that these two categories can be addressed by measures such as requiring additional due diligence on clients and educating lawyers on what questions to ask and increasing the costs of non-compliance. Building capacity in these areas, including at law schools, should be a priority. Some participants cautioned that training on topics such as corruption must be adapted locally.

Figure 3. Categories of Lawyers According to their Approach to Risky Transactions



Source: Authors' elaboration based on symposium participant contribution

- **The incentive structures and social and professional norms that govern enablers may further undermine effective self-regulation, and ultimately financial integrity.** The rewards for facilitating IFFs are significant. In certain countries, several participants noted, some companies openly advertise their services related to financial secrecy and measure employees' performance in ways that incentivize risky behaviours and disregard for ethical implications. In many cases the fines are insufficient to deter enablers. Some of the companies that offer these types of services are big and can simply absorb the cost. Participants also questioned whether financial penalties are the most effective in motivating behavioural change. Instead, they agreed that more emphasis should be placed on **reputational risk and penalties** – including temporary disbarment (individual) or an external monitor (for a company). In all instances, certainty of the sanction is key to its effectiveness. If enabling IFFs leads to reputational damage, this may create much-needed momentum for **cultural change** within firms, including **peer pressure** to do the right thing.

- **Finally, there is a complete lack of self-regulation in some professions and service areas.** For instance, consultancies can be staffed with lawyers or accountants and provide similar advice to law and accounting firms but without the accountability or regulatory scrutiny applicable to bar associations or national accounting boards. Other professions mentioned that may escape self-regulation included **real estate agents** and **investment advisors**. This further underscores the point above regarding the problem of regulating (via industry or government) professions rather than services. Given the mix of participants at the symposium, which comprised experts both on professional service providers and on debt, a new, interesting connection was made regarding the role of enablers in the debt space. Particularly, in the context of the more complex creditor landscape witnessed since the Global Financial Crisis, enabler professions' role in the debt space has risen, supporting creditors with a high risk and reward investment profile. This landscape would benefit from increased regulation of enabling professions rather than services.

- **Inadequate legal frameworks and weak enforcement limit effective regulation of professional service providers.** First, regulations often have gaps in coverage. Accountants are only subject to AML regulations if they are chartered, for example. This again reinforces the need to regulate services rather than professions. Second, there is **inadequate enforcement of AML regulations**. This is often due to a **lack of incentives for prosecutors to prosecute enablers**, instead they tend to serve as witnesses. One participant shared that, despite having worked with prosecution for 20 years, they have never seen an enabler being prosecuted.

- **Political economy realities often underpin inadequate rules and enforcement.** Inaction on enablers is shaped by the political economy environment in countries within which these actors are based and operate. This was also reflected in a discussion of the case of Panama in the wake of the Mossack Fonseca leak, where all professional enablers on trial have been acquitted. Another participant mentioned that in their country, fines are applied according to a basic box checking review, reflecting a lack of appetite from regulators to go after the enablers. Furthermore, professional service providers may become **subject to criminal capture**. For example, one participant described a case where the foreign exchange department of a bank had been captured by a criminal network. Management in the bank had apparently no knowledge of this until the bank went bankrupt. In another case, large consultancies were noted to have been paid large fees to advise a tax authority on its reorganisation only to weaken it as part of a process of state capture. On top of this, oversight institutions and investigative journalists, particularly the latter, are **under-resourced.**

Identifying Solutions: national and global policy steps to ensure that professional service providers contribute to financial integrity

A large majority of participants at the symposium agreed that the AAAA's coverage of enablers and IFFs was insufficient, that much more needs to be done to tackle the role of professional service providers in relation to tax abuse and IFFs, and that FfD4 is an opportunity to advance this agenda. Fortunately, there are global commitments and initiatives to build on, such as the UNCAC or the FACTI panel recommendations. In the recent Pact of the Future, Action 4, on the closing of the SDG financing gap in developing countries, Member

States committed to *"(h) Strengthen ongoing efforts to prevent and combat illicit financial flows, corruption, money laundering, tax evasion, eliminate safe havens and recover and return assets derived from illicit activities*".

In providing recommendations for policy actions, participants underlined the need to look more deeply into what is and is not working in tackling enablers. The G20 stock taking exercise on enabling functions was flagged as a useful reference in developing concrete recommendations on for FfD4. It was also suggested that a mapping exercise be undertaken to look at existing regulation of the main enabling functions globally. The section below provides a summary of key recommendations made during the symposium. Note that while many participants converged around these recommendations, they do not necessarily reflect a consensus view.

During the symposium, several recommendations were identified at international and national levels, each aligned with one or several of the ECOSOC-endorsed CEPA Principles of Effective Governance for Sustainable Development (effectiveness, accountability, and inclusiveness), represented by colored icons.

Effectiveness

Accountability

Inclusiveness

At the international level

Recommendation	Principle
• **Acknowledge corruption as a cross-cutting issue, impacting all aspects of the financing for development agenda.** It should advocate for the full implementation of UNCAC by its 191 Parties, as well as the outcomes from the UNCAC Implementation Review Mechanism, particularly standards that directly impact the success of the FfD agenda, including those on public procurement, management of public finances, beneficial ownership transparency and money laundering.	
• **Build on the recommendations on enablers from the FACTI panel**. This could include establishing a reporting mechanism on implementation. Countries should ensure that key professions (via industry associations) are engaged and brought into the process as ethical gatekeepers.	
• **Work towards establishing a global standard on key enabling services.** This standard would form a globally consistent regulatory baseline for tackling enablers to be adapted by countries around the world. International standards for tax planning show that this is possible. Such a standard should emphasise the need to report illegal behaviours even under confidentiality agreements. The standard should be applied to Chief Financial Officers and should include obligations for accountants to report suspicions of tax evasion, requiring them to put the public interest ahead of	

profits. This global standard on professional service providers should be anchored in relevant conventions such as UNCAC and the forthcoming UN Framework Convention on International Tax Cooperation (where tax-related IFFs have been identified as a top priority), in other international legal instruments, as well as in leading industry practice, such as the Unifying Framework.

- **Commit to greater transparency and information sharing to help identify and tackle the professional enablers of IFFs.** Two concrete recommendations emerged from the symposium:

  a) **Agree to establish a Global Asset Register** to gather and publicly disclose beneficial ownership (BO) information for legal vehicles and assets. A Global Asset Register is a comprehensive international registry of all wealth and assets, along with their real beneficial owners. The current momentum regarding wealth taxes may offer a political opportunity to get agreement on a Global Asset Register. For a wealth tax to work, there needs to be transparency on where wealth, including assets, are located, which a Global Asset Register would help to facilitate. Access should not be restricted to law enforcement agencies.

  b) **Reform international standards to, in some cases, limit professional confidentiality (e.g. attorney client privilege) where it is being exploited.** Professional confidentiality has been exploited by some enablers of IFFs and there is strong demand for internationally recognized limits and exceptions to this principle, while not undermining the important role that this principle plays in ensuring the independence of the legal profession and rule of law.

- **Foster collaborative ecosystems across countries.** Improve coordination across countries and professional fields, such as among law enforcement agencies, regulators, oversight bodies, and other accountability actors. Building coalitions across countries of those negatively affected by IFFs and those actively fighting the problem can help to shift the balance of power in favor of regulators and prosecutors. Bringing in all stakeholders is relevant to tackle the problem in a comprehensive manner.

- **Increase social accountability.** Increased scrutiny of enabling services and higher reputational costs for enablers, e.g. via more support (resources and protection) for civil society, whistleblowers, and investigative journalists, and by fostering coalitions of those negatively affected by IFFs across countries, regions and stakeholder groups. Use influence of important ‘clients’ to professional service provider industries as levers for change. MNCs are under public scrutiny, and many have adopted leading standards on corporate ethics and Environmental, Social and Governance (ESG) principles. They could require their contractors, consultants, and other service providers to adhere to similar standards.

At the national level

Recommendation	Principle

- **Move away from relying on industry associations to self-regulate professional service providers to more stringent and effective enforcement of government regulation**. This could entail several steps:

    a) **Introduce legislation that regulates types of services rather than professions.** Regulations should focus on the services provided by enablers across various professions, such as setting up companies and trusts, serving as nominee directors, and managing assets. High-risk services should be prioritized. National risk assessments to be conducted regularly (with stakeholders such as civil society and industry) to identify high-risk services and sectors. The **US ENABLERS Act** was emphasized a good example, though it still remains to be passed in Congress. Participants also highlighted efforts being made by the Australian government to do a complete review of regulations on enablers by functions / services. National regulations do not have to start from a vacuum. They can rely on language from and commitments to international conventions, as well as on other international soft law and industry practice, to close the gap between what is considered illegal and legal domestically and eventually criminalize enabling actions. Other measures include: strengthening oversight mechanisms for banks and other key professions; criminal and civil penalties such as larger fines, suspension and loss of professional affiliation for professionals that violate rules; and increasing monetary incentives for government agencies investigating and prosecuting enablers.

    b) **Enhance cooperation between supervisory bodies, law enforcement agencies, licensors, and regulators.** The lack of cooperation and exchange of information is one less incentive for professional service providers to abide by the spirit of the law. Better cooperation would help detect non-compliance with industry regulation or transparency requirements, and facilitate penalties and sanctions, such as the suspension of licenses in cases of unethical professional behaviour. Sharing information between public entities, between public and private entities, and between private entities should be more systematic and protected. This should be accompanied by tougher inspections (e.g., face-to-face / site visits) and penalties. Finally, legislative reform is required to enforce a minimum reporting standard applicable to all supervisory bodies.

    c) **Ensure the comprehensive coverage of professionals under AML rules.** Ensure that all professionals who provide services which contain a risk of IFFs and tax abuse are subject to AML obligations, including customer due diligence, beneficial ownership identification, and suspicious transactions reporting. Require professionals to undertake additional measures when their clients or the beneficial owners of legal entity clients are domestic or foreign politically exposed persons, their family members or close associates. Additionally, governments could introduce legislation to directly prohibit or regulate nominee shareholders and directors. Such legislation would be complemented by civil and criminal penalties and give the nominee all rights over the entity starting from registration, and the nominator (real beneficial owner) none, creating an incentive not to register incorrect or inaccurate information. Finally, countries could disregard an indemnity provision in favour of directors and make them directly liable for any entities they manage or direct, without being able to claim that they were merely nominees. Other proposals to target enablers were to introduce incentives to avoid complex ownership structures and incentives for prosecutors to go after enablers.

- **Insulate regulatory processes from the undue influence of enablers.** Proper rules on lobbying, conflict of interest, disclosure, and transparency can limit professional services providers' undue influence that creates loopholes and weakens rules.

- **Encourage and support industry associations to step up enforcement rules, strengthen social and professional norms, as well as build capacity and increase awareness among professions and accountability actors**. This should ensure that 'serving the public interest' is a guiding principle for professional service provider industries. Additionally, include ethics and better understanding of the harms of enabling IFFs as part of the education for relevant professions. Peer pressure and self-policing is key —there should be more cases of disbarment and of losing one's license and professional reputation.

- **Improve capacity and public access to information to identify tax abuse.** This may entail several steps:

  a) **Establish a central, publicly accessible BO registry**. For the avoidance of doubt, access to such registries should not be restricted to law enforcement agencies only. This is necessary to increase transparency. National BO registries are a necessary input for establishing a Global Asset Register – to gather and publicly disclose all wealth and assets, along with their real beneficial owners.

  b) **Adopt mandatory disclosure rules to help authorities and other relevant parties verify and make better use of BO data to tackle IFFs.** Such rules would require enablers to disclose the tax planning schemes they are promoting and engaging in to reduce taxes (the transactions, parties involved, as well as the legal frameworks that apply). Authorities can then use this information to improve verification of BO information and tackle complex ownership structures. Countries such as the United States and Canada have been implementing mandatory disclosure regimes since the 1980s. OECD Base Erosion and Profit Shifting (BEPS) Action 12 also promotes mandatory disclosure, as does the European Union DAC 6. The Tax Justice Network has published a useful guide to drafting mandatory disclosure rules.

  c) **Make CbCR more inclusive by giving public access to information to identify tax abuse**. Capacity development should be offered for law enforcement agencies as well as industry associations to enforce and comply with CbCR.

d) **Mobilize digitalization as a tool for financial integrity.** Digitalization holds great promises in improving the monitoring and regulating powers of governments. For example, in tax administrations, financial intelligence units, anti-corruption agencies. They can rely on international commitments to implement IT tools domestically, supported where needed by international organizations and donor agencies.	

Part 2: Sovereign Debt

Understanding the Problem: heightened debt vulnerabilities, debt servicing costs and inadequate debt architecture diverts vital resources away from development

Sovereign debt is a vital tool for financing development, enabling governments to invest beyond their immediate fiscal space. For developing countries, access to credit is crucial to meeting ambitious development and climate goals. When managed effectively, and debt financing is affordable, debt can create a virtuous cycle of enhanced investment capacity and economic growth. However, debt also carries significant risks. Today more than half of International Development Assistance (IDA)-eligible countries are in debt distress or at high risk of debt distress, their interest payments on external debt having quadrupled since 2013, reaching USD34.6 billion in 2023 This is not only a debt sustainability issue, but a development problem: developing countries are diverting critical resources away from areas such as health and education, to continue servicing their debt. Unlocking debt's potential requires inclusive, effective, and accountable governance at both national and international levels.

Several problems persist on international and national level, which stand in the way of debt fulfilling its potential as a policy lever for development:

At the international level

- **Innovations in addressing unsustainable debt have so far proven ineffective in adequately addressing debt sustainability challenges**. The G20's Common Framework for Debt Treatment (CF), introduced to facilitate debt treatments for low-income countries, has faced significant criticism, with only four countries applying so far. Its shortcomings stem from a lack of clarity, prolonged negotiations, and coordination challenges between traditional creditors, such as Paris Club members, and newer ones like China and private sector lenders. The CF's inability to establish binding timelines or enforce equitable burden-sharing among creditors undermines its effectiveness and deters more countries from participating. Delays in restructurings, in turn, lead to prolonged recessions in debtor countries, reducing the resources available for both citizens and creditors.

- **Developing countries face an uneven playing field** in many of the institutions that comprise the international debt architecture and power imbalances are strongly felt during debt restructurings. Existing research demonstrates that the international debt architecture is captured by creditors, resulting in inequitable norms and institutions and restructuring outcomes.

- **An important discrepancy exists between risk-based returns ex-ante and creditor insistence on full repayment ex-post.** Historical data shows that lending to risky sovereigns generates significantly higher returns than lending to risk-free sovereigns (countries with higher chances of not fully repaying their debts), which has provided significantly higher returns to creditors than lending to countries considered safer. For example, from 1815 to 2016, the returns creditors earned on loans to risky countries were, on average, 410 basis points —or 4.1 percentage points— higher each year. This means that, while creditors took more risks, they were also rewarded with much higher profits, far exceeding what they would earn from safer loans. Excessive premiums paid by debtor countries transfer substantial wealth to creditors, hampering economic development.

- Credit Rating Agencies (CRAs) play a significant role in shaping the financial landscape for developing economies. **CRAs rating methodologies and downgrades often trigger or worsen debt vulnerabilities by increasing borrowing costs,** even in cases where the economic fundamentals have not drastically changed. Their rating methodologies and decisions lack transparency and accountability.

At the national level

- **Developing countries face mounting debt vulnerabilities.** Since the Global Financial Crisis, global public debt has risen in what is referred to as the fourth global debt wave, with developing countries bearing a disproportionate increase. This pre-pandemic trend resulted in heightened debt vulnerabilities with the eruption of COVID-19, climate shocks, and limited external financing. For example, Sub-Saharan African governments borrowed 4.5% more than anticipated due to pandemic costs, and climate disasters have further increased debt-to-GDP ratios. Higher debt risks are especially concentrated within low-income and lower-middle-income African countries and in Small Island Developing States (SIDS).

- **Developing countries borrow at significantly higher interest rates than advanced economies**. According to World Bank's latest International Debt Report in 2023, developing countries spent a record $1.4 trillion on debt servicing, driven by a surge in interest payments, which rose by over a third to $406 billion. This has diverted critical resources from key sectors like health and education and SDG-related spending, particularly in Africa, Western Asia, and SIDS. A significant driver of this debt burden is the increasing reliance on non-concessional borrowing – both domestic and external – due to the limited availability of concessional finance from the international community. For instance, the OECD finds that between 2016 and 2021, 70% of international climate finance was provided as loans, and of that, 75% was non-concessional. Another critical factor is what has been termed Sub-Saharan Africa's "Risk Perception Premium," which refers to the higher risk assigned to these economies by global markets, often unrelated to their actual macroeconomic fundamentals. This risk perception inflates borrowing costs disproportionately, further straining public finances. Together, these factors have exacerbated debt vulnerabilities in poorer countries. In IDA-eligible countries, interest payments have quadrupled since 2013, reaching $34.6 billion and averaging nearly 6% of export earnings – levels not seen since 1999 and as high as 38% in some cases. The reliance on non-concessional loans has left many of these countries more heavily indebted, reducing their fiscal space to invest in development priorities.

- While many **Debt Management Offices** (DMOs) have been in place for decades, their **capacity varies widely.** Effective debt management, when treated as a holistic process involving institutions and regulatory frameworks, empowers developing countries to make strategic financing decisions and balance risks with costs. While DMOs have evolved significantly, many still face structural and capacity challenges. International efforts to strengthen DMOs through training, standardization, and resources remain crucial, enabling these offices to play a pivotal role in achieving development and climate goals.

- **Strengthening DMOs must be complemented with a greater focus on the broader institutional ecosystem in which they operate**. Effective debt management requires clear lines of authority between the DMO, the Ministry of Finance, the Central Bank, and parliament, as well as robust oversight from domestic audit institutions. However, many of these institutions lack the required capacity to exert their oversight and debt management functions today, and many of the relationships remain underdeveloped, limiting the effectiveness of debt management processes.

- **Existing oversight tools, such as debt audits, have not reached their full potential** due to insufficient capacity and resources. Auditors play a critical role in ensuring transparency and accountability but are frequently undertrained and focus narrowly on compliance. Beyond auditors, civil society, the media, and parliamentarians also play vital roles in exercising oversight and advocating for transparency. To be effective, these actors must have the space and capacity to operate. A more integrated approach that equips auditors with structured guidance and risk assessment tools, while also fostering an enabling environment for civil society, the media, and parliamentarians, and aligning institutional roles and responsibilities, is needed to maximize the developmental impact of debt and ensure its sustainability.

- **Domestic legal frameworks in debtor and creditor countries often lack the provisions needed to ensure transparent, democratic, and sustainable debt management practices.** In debtor countries, legislative frameworks need to be further strengthened and developed to ensure that the decision to issue debt, the conditions under which this is done, and the uses to which it is put, are what they ought to be, namely a sovereign decision. In creditor countries, domestic legislation needs to be adopted that enhances private creditor participation in debt restructurings.

Identifying Solutions: national and global policy steps to promote an effective, accountable and inclusive framework for sovereign debt

The consensus among participants was that significant work remains to reform the international debt architecture and ensure that developing countries can use debt as a policy lever for development. FfD4 presents a critical opportunity to advance this agenda.

During the symposium, several recommendations were identified at international and national levels to promote a more effective, inclusive, and accountable debt architecture that enables debt to fulfill its potential as a lever for sustainable development. Each recommendation is aligned with one or several of the ECOSOC-endorsed CEPA Principles of Effective Governance for Sustainable Development (effectiveness, accountability and inclusiveness), represented by colored icons:

Effectiveness

Accountability

Inclusiveness

At the international level

Recommendation	Principle
• **Debt relief initiatives and other measures should be adopted that will enhance fiscal space for developing countries to develop sustainably, adapt, and promote an inclusive and green economic transformation of their economies.** Debt relief initiatives must create the fiscal space needed for countries to address urgent challenges, including climate adaptation, mitigation, and achieving SDGs. This includes increasing concessional financing, more rapid and effective debt relief mechanisms for countries in debt distress, expanding MDBs' capital, re-channeling unused IMF Special Drawing Rights (SDRs), and implementing a new general SDR allocation in response to the call by different stakeholders. Such measures are essential to reduce liquidity constraints and foster sustainable growth.	
• **An effective, inclusive, and accountable sovereign debt work-out mechanism to address debt distress should be established.** Several participants stressed that a legally binding UN Framework Convention on Sovereign Debt under United Nations auspices offers a transformative solution to systemic inequities in the debt architecture. As a neutral institution with no direct ties to either debtor or creditor status, the UN is uniquely positioned to address global challenges in an inclusive and democratic manner. Such a convention would establish globally agreed-upon rules, principles, and structures to govern all stages of the debt cycle, fostering fair and sustainable outcomes.	
• **Debt restructuring processes should be reformed to ensure effective, accountable, and inclusive restructurings.** Enhanced Collective Action Clauses and Climate Resilient Debt Clauses should be expanded, and new frameworks established to ensure timely, equitable, and effective restructuring processes. These reforms should prioritize public investment over excessive debt repayments and ensure fair burden-sharing among creditors.	
• **Improvements in the methodologies used to underpin the Debt Sustainability Frameworks (DSF) must be implemented, as well as an inclusive and accountable process** that allows external stakeholders to input meaningfully into the DSFs review processes. The IMF's DSFs must evolve to incorporate climate risks, and the financing needs of developing countries. A revised framework should align with global sustainability goals, enabling countries to access the financing required to address environmental and developmental challenges. There should be a stronger role for Debt Sustainability Assessments (DSAs) in signaling the concessional financing needs of borrowing developing countries.	
• **A comprehensive global debt registry should be established to reconcile the gaps between fragmented and inconsistent debt information**. Such a registry should include details on state-owned enterprise (SOE) debt, future debt service obligations, and borrowing terms. Standardizing and consolidating debt data would strengthen analysis, improve policymaking, and foster trust among stakeholders.	

• **The regulation around CRA must be strengthened and greater transparency in their methodologies ensured.** CRAs must adopt transparent methodologies that avoid exacerbating borrowing costs for developing countries. Establishing an independent CRA under the United Nations auspices would promote unbiased ratings and mitigate market volatility, enabling fairer access to financing.	

At the national level

Recommendation	Principle
• **Support must be provided to build debt management capacity across different domestic institutions and actors who are part of the debt management eco-system.** Robust debt management requires investment in DMOs to address challenges like fragmented creditor landscapes and rising development costs. Broader capacity-building efforts should include other actors, such as parliamentarians, fiscal councils (if existent), fiscal budget office staff, and Supreme Audit Institutions to ensure that they are able to exercise effective oversight over borrowing decisions. This can also ensure that debt governance is inclusive, accountable, and effective.	
• **Legal frameworks in debtor and creditor countries must be strengthened.** Legal frameworks are critical to ensuring transparent and democratic debt management. Borrowing countries could consider establishing laws that mandate parliamentary oversight of debt contracting. Creditor countries should implement regulations to tackle vulture funds, enforce private creditor participation in debt treatments and restructurings on comparable terms, prevent holdouts, and ensure equitable treatment between official and private creditors.	
• **Borrowing decisions must be linked to national development and financing plans,** ensuring that debt directly supports SDGs and climate objectives. Transparent frameworks should demonstrate how debt contributes to long-term social and economic priorities, fostering accountability to both citizens and creditors. **Oversight mechanisms should be expanded to maximize accountability.** Enhanced tools, such as debt audits, are vital for assessing the sustainability and effectiveness of debt use. Strengthening these mechanisms ensures that resources are allocated efficiently and that borrowing aligns with development goals. Additionally, protecting the space for civil society organizations, the media, and academia to engage in debt oversight is crucial, especially as these actors often face pressure and constraints in some countries. Their independent contributions are essential to ensuring transparency, holding decision-makers accountable, and fostering informed public debate on debt management.	
• **Expand oversight mechanisms to maximize accountability.** Strengthen debt audits to ensure that resources are allocated to and aligned with development goals.	

Concluding remarks

The Second FIG Policy Symposium provided a platform for stakeholders to engage in discussions on critical issues concerning financial integrity and governance in the context of FfD4. It had a particular focus on the role of professional service providers in facilitating tax abuse and IFFs, as well as the rising challenges surrounding sovereign debt. The symposium underscored the urgent need for more effective, accountable, and inclusive policies and frameworks at both the international and national levels to address these complex issues. This paper has provided a summary of discussions and policy recommendations offered by participants during the symposium. The arguments, recommendations, and viewpoints above therefore do not necessarily represent those of the UNDP or its partners, nor do the messages necessarily reflect a consensus view among participants in the symposium.

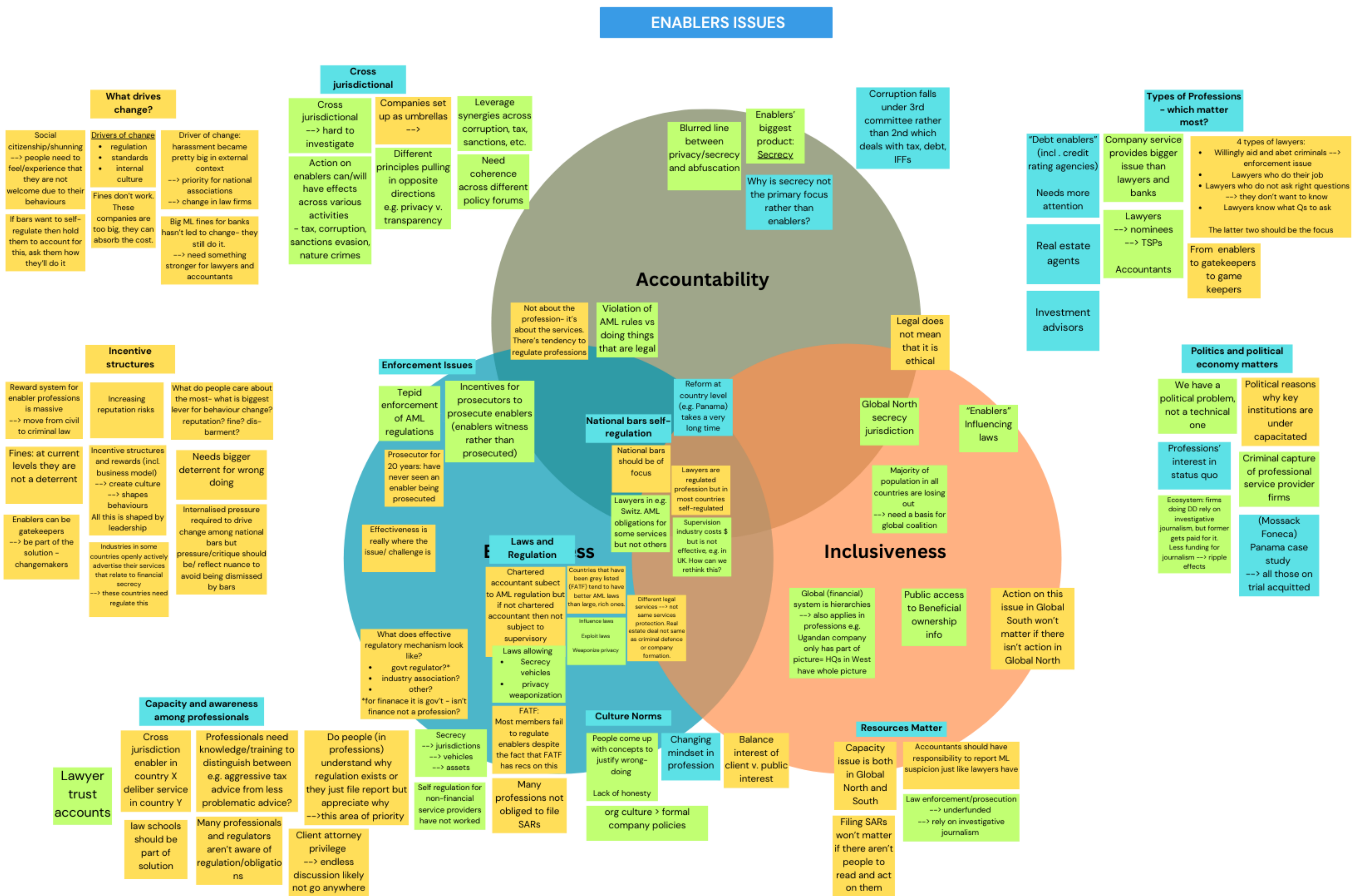
Annex 1: Symposium Agenda

	Day 1
12:30-13:30	Welcome and lunch
13:30-14:15	Opening remarks
14:15-15:15	Session 1 – Part one: Professional service providers' role in undermining and improving financial integrity
15:15-15:45	Coffee break
15:45-17:15	Session 1 – Part two: How professional service providers are governed, and challenges associated with ensuring that they operate with integrity
17:15-17:30	Recap and close
17:30	Reception

	Day 2
09:00-09:30	Recap from Day 1
09:30-11:00	Session 2: What measures to take at national and global levels to ensure that professional service providers contribute to financial integrity
11:00-11:30	Coffee break
11:30-13:00	Session 3: Measures at international level to strengthen inclusiveness, effectiveness and accountability of international debt architecture – what should FfD4 seek to achieve?
13:00-14:00	Lunch
14:00-15:30	Session 4: Measures to strengthen inclusiveness, effectiveness and accountability of national debt systems and frameworks – what should FfD4 seek to achieve?
15.30-16.15	Debt sessions recap
16:15-16:45	Coffee break
16:45-17:45	Wrap up – final take aways
17:45	Close

Annex 2: Insight Mapping

Visual 1. Mapping of insights on issues around enablers



Visual 2. Mapping of insights on issues around debt

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