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The Impact of IMF

Recommended Consumption Tax Policy on Africa's Rising Public Debt Levels

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Acknowledgments

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List of Figures

List of Tables

Abbreviations & Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
ATAF	African Tax Administration Forum
BBT	Broad-based taxation
CAC	Collective action clause
CIS	Commonwealth of Independent States
DSF	Debt Sustainability Framework
DSSI	Debt Service Suspension Initiative
ECLAC	Economic Commission for Latin America and the Caribbean
EFF	Extended Fund Facility
EU	European Union
FAD	Fiscal Affairs Department
FATF	Financial Action Task Force
G20	Group of 20
GCC	Gulf Cooperation Council
GCT	General consumption tax
GDP	Gross Domestic Product
GETFund	Ghana Education Trust Fund
GST	Goods and services tax
HIPC	Heavily Indebted Poor Countries
HRL	Health Recovery Levy (COVID-19)
IFF	Illicit financial flow
IFI	International financial institution
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief Initiative
MSME	Micro, small, and medium enterprise
NHIL	National Health Insurance Levy
OECD	Organisation for Economic Co-operation and Development
SAP	Structural adjustment program
SIDS	Small island developing states
TPAF	Tax Policy Assessment Framework
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
VAT	Value-added tax
VFRS	VAT flat-rate scheme

Table of Contents

Executive Summary

Consumption taxes, including VAT and excise taxes, are essential sources of revenue worldwide. They are typically indirect, initially collected from businesses, and passed on to consumers. While effective in revenue generation, these taxes can negatively impact consumer spending power and economic growth. The IMF's influence on national fiscal policies, focusing on its recommendations regarding consumption taxes and their broader economic impact, is fast attracting public scrutiny. Key examples include Kenya's Finance Bill 2024 and Australia's stringent 2023 economic reforms (ahead of 2024), both advised by the IMF. These cases illustrate the significant public backlash and economic challenges stemming from consumption tax increases and the ensuing concerns about socio-economic fairness and stability. Indeed, the IMF's evolving role highlights the ongoing debate over national sovereignty versus international financial influence.

Additionally, national consumption tax policies aim to achieve various goals, such as generating revenue, promoting economic efficiency, ensuring fairness, and supporting social welfare. Policymakers must manage trade-offs and possible unintended effects. These tax policies must balance the need for revenue with economic goals, which can result in either progressive (fairer) or regressive (less fair) tax structures and varying rates for different goods and services. The global debt architecture, shaped by historical evolution and contemporary financial policies, faces persistent challenges in balancing sovereign debt sustainability with developmental priorities. Despite IMF initiatives in crisis intervention and debt restructuring, borrowing countries often encounter asymmetrical power dynamics and neoliberal economic policies that exacerbate debt burdens and divert resources from essential socio-economic goals. To align global financial systems with sustainable development, it is crucial to enhance transparency, accountability, and equity in debt management practices.

In Africa, public debt levels are generally unsustainable, with significant variation among countries due to differing economic structures, governance, and external factors. Africa's public debt surged to US$1.8 trillion in 2022, with sub-Saharan Africa's debt exceeding 60% of GDP, highlighting the need for sustainable fiscal strategies. The legacy of debt from post-independence periods and the impact of structural adjustment programs (SAPs) have left many nations struggling with debt dependency and social inequalities. Empirical evidence from global case studies, such as Ghana's VAT transition in 1998 and Mexico's VAT reforms from 10% to 15% in April 1995, underscores the complex impacts of IMF-supported consumption tax policies. In Mexico, the VAT increase was an austerity measure in response to the 1994 Mexican peso crisis, aimed at stabilizing the economy.

These reforms have often led to increased government revenue and improved fiscal stability but have also contributed to higher living costs for lower-income families and challenges in achieving inclusive growth. Sri Lanka's VAT reforms, for example, bolstered government revenue but faced significant economic and distributional challenges, as the country's debt-to-GDP ratio was projected to remain high.

The IMF's involvement in tax reform includes technical assistance and policy advice that have not been necessarily tailored to each nation's needs. While IMF-supported consumption tax policies have improved short-term fiscal stability, their long-term effectiveness has adversely impacted public debt levels and sustainability, although their overall impact depends on broader economic stability and equitable policy design. The IMF's conditionalities often involve fiscal consolidation and tax structure reforms, which can impose austerity measures, reduce public spending on essential services, and exacerbate social inequalities.

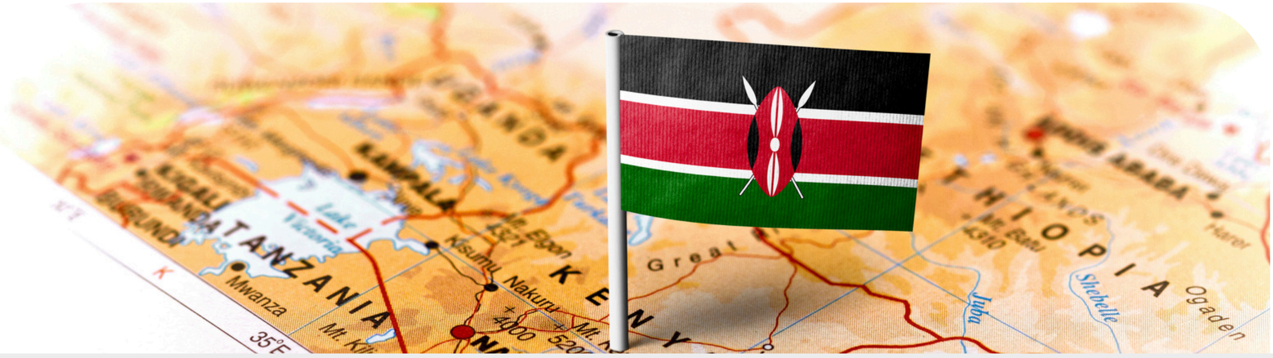
By pushing for higher consumption taxes like VAT, the IMF shifts the tax burden onto ordinary citizens, which in turn can deepen inequality, stifle economic growth, and contribute to rising public debt rather than address the root causes of public debt. These policies, implemented with little regard for local economic realities, have repeatedly failed to foster long-term fiscal health in many developing countries. To mitigate these damaging effects, a fundamental overhaul of the IMF's approach to tax reform and debt management is urgently needed that prioritizes transparency, accountability, and the socio-economic conditions of each country over blanket, one-size-fits-all prescriptions.

This report critically explores the IMF's consumption tax policies and their adverse effects on borrower nations, particularly in Africa and the Global South. It examines how the IMF's emphasis on consumption taxes like VAT, when used as a tool for revenue mobilization, often leads to regressive outcomes by exacerbating inequality, increasing poverty, and contributing to unsustainable public debt. Through an analysis of the global debt architecture evolution and a review of IMF-backed tax reforms across various regions, the report highlights the disconnect between the IMF's policy prescriptions and the socio-economic realities of developing countries. The study underscores the need for reforming the international debt architecture to address the negative impacts of these policies and proposes recommendations for more equitable and sustainable debt and tax solutions.

1.0 Introduction

Recently, there was a significant public backlash in Nairobi, Kenya, against the Finance Bill 2024. This bill, which was introduced by President Ruto amidst IMF pressure, aimed to generate US$2.7 billion in tax revenue for the upcoming fiscal year (2025) as part of the IMF revenue targets.[1] However, the proposed measures disproportionately impacted the working class and rural residents, leading to widespread opposition. The bill's focus on these demographics sparked controversy and concern among many Kenyans who felt the burden of increased taxes fell unfairly on them.[2] The proposed legislation included increases in consumption taxes, such as a 16% VAT on bread, a 2.5% motor vehicle tax, a 25% excise duty on cooking oil, and an eco-levy on environmentally harmful products like diapers, batteries, rubber tires, television sets, and smartphones. Additionally, the legislation imposed an excise duty on locally assembled motorbikes.[3] The impact of these measures was significant because the VAT on essential sectors such as food and transport made essential goods more expensive amidst rising inflation. Consequently, widespread peaceful protests led by Generation Z citizens (the Gen Z Revolution) occurred, but the militarized intervention of state security forces quickly escalated the peaceful protest, leading to the loss of lives and properties.[4]

Like in Kenya, the IMF urged the Australian government to implement a range of stringent economic and tax reforms to finance the substantial expenditures already incorporated into the national budget.[5] The IMF recommended a series of stringent reforms in 2023 to rectify the national budget and ensure long-term financial stability. Key suggestions included increasing the goods and services tax (GST), broadening the domestic tax base, eliminating the capital gains tax exemption on the sale of family homes, and reassessing personal tax cuts that benefit high-income earners. These two scenarios prompt an examination of how the IMF and other international financial institutions (IFIs) have attained the authority to influence national fiscal policies, an area closely connected to national and monetary sovereignty.[6]



1. Human Rights Watch, Kenya/IMF: Align Economic Reform with Rights Report, July 16, 2024, https://reliefweb.int/report/kenya/kenyaimf-align-economic-reform-rights. See also Nona Cynthia Tamale & Afronomicslaw, Submission on the Kenya Finance Bill 2024, Afronomicslaw.org 3–11 (2024).

2. Kipchumba Ochieng, Mass Protests against Kenyan President Ruto's IMF-dictated Finance Bill, Int'l Comm. of the Fourth Int'l, World Socialist Web Site (June 20, 2024), https://www.wsws.org/en/articles/2024/06/20/mjqq-j20.html.

3. Id.

4. James Thuo Gathii, Alternatives to Kenya's Austerity and the Militarized Response to the GenZ Revolution, AfronomicsLaw.org (June 26, 2024), https://www.afronomicslaw.org/category/analysis/alternatives-kenyas-austerity-and-militarized-response-genz-revolution.

5. Peter Ryan, IMF Urges Tough Tax Reforms as Australia Treads "Narrow Path" to Avoid Recession, ABC News, Feb. 7, 2024, https://www.abc.net.au/news/2023-02-02/imf-urges-tough-tax-reforms-for-australia/101920882.

6. Claus D. Zimmermann, A Contemporary Concept of Monetary Sovereignty 7, 54–72 (2013).

The answers can be traced to the IMF's evolution, from its inception at the United Nations (UN) Monetary and Financial Conference in 1944, to the collapse of the Bretton Woods system in 1971, which marked a significant shift in the IMF's focus and responsibilities.[7] Initially established to facilitate the exchange of goods, services, and capital among nations and to support the operation of fixed exchange rate regimes, the IMF's mandate has evolved in response to shifting global economic conditions and challenges. The IMF's self-proclaimed primary purpose has been to provide a framework for international monetary cooperation and stability.[8] This framework is designed to facilitate global monetary stability by providing financial assistance to member countries facing balance-of-payments difficulties.

Thus, the IMF's responsibilities include overseeing the par-value system, monitoring exchange rate stability, and providing policy advice and financial assistance to member countries to maintain the stability of their currencies. The IMF Article of Agreement allows for the IMF to monitor member countries' policies.[9] The IMF's Article IV consultations remain the primary instrument through which the IMF exercises its bilateral and multilateral surveillance activities.[10] In addition, the IMF provides technical assessments and assistance via its Tax Policy Assessment Framework (TPAF), which supports countries' efforts to redesign their tax systems.[11] Following post-surveillance assessments, the IMF provides fiscal recommendations on various facets of tax policy to developing countries, with a particular emphasis on consumption taxes. These recommendations aim to advise on essential policy adjustments to bolster fiscal resilience and promote economic stability. According to a joint report by the World Bank and IMF, such guidance typically centers on enhancing tax administration capabilities, broadening tax bases, and ensuring equitable distribution of tax burdens to support sustainable development goals.[12]

Despite the IMF's efforts to recalibrate and streamline its policies in response to criticism of its use of conditionalities to address economic challenges, the IMF recommendations for increasing consumption taxes amidst poor domestic economic performance and stagnation are ongoing and atrocious.[13] This approach is evident in experiences like Greece's in the early 2010s, where the IMF's recommendations prioritized consumption tax hikes despite potential socio-economic impacts. Such measures are often seen as necessary to bolster revenue and fiscal sustainability in challenging economic environments.[14] However, in the context of expanding the tax base, reductions in social spending have disproportionately affected vulnerable population segments.

7. Michael D. Bordo, The Bretton Woods International Monetary System: A Historical Overview, in A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform 3–108 (Michael D. Bordo & Barry Eichengreen eds., 1993).

8. Leonard Seabrooke, Bitter Pills to Swallow: Legitimacy Gaps and Social Recognition of the IMF Tax Policy Norm in East Asia, in Owning Development: Creating Policy Norms in the IMF and the World Bank 137–49 (Susan Park & Antje Vetterlein eds., 2010).

9. IMF Articles of Agreement 2016, art. IV.

10. IMF, IMF Policy Advice, https://www.imf.org/en/About/Factsheets/IMF-Surveillance (last visited Dec. 22, 2024).

11. Randall W. Stone, Lending Credibility: The International Monetary Fund and the Post-Communist Transition 44–62 (2002). See also IMF Tax Policy Assessment Framework (TPAF), https://www.imf.org/en/Data/TPAF (last visited Dec. 22, 2024). The TPAF is the IMF and World Bank Group framework designed around 2017, aimed at providing a framework for systematic and consistent assessments of all major taxes like the VAT, among others. The TPAF aims to provide an analytically sound basis and practical guidance on tax policy design. See WBG, Release of the first module of the Tax Policy Assessment Framework (TPAF), Brief, https://www.worldbank.org/en/topic/governance/brief/release-of-the-first-module-of-the-tax-policy-assessment-framework-tpaf (last visited Dec. 22, 2024). See also PEFA, Tax Policy Assessment Framework (TPAF)-International Monetary Fund, 2022, https://www.pefa.org/sites/pefa/files/PEFA%202022%20Stocktaking%20-%20B03.pdf.

12. IMF, Building Tax Capacity in Developing Countries (Staff Discussion Note, Fiscal Affairs Dept.), SDN/2023/006 (Sept. 2023), 1–32.

13. Robert Wade, Showdown at the World Bank, 7 New Left Rev. 1–8 (2001), https://newleftreview.org/issues/ii7/articles/robert-wade-showdown-at-the-world-bank.

14. Georgia Kaplanoglou & Vassilis T. Rapanos, Evolutions in Consumption Inequality and Poverty in Greece: The Impact of the Crisis and Austerity Policies, 64 Rev. of Income & Wealth 105–26 (2018). See also Costas Meghir et al., The Greek Economy Before and During the Crisis—and Policy Options Going Forward, in Beyond Austerity: Reforming the Greek Economy (2017). See also Mark Horton & Asmaa El-Ganainy, Fiscal Policy: Taking and Giving Away, [IMF] Finance & Dev. Mag., https://www.imf.org/en/Publications/fandd/issues/Series/Back-to-Basics/Fiscal-Policy (last visited Dec. 22, 2024).

Regarding consumption taxes like VAT, the IMF consistently promotes the adoption of VAT frameworks, typically endorsing a single VAT rate ranging between 10% and 20%.[15] Conversely, the IMF often advises improving revenue mobilization by using consumption taxes instead of other tax forms, including trade and corporate income taxes, because of their perceived adverse effects on business competitiveness and facilitation of trade liberalization.[16] With rising public debt levels and shifting tax policies in many countries, including those in Africa, there is an imperative need to understand the interconnection and impacts of IMF tax recommendations, such as increasing consumption taxes and contributing to public debt. This understanding is crucial for sound policy decision-making, especially when reforming the international debt architecture.

This report includes an investigation into the impact of IMF recommendations on consumption taxes, focusing on their effects on national economies in terms of public debt dynamics, economic development, inequality, and debt sustainability. Employing a mixed-methods approach, the research combines qualitative case studies and quantitative analyses of economic data from countries implementing IMF-recommended tax policies, particularly examining reactions in various jurisdictions across the globe. The authors have also studied the long-term impacts of these consumption tax policies on public debt levels, economic growth, income inequality, and social welfare and evaluated these policies' sustainability and socio-political implications. By providing comprehensive insights, the authors' recommendations are extended to inform policy discussions and enhance understanding of the intricate interplay between IMF fiscal recommendations for consumption taxes and the global financial governance's broader socio-economic outcomes.

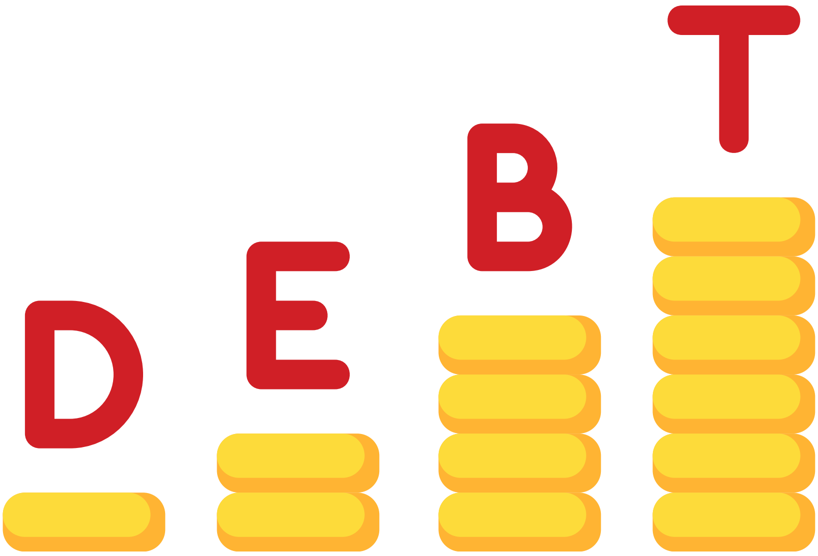
15. Janet Stotsky, Summary of IMF Tax Policy Advice, in IMF Tax Policy Handbook 279–83 (1995).

16. Bernhard Reinsberg, Thomas Stubbs & Alexander Kentikelenis, Taxing the People, Not Trade: The International Monetary Fund and the Structure of Taxation in Developing Countries, 55 Stud. in Compar. Int'l Dev. 280, 280–81 (2020). The IMF makes this a recommendation for corporate and trade taxation.

2.0 Overview of the Issues in the Global Debt Architecture and Debt Initiatives

The hierarchical and misaligned tiered structure of the international debt architecture is becoming increasingly disconnected from development priorities.[17] The international debt system exhibits significant borrowing imbalances, compelling countries to accumulate more debt and divert crucial resources away from development priorities. This affects key stakeholders, including the general public.[18] Addressing these deficiencies necessitates comprehensively analyzing the global debt architecture's evolution, evaluating international financial policies' effects, and aligning the system with developmental objectives.

The global architecture governing sovereign debt encompasses a complex framework of regulations, principles, practices, and institutions that oversee international lending, borrowing, and managing of sovereign debt.[19] In theory, sovereign debt issues, sustainability, and relief emphasize the management and resolution of sovereign debt crises to facilitate countries' effective debt burden management.[20] However, the reality of the global debt architecture reveals a different story, which is reflected in the persistent and unrelenting debt crises that Global South countries face.[21] This reality indicates that the global financial and debt systems are deliberately structured to perpetuate these crises.



17. UNCTAD, Trade and Development Report 2023: Growth, Debt, and Climate: Realigning the Global Financial Architecture 2–25 (2024).

18. Charles Lipson, The International Organization of Third World Debt, 35 Int'l Org. 603–31 (1981).

19. Jose A. Ocampo, Resetting the International Monetary (Non)System 5–30 (2019).

20. IMF, Global Financial Stability Report: Bridge to Recovery 1–28 (Oct. 2020).

21. James Thuo Gathii & Harrison Otieno Mbori, Sovereign Debt as Subordination to Global Finance 3–5 Afronomicslaw.org (2024).

Such a design fosters continuous dependence on Global North countries' 'financial benevolence' primarily through their control of global financial institutions. Similarly, the absence of concrete measures to resolve debt crises through enforceable 'hard' laws—rather than the current reliance on 'soft' law approaches—demonstrates that the interests of global private capital are the driving force behind the deliberate shaping of these systems.[22] The global debt architecture embedded within the broader global financial architecture utilizes initiatives like the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), among others, to achieve the purpose of these initiatives.[23] Coordinated by such institutions as the IMF, World Bank, Paris Club, and other multilateral and bilateral creditors, these frameworks claim to ensure financial stability and efficient market functioning by governing international financial markets and capital flows through established institutions, rules, and norms, but the results do not sufficiently support these claims, especially from a Global South sustainable development perspective.[24]

The HIPC Initiative, launched in 1996, and the MDRI, introduced in 2005, were purportedly designed to reduce the debt burdens of the poorest countries, ensuring they could achieve sustainable growth and poverty reduction.[25] However, these programs have been deeply flawed in both design and execution. Rather than offer meaningful relief, they often impose rigid conditions that reinforce dependency on such IFIs as the IMF and World Bank in continuation of the European colonial legacy.[26] These conditions typically push austerity measures— essentially neoliberalism under the façade of neutral policies for global privatization—which have historically undermined and continue to undermine social welfare systems, weaken domestic economies, and perpetuate poverty in the Global South.[27]

Additionally, the HIPC Initiative and the MDRI have primarily served the interests of creditors, thus ensuring the Global South's dependence on financial systems controlled by the Global North. Rather than foster economic sovereignty that balances the interests of both creditor and debtor, these programs prioritize the repayment of multilateral debts, preserving creditor protections even in cases of debt forgiveness. The conditionalities attached to these initiatives focus on the use of macroeconomic stability metrics, such as inflation control and fiscal austerity, among others. Ultimately, the HIPC Initiative, MDRI, and other initiatives like the Debt Service Suspension Initiative (DSSI), only provide lackluster, superficial, and short-term solutions that fail to address the real issue of systemic power imbalances and structural flaws that perpetuate the Global South's debt crises.[28]

22. Id.

23. Thandika Mkandawire, Africa: Beyond Recovery 33–76 (2015).

24. Barry J. Eichengreen, Toward a New International Financial Architecture: a Practical Post-Asia Agenda 5–25 (1999).

25. Benno J. Ndulu & Stephen A. O'Connell, Africa's Development Debts, 30 J. Afr. Econ. i33–i73 (2021).

26. Agnes Wanjiru Behr & Felister Saliku Kivisi, Dynamics in International Relations among African Countries, 3 Am. J. Int'l Rel. (2018) & 4 Am. J. Int'l Rel. (2019); Gerhard Wahlers, Introductory Remarks at the Conference on Debt Relief and Development in Africa, held in Windhoek, Namibia (Dec. 5–6, 2005).

27. Misam B. Ali, Debt Relief or Debt Cycle: A Secondary Analysis of the Heavily Indebted Poor Countries (HIPC) Initiative in African Nations, McNair Scholars Rsch. J. (2011), https://digitalcommons.unl.edu/mcnairjournal/6.

28. Marie-Louise F. Aren, Designing an African Common Position and Strategy on Vulture Fund Litigation, in How to Reform the Global Debt and Financial Architecture 60–62 (James Thuo Gathii ed., 2023).See also Nona Tamale, Debt Restructuring under the G20 Common Framework: Austerity Again? The Case of Zambia and Chad, in How to Reform the Global Debt and Financial Architecture 153–57 (James Thuo Gathii ed., 2023).

In terms of its constituent components, the modern global debt architecture involves a complex arrangement of key IFIs, creditor groups, and various initiatives designed to manage sovereign debt issues and provide debt relief with claims of promoting sustainable development.[29] Within this architecture at the global level are multilateral institutions like the IMF and World Bank, which provide financial and technical assistance through debt sustainability analyses, among others.[30] Regionally, development banks such as the AfDB and ADB offer similar regional analyses within their debt policies, such as debt limit policies, among others.[31] At the private sector level, the sovereign debt markets and private creditors supply capital, necessitating such debt management mechanisms as the use of collective action clauses (CACs); joint efforts like the Paris Club and HIPC Initiative; and international agreements, such as the Debt Sustainability Framework (DSF); and so on.[32] At the national level, many debt management offices work to implement debt sustainability plans and manage debt levels.[33]

Yet, the involvement of private creditors in Africa's sovereign debt markets underscores significant flaws in the international debt framework. While these creditors may provide capital, the market-oriented approach to debt restructuring—primarily through using CACs—often worsens existing problems, especially via vulture fund litigation.[34] Although CACs aim to mitigate holdout creditor issues by enabling majority voting on restructuring, they inherently favor private lenders' interests and lack the necessary transparency for Global South nations. The COVID-19 pandemic further revealed this system's shortcomings, as temporary relief measures from the IMF, World Bank, and G20 offered little more than stopgap solutions that failed to tackle the debt structure's underlying inequalities.[35] Instead of advocating for a binding sovereign debt restructuring mechanism, these responses reinforced the dominance of Global North interests, leaving African countries exposed to recurring debt crises. Ultimately, the current framework prioritizes the financial interests of private creditors, making it essential to establish a more equitable international debt system that addresses the developmental challenges that sovereign borrowers in Africa face.

Despite the measures that various organs and policies have instituted within the debt system, its current state reveals persistent imbalances. Borrowing countries often confront asymmetrical power dynamics, resulting in unsustainable debt burdens and the diversion of resources away from crucial development objectives.[36] This is often achieved through the contentious mandate to enforce neoliberal, free-market economic policies under the cause of 'development.' These policies are usually formulated by experts situated in developed financial centers and frequently lack genuine legitimacy, bypassing sovereign oversight and parliamentary approvals through compromised democratic processes. At its core, sovereign debt represents power and serves as a pivotal instrument of international politics, effectively exerting control over states—a historical precedent revealed through deficit spending as the next subsection reveals.[37]

29. Id.

30. IMF, About the IMF; World Bank, What We Do; Paris Club, About Us; World Bank, HIPC Initiative; IMF, The Multilateral Debt Relief Initiative; World Bank, Debt Relief; Paris Club, Debt Treatment (web pages last visited Dec. 22, 2024).

31. Id.

32. Id.

33. Id.

34. See Aren, supra note 28, at 57–59, 64. See also Gathii & Mbori, supra note 21, at 12–13.

35. Gathii & Mbori, supra note 21, at 14–16.

36. Adrian Robert Bazbauers & Susan Engel, The Global Architecture of Multilateral Development Banks: A System of Debt or Development? 6–17 (2021).

37. Murat İstekli & Murat Ustaoğlu, Interest-bearing Debt in Ancient Egypt, inA History of Interest and Debt 70–81 (2020).

2.1
The IMF in global economic stability and debt policies and an overview of the policy recommendations

The IMF states that it provides financial assistance to countries facing balance-of-payments crises as a lender of last resort, aiming to prevent the escalation of currency crises and the spread of financial instability globally.[38] The IMF also states that it plays a crucial role by providing liquidity support to enhance exchange rate stability and preempt financial crises. Additionally, through rigorous global economic surveillance,the IMF purports to identify emerging risks and provides customized policy recommendations to strengthen economic resilience during periods of vulnerability. This dual mandate of crisis intervention and strategic guidance is supposed to underscore the IMF's pivotal role in promoting global economic stability.[39]

In the sphere of debt management, the IMF, by appointing forty-four countries of mostly Western extraction, assumes a central position in navigating sovereign debt crises, extending its support to nations undergoing unsustainable debt burdens.[40] Through 'engagements' with mostly Global South debtor countries, the IMF develops and implements debt restructuring programs aimed at 'restoring' fiscal health. It also promotes the adoption of responsible borrowing and lending practices. The IMF's policy prescriptions supposedly serve as guiding principles for member nations navigating diverse areas of economic governance, including fiscal policy, monetary policy, exchange rate policy, financial sector regulation, and structural reforms under the direction of its most dominant member.[41]

Wade notes that the role of the United States (US) in shaping global economic policies through institutions like the IMF and World Bank has often been detrimental, particularly in promoting free-market ideologies that prioritize financial interests over genuine developmental needs.[42] By exerting pressure on countries to liberalize their financial markets, the United States has contributed to unsustainable economic practices that have led to catastrophic crises, such as the 1997–98 East Asian collapse.[43] The austerity measures imposed by the IMF, reflecting the US agenda, have exacerbated social unrest and unemployment rather than alleviate economic distress.[44] Furthermore, the US influence over the World Bank has stifled alternative economic perspectives, reinforcing a one-size-fits-all approach that undermines developing nations' diverse needs. This pattern of promoting US interests at the expense of multilateral legitimacy highlights a troubling dynamic where poorer nations' aspirations are subordinated to the US's financial and ideological goals.

38. Harold James, The IMF and the European Debt Crisis 1–40 (2024).

39. Karina Patricio Ferreia Lima, Reforming the International Monetary Fund's Debt Sustainability Assessments towards Achieving the UN's Sustainable Development Goals (SDGs): A Crucial Post-Pandemic Recovery Agenda, 2 Afr. J. of Int'l Econ. L. (AfJIEL) 32–47 (2021).

40. Gordon Moyo, Global Financial Subordination and the Pathologies of Sovereign Debt, in Africa in the Global Economy: Capital Flight, Enablers, and Decolonial Responses 81–101 (2024).

41. Duncal Snidal et al., The Power of the "Weak" and International Organizations, Rev. of Int'l Orgs. 1 (2024); Anthony De Lannoy, Applying the IMF's Mandate—The Decision-Making Process, IEO Background Paper No. BP/24-01/02 (2024).

42. Wade, supra note 13, at 124–32.

43. Id.

44. Nona Tamale, Adding Fuel to Fire: How IMF Demands for Austerity Will Drive Up Inequality Worldwide, Briefing Paper, Oxfam Int'l 3–8 (2021).

Likewise, Ortiz and Cummins show how these troubling dynamics were further consolidated in early 2010 when the IMF shifted its regular advice to emphasize 'fiscal consolidation,' advocating for a swift end to fiscal stimuli and reforms to the welfare state, a stance later supported by the OECD and G20.[45] IMF policy advice in 2010 set the tone for large-scale fiscal adjustments and immediate structural reforms in public finance, including changes to pension and health entitlements, increased tax revenues, and reduced spending, which set the trend among international organizations and countries for fiscal austerity.[46] With time, it became clear that economic recovery in the world's largest economies exhibited an adverse outcome to the policy advice, marked by persistent unemployment that was partly due to the very fiscal consolidation measures being implemented.[47]

Wade's analysis of the United States' involvement in shaping the World Bank's development agenda illustrates the promotion of American economic ideologies over the specific needs of developing countries.[48] The US Treasury's strong advocacy for a growth-first strategy highlights a troubling disregard for alternative development approaches that accommodate developing countries' interests.[49] By wielding considerable influence over the World Bank's policy framework, the United States promotes a narrow development narrative that emphasizes market liberalization, overlooking the multifaceted nature of poverty and economic inequality. This dynamic risks exacerbating disparities and instability in developing countries, demonstrating a failure to acknowledge the varied pathways to sustainable development that exist beyond the parameters of American capitalism.

Furthermore, the IMF operates a quota system that disproportionately benefits wealthy nations, especially the United States, which holds about 16.5% of the total voting rights compared to Africa's mere 6.47% despite its fifty-four member states.[50] This imbalance is exacerbated by the US Treasury's significant influence over IMF policies as demonstrated by Secretary Janet Yellen's push for an equitable proportional increase in quotas, which in effect still seeks to maintain US dominance rather than genuinely enhance the representation of emerging economies.[51] While adding a third Executive Director for Africa may appear to be progress, it does little to address the deeper issue of underrepresentation, as African countries continue to face stringent IMF policies with minimal input in decision-making.

The IMF has certainly not been immune to criticism from development stakeholders.[52] While praised for its role in preventing financial crises, the IMF faces criticism for imposing austerity measures and structural reforms that some argue worsen economic hardships, particularly for vulnerable groups.

45. Isabel Ortiz & Matthew Cummins, Austerity: The New Normal-A Renewed Washington Consensus, 2010–24, at 16–25 (2019).

46. IMF, Exiting from Crisis Intervention Policies and Strategies for Fiscal Consolidation in the Post-Crisis World (Feb. 4, 2010).

47. Id. at 18.

48. Wade, supra note 13. This was mostly done during the formulation of the IBRD/World Bank. World Development Report2000/2001-Attacking Poverty 200–08 (2001), https://documents1.worldbank.org/curated/en/230351468332946759/pdf/World-development-report-2000-2001-attacking-poverty.pdf. One of the recommendations present in the report was increasing aid and debt relief to help countries take actions to end poverty that put those countries at the center of the design of development strategy, among others. While the recommendation is good, it fails to address the underlying structural deficiencies in the international debt and financial systems that create unsustainable debt levels in Global South/African countries in the first place.

49. Id. Growth strategies focus on free-market principles while minimizing fiscal empowerment for marginalized populations.

50. AfSDJN Statement: IMF Quota Reforms: Is the Appointment of a Third Executive Director for Sub-Saharan Africa a Game Changer?, Afronomicslaw.org (Oct. 13, 2023).

51. Id.

52. Alam Estel Apeti & Kwamivi Gomado, IMF Conditionality and Structural Reforms: Evidence from Developing Countries 3–4, WIDER Working Paper No. 2023/97 (2023).

Furthermore, in managing debt policies, the IMF often struggles to find a delicate balance between debt sustainability and socio-economic stability, highlighting the complexity of negotiations in effective debt restructuring initiatives.[53] Moreover, the effectiveness of IMF policy recommendations depends on a range of factors, including political determination, implementation capabilities, and external limitations, with issues of sovereignty, democracy, and social fairness frequently highlighted in critiques.[54]

This inequity underscores the urgent need for substantial reforms to ensure African nations have a meaningful voice in shaping IMF policies, thereby addressing historical imbalances and promoting a more equitable global financial system. The IMF's policies and interventions are not immune to freedom from inadvertently contributing to rising debt sustainability levels.[55] The conditions attached to IMF loans often require countries to implement austerity measures and structural reforms, which can depress economic growth and revenue generation, thereby exacerbating fiscal deficits.[56] The IMF policy recommendations tend to focus on short-term fiscal stabilization goals and may often neglect long-term development needs, leading to inadequate investment in productive sectors.[57] Moreover, conditionalities appear to secure and prioritize debt repayment over GDP-enhancing social spending, thus undermining social welfare and exacerbating inequality, complicating the complex terrain of global economic and debt governance.

53. Daniel D. Bradlow, Rosa M. Lastra & Stephen Kim Park, Re-thinking the Sustainability of Sovereign Debt, 27 J. Int'l Econ. L. 336–52 (2024).

54. Chipo Mbawu & Peter Nkala, A Critical Review of the Implementation Challenges of the Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADDS), 9 J. Econ. & Sustainable Dev. 10–19 (2024); Robert E. Wood, From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy 1–45 (Stud. in Int'l Pol. Econ., vol. 15, 2024).

55. Sarah Babb, The Social Consequences of Structural Adjustment: Recent Evidence and Current Debates, 45 Ann. Rev. Socio. 155–72 (2019).

56. Axel Dreher, IMF and Economic Growth: The Effects of Programs, Loans, and Compliance with Conditionality, Proc. German Dev. Econ. Conf., Kiel 2005, No. 11, Verein für Socialpolitik, Ausschuss für Entwicklungsländer, Hannover 15–20, 23.

57. Id.

3.0 Public Debt in Africa

The composition and dynamics of public debt in Africa are generally highly unsustainable. However, they vary significantly among countries due to differences in economic structures, governance, fiscal policies, and such external factors as commodity prices and global financial conditions.[5] Generally, public debt focuses on the total debt obligations incurred by governments within the African continent. This debt typically includes both domestic debt (borrowing from domestic sources such as banks and bond markets) and external/public debt (borrowing from international sources such as bilateral and multilateral lenders, including organizations like the World Bank and IMF, as well as high-interest sovereign bond issuances).[59] Much of Africa's public debt is incurred by governments for various purposes, mostly for financing projects and addressing economic shocks. However, Ndung'u et al. note that the focus on African debt is mostly on debt-level monitoring rather than debt's speed of growth.[60] As such, it becomes challenging for the debt authorities to notice when the debt level is approaching unsustainable debt-level thresholds to make informed decisions on the sustainability of further debt and borrowing.

58. Njuguna Ndung'u, Abebe Shimeles & Damiano K. Manda, Growing with Debt in African Economies: Options, Challenges and Pitfalls, 30 J. Afr. Econ. (Issue Supp._1) i3–i13 (Nov. 2021). doi: https://doi.org/10.1093/jae/ejab019.

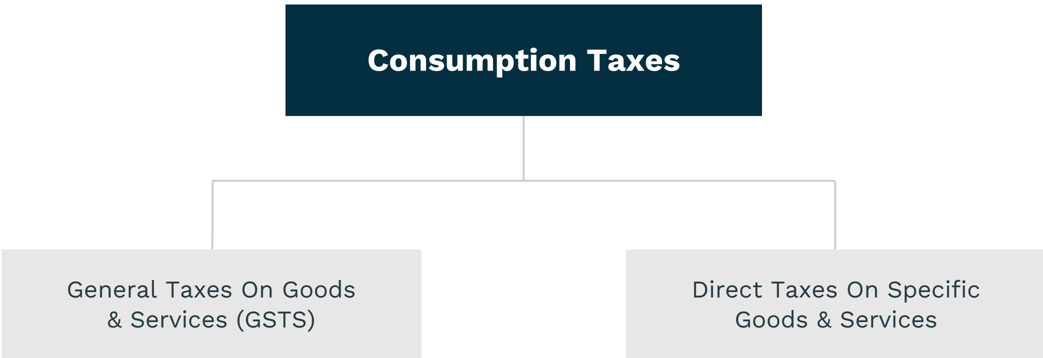
59. Horman Chitonge, The African Sovereign Debt Crisis: Is the African Repo Market the Solution?, inHow to Reform the Global Debt and Financial Architecture 220–21 (James Thuo Gathii ed., 2023).

60. Id. at i6.

4.0 Consumption Tax Policies

Consumption taxation is crucial and is one of the most ubiquitous sources of tax revenue worldwide, second only to income taxation.[61] Consumption taxes are generally compulsory payments (taxes) paid on the production, sale, transfer, lease, and delivery of goods and services.[62] Consumption taxes generally fall into two main categories: goods and services taxes (GSTs), such as VAT, sales taxes, turnover taxes, and others, and direct taxes on specific goods and services, including excises, customs duties, and specific service taxes.

Figure 1: Broad Categories of Consumption Taxes



These taxes are predominantly indirect in nature because they are initially collected from businesses within the production and distribution chain and are afterward passed on to final consumers as part of the purchase price of goods or services. Unlike personal income taxes, which primarily target income, gains, and/or the wealth of taxpayers, consumption taxes are levied on individuals' expenditures.[63]

61. IMF, Revenue Mobilization in Sub-Saharan Africa: Challenges from Informal Markets and VAT Policy 1–13 (2021). See also OECD, Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends 9–33 (2022). doi: https://doi.org/10.1787/6525a942-en.

62. OECD, Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends 11 (2022), https://doi.org/10.1787/6525a942-en.

63. Id.

VAT applies at each stage of the production and distribution chain, with businesses collecting and remitting taxes on sales while receiving credit for taxes paid on purchases. The objective of these taxes extends beyond revenue generation to influencing consumer behavior and addressing public health or social policy concerns. Effective design and implementation of consumption taxes necessitate careful consideration to balance revenue objectives with economic impacts and debt accumulation impacts. Given these, many countries design consumption tax policies to guide their implementation. Consumption tax policies across Africa vary widely, but many countries such as Ghana, Kenya, Uganda, and others have implemented VAT and other forms of sales tax as significant revenue sources.[64] The increased significance of VAT and other sales taxes, especially in highly indebted countries, is that they are regarded as sources of revenue to enable countries to repay debt rather than invest in basic needs.

Consumption tax policy is the set of rules that guide how taxes are applied to purchased goods and services. This includes different types of taxes like VAT, sales tax, and special taxes on items such as alcohol or tobacco. Each type of tax affects the economy and helps raise money for the government in different ways. For example, VAT and sales tax apply to most items, while excise and 'sin' taxes are used to target specific products. Overall, these taxes influence the prices that consumers pay and the revenue the government collects.[65] National consumption tax policies aim to achieve various goals, such as generating revenue, promoting economic efficiency, ensuring fairness, and supporting social welfare. Policymakers must manage trade-offs and possible unintended effects. These tax policies must balance the need for revenue with economic goals, which can result in either progressive (fairer) or regressive (less fair) tax structures and varying rates for different goods and services.[66] For instance, South Africa's VAT system is set at 15% and applies at multiple stages of production and distribution, unlike Nigeria's VAT rate, which increased from 5% to 7.5% in February 2019.[67]

Additionally, policy formulations often aim to alleviate tax burdens on vulnerable populations and include exemptions or special provisions for essential items like basic food, healthcare, or education. Egypt, for example, implemented a VAT in 2016, replacing the general sales tax. The standard VAT rate is 14%.[68] There are reduced rates for specific goods and services and exemptions for essential food products, health expenditures, and education services. Global considerations, such as rising global debt, trade balances, and cross-border tax issues, are increasingly pertinent when determining the design and implementation of consumption tax policies. As a lender of last resort, the IMF stipulates that tax policy revisions are a condition for emergency loans. Common measures include raising consumption taxes (like VAT), broadening the tax base, and reducing tax exemptions.

64. Id. at 10–15.

65. OECD, Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends 1–15 (2022). doi: https://doi.org/10.1787/6525a942-e.

66. Id.

67. South African Revenue Service, Value-Added Tax, https://www.sars.gov.za/types-of-tax/value-added-tax/ (last visited Dec. 22, 2024); Federal Inland Revenue Service, Value-Added Tax, https://www.firs.gov.ng/vat (last visited Dec. 22, 2024).

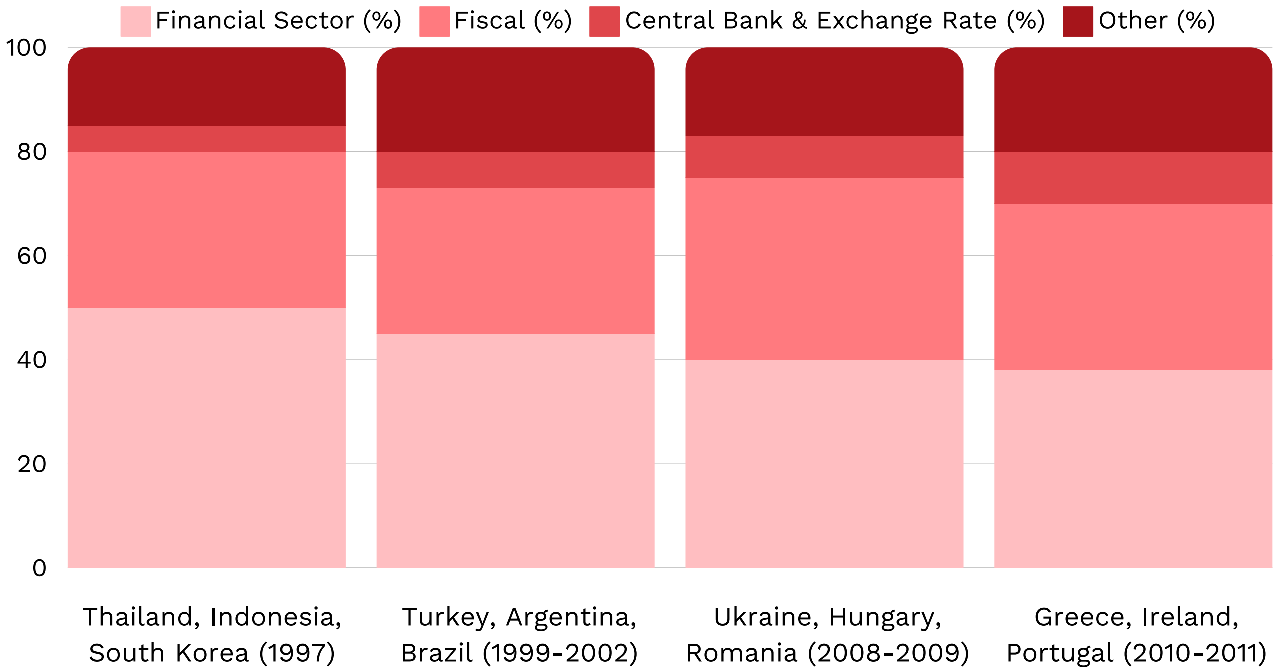
68. PWC, Egypt Corporate-Other Taxes Value-Added Tax (VAT), Worldwide Tax Summaries, July 31, 2024, https://taxsummaries.pwc.com/egypt/corporate/other-taxes.

The above is seen more in the imposition of conditions pertaining to the financial sector, which still consistently comprises a large proportion of structural conditionality.

> **Structural conditionality refers to the policy reforms and structural changes that IFIs require countries to implement in exchange for loans, debt relief, or financial assistance to address systemic economic issues and ensure that borrowing countries can repay their debts. However, structural conditionalities frequently involve far-reaching, often-adverse reforms that reshape a country's economic, social, and institutional frameworks.**

Sample analyses show that financial and fiscal conditionalities accounted for 43% of the total conditions imposed across the entire sample and more than half of the conditions in the three Asian crisis arrangements. Figure 2 shows areas where the IMF over time has recommended structural conditionalities, which is more common in the financial and fiscal sectors. Structural conditionality is a set of long-term policy and structural reforms that the IMF requires countries to implement as conditions for receiving loans. Notable examples include tax reforms, market liberalization policies, financial sector reforms, and many others. Structural conditionalities are problematic because they lead to social unrest or economic hardships in the countries that enforce them, as they usually require austerity measures like reducing public spending or increasing taxes as Figure 2 below indicates.

Figure 2: IMF Structural Conditionality in Various Sectors, including the Fiscal Sector



Source: Edwards & Hseih[69]

69. Kim Edwards & Wing Hsieh, Recent Changes in IMF Lending, Bull. (Reserve Bank of Australia) (Dec. 2011).

The chart shows IMF structural conditionalities in four groups of countries, focusing on the financial and fiscal sectors. In Thailand, Indonesia, and South Korea (1997), financial sector reforms were dominant (50%), while fiscal reforms made up 35%. Turkey, Argentina, and Brazil (1999–2002) followed a similar pattern, with slightly more focus on fiscal measures. Ukraine, Hungary, and Romania (2008–09) also focused on financial reforms (50%) and fiscal conditions (30%). Greece, Ireland, and Portugal (2010–11) had a higher share of fiscal reforms (40%). Overall, implementing these financial and fiscal structural conditionalities as major types of structural conditionalities did not contribute to long-term fiscal stability as envisaged prior to their design and execution.

The design and implementation of consumption tax policies are central to shaping fiscal landscapes, including debt sustainability; influencing economic behavior; and achieving desired fiscal outcomes, which bring the IMF into the foray under the cover of executing its mandate of global financial stability.[70] However, Tamale argues that the policy prescriptions of IFIs, especially the IMF, have historically exacerbated public debt unsustainability and economic instability, especially in African countries.[71] Many austerity measures executed through stabilization and structural adjustment programs, poverty reduction agendas, and responses to financial crises have included revenue and expenditure cuts, such as reductions in public spending, labor reforms, subsidy removals, and increased consumption taxes like VAT.[72] These measures often lead to economic distress and heightened debt burdens rather than the achievement of long-term stability.

The IMF has a strong influence on shaping its member countries' consumption tax policies, especially on those that receive loans per the IMF's mandate as a global economic surveillance body.

4.1
The IMF's role in tax policy and consumption tax and the rationale behind the IMF's recommendation for consumption taxes

The IFIs, in particular the IMF and World Bank, have come to dominate the direction and conduct of tax reform projects in developing and transition countries.[73] The IMF's involvement in tax policy signifies its active engagement with member countries to bolster their tax systems and fiscal frameworks.[74] This involvement encompasses a suite of initiatives aimed at providing technical assistance, policy advice, and capacity-building support tailored to each nation's unique circumstances. Through technical assistance means, the IMF claims to 'aid' countries in assessing their tax systems, identifying areas for reform, and devising strategies to enhance revenue mobilization and fiscal sustainability. On the policy guidance route, the IMF also claims to guide countries on a wide array of tax-related issues, including tax base broadening, compliance measures, and strategies to combat tax evasion.

70. IMF, Tax Policy and Global Stability: A Call for a Coordinated Response (2022).

71. Nona Tamale, Debt Restructuring under the G20 Common Framework: Austerity Again? The Case of Zambia and Chad, in How to Reform the Global Debt and Financial Architecture 157–58 (James Thuo Gathii ed., 2023).

72. Id. at 157.

73. Miranda Stewart, Global Trajectories of Tax Reform: The Discourse of Tax Reform in Developing and Transition Countries, 44 Harv. Int'l L.J. 139 (2003).

74. IMF, Tax Policy page, https://www.imf.org/en/Topics/fiscal-policies/Revenue-Portal/Tax-Policy#:~:text=The%20IMF's%20tax%20policy%20program,incentives%20to%20invest%2C%20work%2C%20and (last visited Dec. 22, 2024).

Through the capacity-building route, the IMF claims to facilitate capacity-building endeavors, such as training programs for tax officials and knowledge-sharing initiatives to bolster institutional capabilities and promote effective governance in tax administration. In effect, however, this capacity-building route works as a façade and strategy for compelling countries to adopt the kind of tax policies the IMF recommends.[75] This is quite similar to the Financial Action Task Force (FATF) strategy of prompting countries to adopt their own brands of anti-money laundering and terrorism standards through generously funded aid programs and training government officials while excluding relevant industry stakeholders, such as accountants, in the process.[76] The impact is that it short-circuits holistic decision-making where the experts derive and pass off laws that impact public interest as recommendations.

4.2
IMF Consumption Tax Policies: Principles and Mechanisms

The IMF's approach to consumption tax policies is guided by several key principles, which it claims are aimed at promoting efficient, fair, and sustainable tax systems. The IMF's Fiscal Affairs Department (FAD) is the organ responsible for issuing advice on national tax policies. One of the IMF's underlying principles and approaches to consumption tax policy is the use of broad-based taxation (BBT), which is an approach used to broadly implement consumption taxes, such as VAT, across goods and services at a relatively moderate single-digit to double-digit tax rate.[77] BBT is theoretically designed to minimize price and market distortions, thus ensuring an equitable distribution of the tax burden in a perfect market. For this reason, BBT is the IMF's instrument of choice to ensure a steady revenue stream without significant economic distortion. However, the underlying theory behind BBT to prevent market and price distortion is faulty since markets are rarely perfect for BBT to work efficiently. Also, BBT is regressive in nature and affects low-income households where a larger proportion of their income is spent on consumer goods, which results in wider income inequality and high tax administrative costs. Moreover, the IMF discourages tax deductions and exemptions, especially for consumer goods, which adds more proverbial fuel to the income inequality fire.

75. Larry Schroeder & Paul Smoke, Intergovernmental Fiscal Transfers: Concepts, International Practice, and Policy Issues, in Intergovernmental Fiscal Transfers in Asia: Current Practice and Challenges for the Future 20–32 (2003).

76. James Thuo Gathii, The Financial Action Task Force and Global Administrative Law, 10 Albany L. Sch. Rsch. Paper 1–5 (2010).

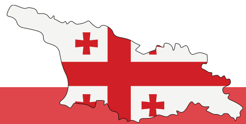
77. Schroeder & Smoke, supra note 75, at 20–32.

Table 1: Global Case Studies: Consumption Tax Implementation and Outcomes

In several select countries worldwide, the IMF has actively contributed to the implementation of consumption tax policies, leading to diverse impacts across regions.

Rwanda, an East African country, transitioned to a VAT system in 2001 with IMF assistance, aiming to broaden the tax base and enhance fiscal sustainability. While Rwanda's transition to a VAT system aimed to enhance fiscal sustainability, the regressive nature of consumption taxes could exacerbate income inequality. Given Rwanda's efforts to reduce poverty and promote inclusive growth, the disproportionate tax burden on low-income households hinders these objectives by limiting citizens' purchasing power and access to essential goods and services.

Mexico, a North American country, underwent VAT reforms in the 1980s under IMF guidance to modernize its tax system and bolster revenue collection. The introduction of VAT significantly broadened the tax base, diversifying Mexico's revenue sources beyond oil exports. This reform played a crucial role in stabilizing government finances, reducing fiscal deficits, and supporting economic growth by providing a more reliable source of income. However, the reform also faced challenges, including initial resistance due to its impact on consumer prices and the informal economy.



Georgia, after gaining independence from the former Soviet Union in 1991, faced significant challenges in trade and payment arrangements, which severely reduced its external trade volume. As part of a broader tax reform program supported by the IMF, Georgia implemented VAT in 1993 to address these economic difficulties and modernize its fiscal system. The decline in trade, coupled with rapid currency devaluation and other economic difficulties, led to hyperinflation. In response to this crisis, Georgia initiated a dialogue with the IMF in 1994. As part of these discussions, a series of structural reform programs were agreed upon. These reforms included the removal of generalized consumer subsidies on bread, electricity, and gas. The implementation of administered price adjustments for these commodities was scheduled for 1995 under an IMF-financed program. In September 1994, gas and electricity tariffs were drastically increased—nearly 1,000-fold and 600-fold, respectively. Additionally, as part of the IMF reform package, a new tax policy was introduced. This included increments in VAT, customs duties, and gasoline excise rates. These tax measures were adopted by the Georgian Parliament in November 1999. The reforms increased the cost of living, among other impacts.

Source: IMF, OECD, and Wang[78]

78. IMF, Rwanda: Staff Report for the 2012 Article IV Consultation and Fifth Review Under the Policy Support Instrument (2012), https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Rwanda-Staff-Report-for-the-2012-Article-IV-Consultation-and-Fifth-Review-Under-the-Policy-41031. See also OECD, Consumption Tax Trends 2024,VAT/GST and Excise, Core Design Features and Trends, https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/11/consumption-tax-trends-2024_57c7322a/dcd4dd36-en.pdf; Jian-Ye Wang, The Georgian Hyperinflation and Stabilization, IMF Working Papers, 1.34 (1999) 065, A001, https://www.elibrary.imf.org/view/journals/001/1999/065/article-A001-en.xml. See also Vladimer Papava On the Role of the International Monetary Fund in the Post-Communist Transformation of Georgia 39(5) Emerging Mkt. Fin. & Trade 5–26 (2003), http://www.jstor.org/stable/27750356.

The IMF claims to be guided by relevant tax principles, such as simplicity and transparency, in its recommended tax policy design and legislation.[79] The challenge is that simplicity and transparency founded on an austerity-type stabilization approach to debt sustainability is a problem in and of itself. Simplicity does not accommodate the vast but highly varied socio-economic realities of many taxpayers, especially those in lower-income groups, and may drive inequality by failing to accommodate differences in ability to pay among different taxpayer categories. In addition to simplicity and transparency, the IMF emphasizes market efficiency and economic neutrality in tax policies. Specifically, this means structuring taxes to avoid influencing consumer choices or business decisions.[80] Yet, under this approach, the IMF often prioritizes private sector interests, claiming to protect vulnerable populations with tax exemptions or reduced rates on essential goods to promote fairness though the focus tends to favor market concerns over public interests. Market considerations by way of market reforms often take priority over true equity.[81] Since marketplace demands are never static, market decisions ultimately do create economic distortions.

Another IMF principle is that consumption tax policies should be designed to generate sufficient revenue to effectively finance public expenditures. The IMF supports setting appropriate tax rates and structures to meet revenue needs while claiming to make economic impact assessments; yet, this is not always done using scenarios that are most friendly to the local situation. Many of the IMF recommendations sometimes prioritize uniform tax policies that may not account for local economic contexts, social norms, and development priorities. This lack of flexibility limits countries' abilities to tailor tax systems to their specific needs and challenges. Regardless of a country's development cadre with international standards and best practices, the IMF consumption principle promotes the alignment of consumption tax policies to create uniformity in consumption tax treatment to facilitate cross-border transactions and reduce tax avoidance or evasion. Aligning countries' consumption tax policies with international standards those nations have not set in the first place exerts undue influence on national sovereignty and domestic policymaking processes in favor of interests that are mostly hostile to those countries' development trajectories.

IMF policies also aim to enhance tax administration and compliance, improving tax authorities' efficiency through better training, technology adoption, and streamlined processes. Effective administration is essential for maximizing revenue collection and minimizing evasion while enhancing and simplifying the process for businesses along the various chains of production. The IMF suggests strategies to improve tax compliance, such as rigorous auditing, taxpayer education, and simplified filing procedures. Enhanced compliance reduces the informal economy's impact on revenue collection.

79. Micheal Keen et al., Revenue Mobilization in Sub-Saharan Africa: Challenges from Informal Markets and VAT Policy 2–15 (July 2009), https://www.imf.org/external/pubs/ft/wp/2009/wp09157.pdf.

80. Imad A. Moosa et al., Conditionality and Structural Adjustment Programmes, in Eliminating the IMF: An Analysis of the Debate to Keep, Reform or Abolish the Fund 55–87 (2019).

81. Youstina Magdy, Rethinking the IMF: Considerations for Economic Reform, Fiker Institute Issue Brief, 6 (June 2024).

Based on these principles, a mix of consumption taxes is utilized to implement the IMF's consumption policy designs. The most common advice in the area of domestic consumption taxes generally focuses on VAT.[82] The IMF has provided extensive assistance to countries engaged in the introduction or restructuring of existing VATs, either through new introductions or reforms. The rationale behind increasing VAT is straightforward: it is a BBT that can generate significant revenue. Given that VAT is applied to most goods and services, it has the potential to quickly boost government revenue, which is crucial during times of fiscal deficits. In arriving at their recommendations for countries, including those in the Global South, the IMF has frequently used US tax policy and experiences of European countries as a guide, mostly supporting market-favorable policies by cutting back on taxing marginal income and corporate profits tax, removing tax-based investment incentives to broaden the tax base.[83]

Generally, the IMF recommends that countries set a single VAT rate between 10% and 20%, depending on their revenue requirements. It also advises applying a zero rate for exports and keeping tax exemptions to a minimum. Where a single VAT rate isn't politically practical, the IMF suggests using two rates instead: a standard rate and a lower rate for a small number of specific goods. However, the IMF strongly discourages having more than three VAT rates. Additionally, the IMF's FAD advises against applying low VAT rates or exemptions to basic necessities like food and utilities. Instead, the IMF generally suggests that governments focus on addressing income inequality through spending rather than by reducing taxes on certain goods. This approach is considered more effective for achieving social and economic goals.[84]

Table 2: IMF VAT Implementation in Different Countries

Several global case studies offer valuable insights into the implementation of consumption taxes and their impacts. In the European Union, the successful adoption of VAT has provided a harmonized framework for consumption taxation. While VAT significantly contributes to government revenue, variations in rates and exemptions across EU countries pose compliance challenges for businesses operating across borders.

In India, the introduction of the Goods and Services Tax (GST) aimed to simplify tax administration and promote economic efficiency. Despite facilitating interstate trade and easing compliance for businesses, the implementation of the GST has encountered challenges, including technical glitches and complexities in tax rates and procedures.

Meanwhile, the United States employs sales tax at the state level, contributing substantially to state budgets. However, the decentralized nature of sales tax administration results in a complex regulatory landscape, impacting both businesses and consumers.

Source: European Union and others[85]

82. Janet Stotsky, Summary of IMF Tax Policy Advice, in Tax Policy Handbook 280–83 (Parthasarathi Shome ed., 1995), https://doi.org/10.5089/9781557754905.071.ch007.

83. Id. See also Derrick Swank, Tax Policy in an Era of Internationalization: Explaining the Spread of Neoliberalism, 60 Int'l Org. 847–60 (2006), https://www.cambridge.org/core/journals/international-organization/article/abs/tax-policy-in-an-era-of-internationalization-explaining-the-spread-of-neoliberalism/75A2E2903E0EFE8052F4D6FAA3385411.

84. Stotsky, supra note 82.

85. VAT rates applied in the Member States of the European Union, Situation at 1st Jan. 2021 https://taxation-customs.ec.europa.eu/system/files/2021-06/vat_rates_en.pdf; Government of India (2017), Goods and Services Tax (GST): Concept & Status, https://www.gst.gov.in/newsandupdates/read/21; Tax Foundation (2020), State Sales Tax Rates and Food & Drug Exemptions, https://taxfoundation.org/state-sales-tax-rates-2020/.

Regarding the VAT base, the IMF reform policy advice has focused on restricting the scope of exempted items to a few standard ones because these exempted items per se are difficult to administer under a VAT system.[86] Some of these exempted items include rental income, financial services, the agricultural sector, construction materials, professional and personal services, and purchases by governments and nonprofit entities. In selected transition economies, the IMF has departed from its typical practice and recommended that VAT be applied to farmers because farms are few.

The IMF recommendations favor applying a reduced VAT rate on essential goods rather than fully exempting them in some countries. However, if these items are to remain untaxed, the IMF favors exemptions over zero-rating. To encourage investment and economic growth, the IMF consistently supports the use of a consumption-based VAT system even though it reduces the tax base compared to gross- or net-income-based VAT systems. To maintain international competitiveness, the IMF recommends implementing a destination-based VAT, where taxes are applied in the country where goods or services are consumed. However, for trade between Commonwealth of Independent States (CIS) countries, the IMF has accepted the use of an origin-based VAT due to practical administrative considerations and the absence of border controls.[87]

The IMF has recommended that VAT cover the manufacturing stage of goods production. In some countries with more robust administrative capacities, it has also recommended coverage of the retail stage of production, with a preference for the invoice-credit method of accounting.[88] Also, the IMF has recommended that VAT have a threshold level based on turnover for the purpose of exempting small businesses, which helps to reduce the administrative burden with little adverse impact on tax revenue generated. In some cases, this recommendation on VAT has been coupled with a provision for allowing small traders to opt into VAT if they wish to credit VAT on their purchases at the point of final sale rather than at each stage of goods production and distribution. Generally, the IMF does provide guidance on sales taxes in contexts where VAT may not be feasible or where countries already have existing sales tax systems.

The IMF has also offered considerable advice on reforming excise taxes to serve as consumption taxes, a type that most countries already have in place. Excise taxes are taxes applied to specific goods or services, such as alcohol, tobacco, gasoline, and luxury items, with the policy aim of discouraging the consumption of certain products or internalizing externalities associated with their production or use.[89] The IMF generally recommends a five-step policy plan:

1. limiting the list of excisable goods to a few goods, such as alcohol, for example;	2. replacing specific with value-added rates to prevent revenue erosion through inflation;	3. choosing excise tax rates that are globally similar;
4. applying taxes to imported goods so as not to disadvantage domestic production;	5. levying VAT on the price of products, inclusive of excises.[90]	

86. Stotsky, supra note 82, at 280–83.

87. Id. See also Jeffrey Owens, Globalisation: The Implications for Tax Policies, 14 Fiscal Stud. 21–44 (1993), https://www.jstor.org/stable/24437311?casa_token=9aFhtY8ocAsAAAAA%3Au6D-PYSOIDXzJPyAKKSZ8vN1lYkSCoqPpi8_nJedYRp-Yy9VqUKlpBexD8noQea5-mCg8NkVZEJduhHLa0hsEsC4zAC1HKAbQGI8h4SKaN4U2EHk5iE&seq=11.

88. Stotsky, supra note 82, at 280–82.

89. IMF, Reforming Energy Subsidies: Opportunities and Challenges, Fiscal Affairs Dept. (2015), https://www.imf.org/en/Publications/FM/Issues/2015/12/31/Reforming-Energy-Subsidies-Opportunities-and-Challenges-42350.

90. Mario Mansour, Patrick Petit & Fayçal Sawadogo, How to Design Excise Taxes on Alcoholic Beverages, IMF How-to Note 2023/004 (2023).

Where necessary, the IMF has also recommended that countries maintain a combination of specific and VAT rates if tax administrative capacities are not very robust to ensure that goods are valued accurately.

Table 3: IMF Excise Experiences in Southeast Asia

> In Southeast Asia, excise taxes on tobacco and alcohol have been implemented to deter consumption and boost revenue. While these taxes have succeeded in reducing consumption rates, concerns remain regarding illicit trade and smuggling. Lastly, the Gulf Cooperation Council (GCC) countries introduced VAT to divert revenue sources away from oil dependency. While VAT implementation has helped mitigate budget deficits, it has also required adjustments by businesses and consumers accustomed to tax-free environments. These case studies underscore the importance of careful design and an ongoing evaluation of consumption tax policies to address challenges and achieve desired economic and fiscal outcomes.

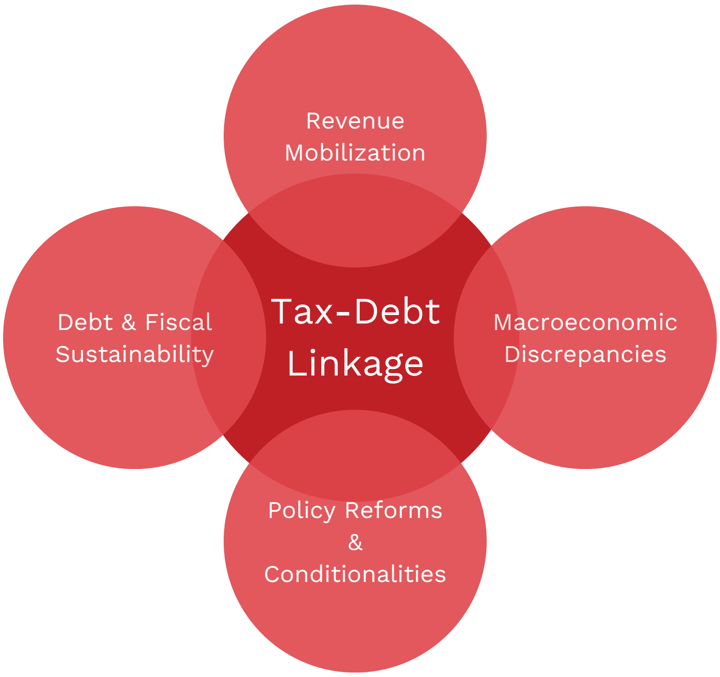
In the IMF's repertoire of consumption taxes, excises are relevant for revenue generation with little excess burden and for enhancing vertical equity, and they are also useful for correcting negative externalities. Closely related to excise taxes are 'sin' taxes, which constitute a specific category of excise tax applied to goods or services that are deemed harmful to health or social well-being. These include taxes on sugary beverages and gambling activities. 'Sin' taxes aim to reduce consumption of these items and mitigate associated societal costs while raising revenue for the government.

5.0 Connecting the Dots:

Linkages between IMF-Recommended Consumption Tax Policies and Rising Unsustainable Public Debt

This section explores the connection between IMF-recommended consumption tax policies and rising unsustainable public debt by examining how these policies, while aimed at stabilizing revenue, may inadvertently contribute to fiscal imbalances as seen in Figure 3. The dynamics and implications of such tax strategies on long-term debt sustainability are investigated through a theoretical framework.

Figure 3: Tax-to-Debt Linkage Justification



5.1 Justification framework linking consumption tax policies to public debt levels

Prevailing frameworks provide various but mixed underlying assumptions about IMF consumption tax policies and linkage to public debt. Certain assumptions support the view that while IMF-recommended consumption taxes can contribute to revenue stability, their effectiveness in managing public debt depends on various factors, including broader fiscal policy dynamics. If these taxes fail to generate sufficient revenue to match public spending, or they adversely impact economic growth, they can lead to rising and unsustainable public debt levels. A justification framework linking IMF consumption tax policies to rising unsustainable public debt levels can be constructed through several key components.

a) Revenue mobilization justification

Often, the IMF has recommended consumption tax policies, such as VAT or sales tax, which are based on the premise that these taxes are efficient revenue-raising measures that can help governments stabilize their fiscal positions, leading to the revenue mobilization theory. This theory posits that by broadening the tax base and capturing revenue from a wider range of economic activities, consumption taxes can significantly enhance government revenue. This in turn is expected to address budget deficits and reduce the need for governments to rely on borrowing to finance public expenditures. To this end, Keen and Lockwood argue that VAT is designed to be neutral with respect to production and consumption decisions, thus minimizing distortions and improving economic efficiency compared to other forms of taxation.[91]

Despite the validity of the revenue mobilization theory, the effectiveness of IMF-supported consumption tax policies in achieving these goals can be hampered by various factors. Implementation challenges, such as inadequate administrative capacity, can result in lower-than-expected revenue collections. Economic downturns can also decrease consumption levels, thereby reducing the revenue generated from these taxes. Additionally, Bird and Grendon emphasize the dangers of high rates of tax evasion and avoidance, particularly in economies with large informal sectors, which can further undermine the expected revenue benefits.[92] When these factors lead to revenue shortfalls, governments may find themselves compelled to increase borrowing to meet their fiscal obligations, which can contribute to rising public debt levels, a testament to the complexity of relying solely on consumption taxes for fiscal stability and revenue generation.[93]

b) Debt and fiscal sustainability framework

This justification surmises that IMF consumption tax policies are sponsored to promote long-term fiscal health by enhancing revenue mobilization while concurrently reducing fiscal deficits for sustainability. By implementing consumption taxes like VAT, governments can create a more stable and predictable revenue stream, thereby improving their ability to manage public finances by balancing budgets, effectively ensuring they don't rely excessively on debt financing that can endanger fiscal stability over time.[94] However, the effectiveness of consumption tax policies in achieving fiscal sustainability is contingent on the underlying assumption in this theory, which is a preexisting and prudent fiscal management structure.

Robinson highlights those structural issues in fiscal management, such as a lack of accountability and transparency in public expenditures, which can perpetuate fiscal deficits despite higher revenue mobilization.[95] The combination of revenue shortfalls and economic distortions can ultimately lead to unsustainable levels of public debt. Governments may resort to borrowing to finance budget deficits caused by inadequate revenue streams or increased spending commitments. If left unchecked, unsustainable public debt can undermine economic stability, constrain future government spending priorities, and increase the risk of debt crises. Thus, under this theory, public debt sustainability is strongly linked to the government's fiscal policy and tax revenues.

91. Michael Keen & Ben Lockwood, The Value Added Tax: Its Causes and Consequences, 92 J. Dev. Econ. 138–51 (2009).

92. Richard Bird & Pierre-Pascal Gendron, The VAT in Developing and Transitional Countries (2007). See also Marie-Louise Aren & Louis Koen, When Foreign Investment and Its Dispute Mechanisms Work Against African Economic Advancement: Revenue and Sustainable Development Implications, 13 J.Sustainable Dev. L. & Pol'y 29–51 (2022).

93. Id.

94. IMF, Fiscal Monitor: Capitalizing on Good Times (2018).

95. Mark Robinson, Budget Analysis and Policy Advocacy: The Role of Non-Governmental Public Action, IDS Working Paper 279 (2006).

c) Policy reforms and conditionality justification framework

This justification framework assumes that IMF involvement in consumption tax policies often occurs through policy conditionality attached to financial assistance programs. This hypothesis suggests that governments may be pressured to implement consumption tax reforms as part of IMF-led structural adjustment programs (SAPs) or loan agreements.[96] Gyimah-Brempong generally agrees that IMF economic reforms tend to both help and harm the intended policy recipients.[97] While these tax reforms are intended to stabilize government finances and secure necessary IMF funding, they can sometimes lead to unintended consequences, such as fiscal austerities that increase the tax burden on vulnerable populations.[98] In such circumstances, the shortfall in public expenditures due to austerity can force governments to borrow to meet their essential spending obligations, thus contributing to rising public debt levels.[99] This dynamic illustrates the complex interplay between IMF policy conditionality, fiscal austerity, and debt sustainability.

d) Macroeconomic discrepancy justification framework

This framework postulates that IMF-recommended consumption tax policies can significantly influence macroeconomic dynamics, including inflation, economic growth, and consumer spending patterns. The hypothesis suggests that if consumption taxes are levied at high rates, or implemented during periods of economic downturn, they may exacerbate macroeconomic inequities. For instance, high consumption taxes can reduce consumer purchasing power, leading to decreased consumption and lower overall economic activity.[100] Additionally, the increased tax burden can discourage business investment, further slowing economic growth and potentially leading to higher unemployment rates.[101] These macroeconomic imbalances can result in lower-than-expected government revenue, as the reduced economic activity leads to a smaller tax base. Consequently, governments may become increasingly reliant on debt financing to sustain operations and meet public expenditure needs.[102] This reliance on borrowing can contribute to a cycle of rising public debt levels, as the initial objectives of consumption tax policies—that is, to stabilize revenue and improve fiscal health—are undermined by adverse macroeconomic impacts.[103]

The justification frameworks linking IMF consumption tax policies to rising unsustainable public debt levels underscore the complexities involved in tax policy implementation within broader economic contexts. While consumption taxes are touted as efficient revenue-raising measures, their effectiveness hinges on several critical factors: the ability to broaden the tax base without stifling economic growth, the impact on social equity, and the challenges of implementation under IMF policy conditionality.

96. Sunday Adekunle Akande & Olusola Matthew Ojo, Global Governance, State Capacity and the Development Crisis in Africa, 14 Socio. Mind 54–68 (2024).

97. Kwabena Gyimah-Brempong, Economic Reforms and Economic Growth in Sub-Saharan Africa, 30 World Dev. 255–69 (2002). Ivy-Chara Owusuaa Yeboah, Abigail Tetteh & Nelson Quame, Ghana's Policy Elites and Engagement with the IMF Under the Fourth Republic: Elite Agency, Compliance, or a Mixed Bag?, in Public Sector Management and Economic Governance in Ghana: Three Decades of the Fourth Republic 45–64 (2024).

98. Alexandros E. Kentikelenis, Thomas H. Stubbs & Lawrence P. King, IMF Conditionality and Development Policy Space, 1985–2014, 23 Rev. Int'l Pol. Econ. 543–82 (2016).

99. Sanjeev Gupta et al., Fiscal Policy, Expenditure Composition, and Growth in Low-Income Countries, 24 J.Int'l Money & Fin. 441–56 (2005).

100. Gladson Mhone, Enclavity and Constrained Labour Absorptive Capacity in Southern African Economies, inRethinking Development Economics 172–92 (2001).

101. Thandika Mkandawire & Charles Soludo, Our Continent, Our Future: African Perspectives on Structural Adjustment (1999).

102. Machiko Nissanke & Ernest Aryeetey, Financial Integration and Development in Sub-Saharan Africa (1998).

103. Léonce Ndikumana, Fiscal Policy, Conflict, and Reconstruction in Burundi and Rwanda, in Managing Fiscal Policy in Sub-Saharan Africa 135–57 (2001).

Each of the justifications highlights important aspects of the complex relationship between IMF consumption tax policies and public debt. However, the best justification often depends on the specific national context since IMF policies play out in varying degrees. However, the most potent justification is the macroeconomic discrepancy from a development perspective since it emphasizes the broader macroeconomic impacts of consumption tax policies, including their effects on inflation, consumer spending, and business investment. The macroeconomic dynamics are tied to public debt levels, providing a comprehensive view of the potential ripple effects of tax policies. This framework is vital for understanding the economic consequences of consumption tax implementation, especially during economic downturns, including overlooking longer-term structural issues from the global economic governance system.

Likewise, the debt and sustainability justification that emphasizes the long-term implications of consumption tax policies on countries' fiscal positions and debt sustainability is important. This justification focuses on prudent fiscal management as essential for tax policy, highlighting the interplay between revenue generation and responsible economy-enhancing spending. This framework is critical to understanding the broader implications of tax policies on public debt, making it a compelling choice if the focus is on sustainable fiscal policy. However, it is a problematic justification because it focuses on austerity spending as prudent debt management instead of focusing spending on economic activities that can improve GDP in the long run.

The next section focuses on real-world examples of these linkages between IMF consumption tax policies and public debt.

5.2
Global case studies: Empirical impacts of IMF consumption tax policies on public debt levels

There is much empirical evidence that confirms the relationship between IMF consumption tax policies and rising unsustainable public debt levels. The following sections provide real-world examples of this deleterious relationship from around the globe.

a) Africa: Ghana

In Ghana, consumption tax policies supported by the IMF, particularly VAT reforms, have been integral components of economic adjustment programs aimed at enhancing fiscal sustainability. The history of VAT implementation in Ghana dates back to 1995 when the government introduced VAT to replace the sales tax system, aiming to broaden the tax base and increase revenue collection efficiency.[104] The government undertook this measure on the IMF's recommendation in June 1994 when Ghana sought the IMF's financial assistance to stabilize its economy, which had been facing such challenges as high inflation, fiscal deficits, and burgeoning public debt.[105] As part of the conditions for receiving assistance, the IMF recommended tax reforms in the context of Ghana's 1994 Article IV consultation.[106] The IMF Executive Board emphasized Ghana's need for macroeconomic and fiscal reforms, including domestic resource mobilization, as essential components of Ghana's economic recovery plan.[107]

104. Robert Darko Osei & Peter Quartey, Tax Reforms in Ghana, WIDER Research Paper No. 2005/66 (2005), 1–15.

105. IMF, 1995 Ann. Rep. 79–81, https://www.imf.org/external/pubs/ft/ar/archive/pdf/ar1995.pdf.

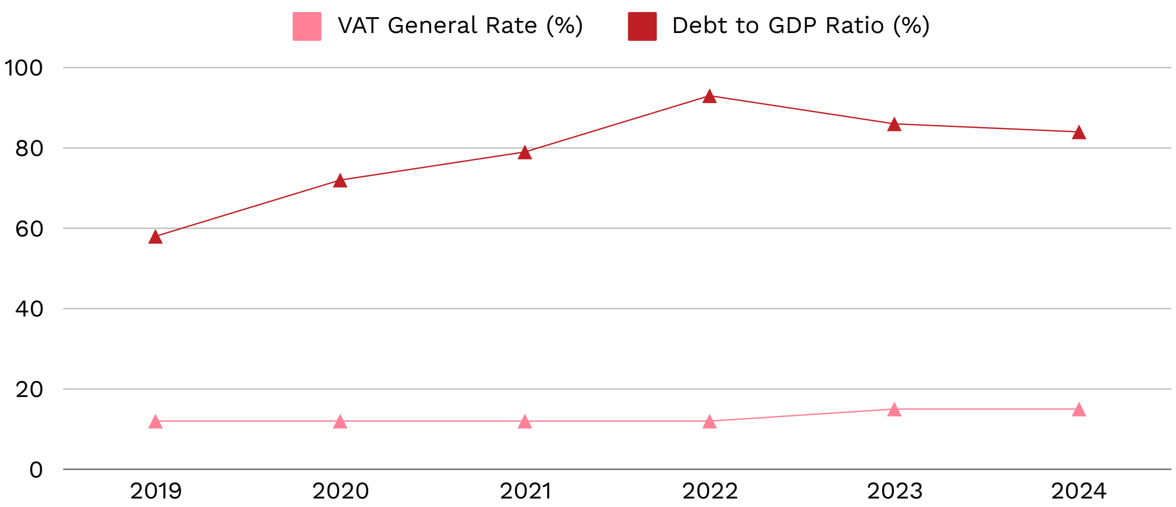
106. Id.

107. Id.

Although the various VAT increases somewhat bolstered government revenue by capturing a broader range of economic transactions, these policies have also posed significant challenges to economic growth and income distribution. Osei and Quartey note that various VAT hikes over the years in Ghana increased costs for consumers and businesses, leading to shifts in consumption patterns and potential slowdowns in economic activity.[108] This phenomenon leaves a broader impact on household disposable income and business profitability, particularly in sectors sensitive to consumption taxes, such as retail and services, and has had a negative bearing on public debt levels and sustainability over time despite the revenue gains.[109] Keen also notes that while countries with VAT raise more revenue, which is a sign of a more efficient tax system than anything else, the revenue gains are not that significant, especially in sub-Saharan Africa.[110]

Ghana continues to face persistent challenges with rising public debt levels. In 2022, Ghana's public debt level was US$42 billion, which increased to US$54 billion in 2023, and to US$65 billion in 2024, with an upward-rising debt trajectory.[111] VAT rates rose from 12.5% to 15% in 2023, in addition to the 2.5% National Health Insurance Levy (NHIL), the 2.5% Ghana Education Trust Fund (GETFund), and the 1% COVID-19 Health Recovery Levy (COVID-19 HRL), which were expected to raise revenue.[112] These rates apply to the supplies of goods and services that do not qualify for an exemption, zero-rating, or the VAT Flat-Rate Scheme (VFRS).[113] This suggests that while consumption taxes like VAT can provide short-term fiscal relief, their long-term sustainability depends on effective management of economic impacts and fiscal policy coordination.

Figure 4: Actual Debt-to-GDP and VAT Rates in Ghana (2019–24)



Source: IMF and the Ghana Revenue Authority

108. IMF, Ghana: Staff Report for the 2018 Article IV Consultation (2018).

109. Osei & Quartey, supra note 104.

110. Michael Keen, Taxation and Development—Again, IMF Working Paper, WP/12/220, at 11.

111. Statista, Ghana: National Debt from 2019 to 2029, https://www.statista.com/statistics/531591/national-debt-of-ghana/ (last visited Dec. 22, 2024); Ghana Revenue Authority, VAT Standard, https://gra.gov.gh/domestic-tax/tax-types/vat-standard/ (last visited Dec. 22, 2024).

112. Id.

113. IMF, IMF Datamapper, General Government Gross Debt, Percent of GDP, https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/GHA?zoom=GHA&highlight=GHA (last visited Dec. 22, 2024).

As shown in Figure 4, the VAT rate increased from 12.5% to 15%, which represents a 25% increase in the VAT rate itself. The debt-to-GDP ratio decreased from 93% in 2022, to 84% in 2024, which is a 9% decrease. The timing of the VAT increase and the subsequent decrease in the debt-to-GDP ratio suggests a fiscal policy approach aimed at stabilizing public finances after a period of rising debt levels (from 58% in 2019, to 93% in 2022). The relationship between the VAT increase and the decrease in the debt-to-GDP ratio appears to be positive, with the VAT increase likely playing a role in improving fiscal sustainability. While the VAT increase does provide immediate revenue, it may not be a sustainable long-term solution for addressing structural fiscal issues. The VAT increase can negatively impact consumer spending and economic growth, disproportionately affecting lower-income households and leading to public backlash. Additionally, reliance on VAT for revenue poses risks if underlying debt issues remain unaddressed.

Ghana's experience with VAT reflects the complexities of the relationship between the VAT increase and the decrease in the debt-to-GDP ratio, considering both the potential benefits and drawbacks. This underscores the importance of balancing revenue-generation objectives with considerations for economic growth and social equity. Ghana's experience with IMF consumption tax policies illustrates the VAT reforms' dual-edged nature. Ghana could benefit from comprehensive fiscal reforms that mitigate adverse economic impacts, improve tax administration efficiency, and foster sustainable economic growth alongside fiscal consolidation efforts.

b) Latin America: Argentina

Argentina has experienced cycles of IMF-led economic reforms, including consumption tax adjustments, during periods of fiscal instability. VAT reforms have been implemented multiple times, particularly during economic crises. For example, during the economic turmoil of the late 1990s and early 2000s, the government increased VAT rates as part of broader austerity measures. Some of the IMF-supported consumption tax policies, such as VAT reforms, have aimed to bolster government revenue and address fiscal deficits, but studies of their deeper implications indicate mixed outcomes.[114] In 2023, the IMF advised Argentina to improve VAT compliance, simplify the system, and reduce exemptions and incentives while avoiding temporary measures, such as delaying VAT refunds, to strengthen revenue collection and support long-term fiscal sustainability, thus helping to achieve the 2024 primary deficit target of 0.9% of GDP.[115]

In its 2002 Article IV consultation report for Argentina, the IMF recommended adjusting VAT rates by reducing payments for such key sectors as agriculture and transport. The IMF also advised that the executive branch ban tax amnesties.[116] These reforms were aimed at stabilizing the economy and ensuring that the Argentine government could meet its debt obligations. However, while these measures did help to temporarily stabilize government revenue, they also had significant social implications. One of the primary impacts of a series of VAT increases in Argentina was to widen existing socio-economic inequalities owing to their regressive nature. Although there have been allowable deductions, the exemptions have been relatively small.

114. Oscar Cetrángolo & Juan Carlos Gómez Sabaini, Tax Policy in Argentina: Between Solvency and Efficiency, in Taxation in Developing Countries: Six Case Studies and Policy Implications, 62–63 (Robert H. Gordon ed., 2010).

115. IMF, Fifth and Sixth Reviews under the Extended Arrangement under the Extended Fund Facility, Request for Rephasing of Access, Waivers of Non-observance of Performance Criteria, Modification of Performance Criteria, and Financing Assurances Review— Press Release; Staff Report; and Statement by the Executive Director for Argentina, IMF Country Report No. 23/312, pp. 19–21 (Aug. 2023).

116. IMF, Argentina: 2002 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Authorities of Argentina, IMF Country Report No. 03/226, pp. 14–16 (July 2003).

Since VAT is a consumption tax, it disproportionately affects lower-income groups that spend a larger portion of their income on goods and services subject to VAT. VAT increases can lead to higher costs of living for these groups, thereby exacerbating income inequality.[117] Moreover, this widening inequality spills over to consumers' purchasing power and frequency. Higher VAT rates can reduce consumer spending, which is a critical component of economic growth. In an economy already suffering from low consumer confidence and high inflation, higher VAT rates further reduce disposable income and consumption, leading to slower economic recovery.

This phenomenon was evident in Argentina during the early 2000s when VAT hikes contributed to a sharp contraction in consumer spending, thus deepening the recession.[118] For example, in the late 1990s and early 2000s, Argentina implemented several VAT rate increases as part of broader fiscal consolidation efforts. The government raised the VAT rate from 18% to 21% in 1995, and again during the 2001 economic crisis, which affected fiscal stability and led to the debt crisis.[119]

The cyclical nature of Argentina's economic crises has meant that the country has often relied on external financial assistance, particularly from the IMF. While VAT reforms have been part of the conditionality associated with these assistance programs, they have not always led to sustainable fiscal stability. Instead, they have sometimes contributed to ongoing challenges in managing public debt levels. VAT increases during the 2001 crisis led to a sharp decline in consumer spending. Consumer spending contracted by 4.4% in 2001, contributing to the deepening of the recession, leading to more debt unsustainability.[120]

Despite the short-term revenue gains from VAT reforms, Argentina's public debt levels remain unsustainable. The increased revenues have often been insufficient to cover the budget deficits and debt-servicing costs, leading to repeated cycles of borrowing and debt accumulation. For instance, the revenue generated from VAT increases has often been insufficient to offset the broader economic downturns and fiscal mismanagement. This has led to a vicious cycle where short-term fiscal measures, such as VAT hikes, are repeatedly used without addressing the economy's underlying structural issues.

Consequently, Argentina has struggled with high levels of public debt and periodic defaults, which have further exacerbated economic volatility. The debt-to-GDP ratio was around 55% in 1995, which increased to over 90% in 2001, and which continued to rise, leading to the debt default in 2001. Public debt in Argentina averaged 69.5 % of GDP in the decade leading up to 2022, surpassing the Latin American average of 56% of GDP. In 2022, Argentina's public debt was 85.2% of GDP.[121]

117. Mario I. Blejer & Isabel Guerrero, The Impact of Macroeconomic Policies on Income Distribution: An Empirical Study of Argentina, 28 World Dev. 891–907 (2000).

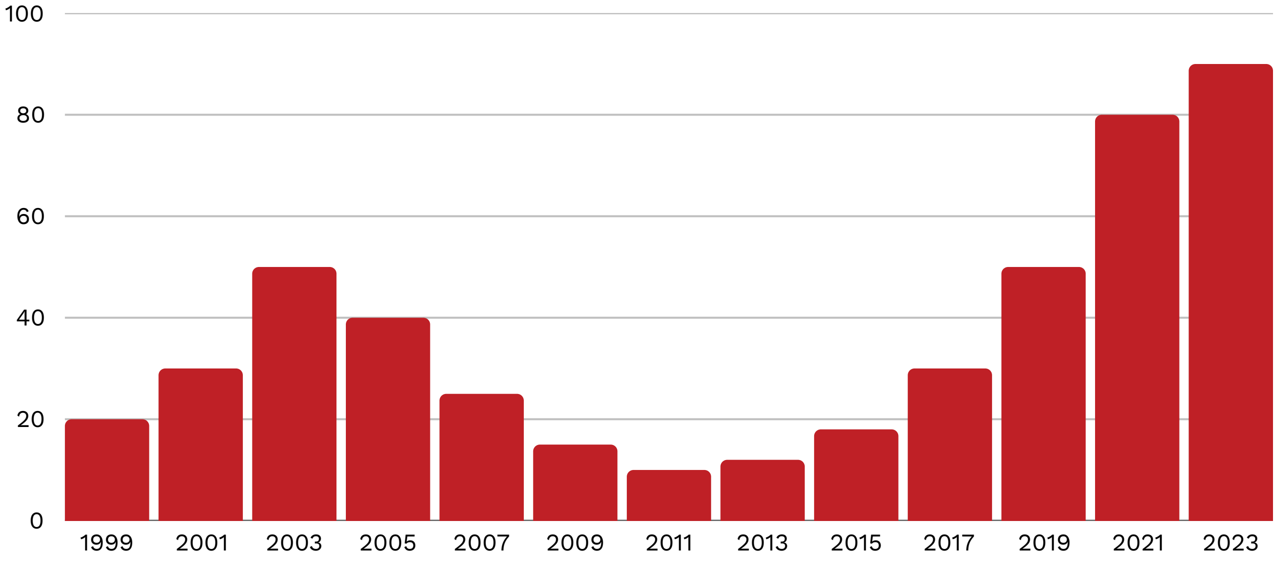
118. Id.

119. Cetrángolo & Gómez Sabaini, supra note 114, at 62–108. See also IMF, The IMF and Argentina, 1991–2001, Independent Evaluation Office Report, 29–31 (2004), https://www.imf.org/external/np/ieo/2004/arg/eng/pdf/report.pdf.

120. Id.

121. Focus Economics, Argentina Public Debt, https://www.focus-economics.com/country-indicator/argentina/public-debt/#:~:text=Public%20debt%20in%20Argentina%20averaged,debt%20was%2085.2%25%20of%20GDP (last visited Dec. 22, 2024).

Figure 5: Argentina's Public Debt, 1999–2023



Source: Argentine Government Debt-to-GDP[122]

Argentina's experience with VAT reforms and IMF-led economic adjustments offers important lessons for Africa. While increasing consumption taxes like VAT can generate short-term revenue gains, it is crucial to consider the potential social implications, particularly for lower-income groups. These measures can exacerbate existing inequalities and undermine consumer spending, hindering economic recovery and deepening fiscal instability. For African nations, the key takeaway is the importance of implementing tax policies that not only aim for immediate fiscal consolidation but also promote sustainable economic growth and social equity. Addressing underlying structural issues—such as improving tax compliance, diversifying the economy, and ensuring that fiscal policies are inclusive—will be essential for creating a resilient economic framework that can withstand external shocks without resorting to regressive taxation measures.

c) Europe: Ukraine

Ukraine, much like Argentina, has faced significant economic challenges, including fiscal instability and geopolitical tensions, which have necessitated external financial assistance and economic reforms. IMF-backed consumption tax reforms, particularly adjustments to VAT and excise taxes, have played a crucial role in these stabilization efforts.

While these measures have helped bolster government revenue in the short term, they have also contributed to economic hardships for households and businesses and increased public debt levels. Ukraine has implemented several VAT reforms as part of IMF-supported programs. The main objective of these reforms has been to stabilize government revenue and reduce fiscal deficits.

122. Trading Economics, Argentina Government Debt to GDP, https://tradingeconomics.com/argentina/government-debt-to-gdp (last visited Dec. 22, 2024).

For instance, in 2015, Ukraine planned to reduce its standard VAT rate from 20% to 17% under its Draft Tax Code but was unable to do so because of the economic crisis triggered by geopolitical tensions with Russia and internal economic weaknesses.[123]

However, the VAT remaining at 20% had some distortive fiscal implications—specifically, the increases imposed significant economic burdens on households and businesses. Owing to their regressive nature, consumption taxes, especially a broad-based tax like VAT, disproportionately affect lower-income households that spend a higher percentage of their income on VAT-able goods and services. Ukraine's poverty rate increased from 2.5 % in 2014, to 6.3% in 2015, partly due to higher consumer prices.[124] On the business side, many MSME businesses also faced higher operating costs, leading to reduced investment and slower economic growth due to a higher tax burden, leading to a decline in business activity and employment.[125]

Public debt levels are not improved by short-term revenue gains from VAT reforms, which are often insufficient to address long-term fiscal sustainability issues, especially in the context of ongoing geopolitical and economic pressures. According to an IMF report, Ukraine's public debt-to-GDP ratio increased from 40% in 2013, to over 80% in 2016, despite the 20% increase in VAT revenues in the short term.[126] The increased revenue from VAT was not enough to offset the costs of military spending, social welfare programs, and economic restructuring efforts necessitated by the conflict with Russia and internal economic challenges. The National Bank of Ukraine highlighted that, while VAT revenues provided short-term fiscal relief, the country's overall fiscal position remains precarious, necessitating continued external financial assistance and debt restructuring.

d) South Asia: Sri Lanka

Sri Lanka, like many emerging economies, has experienced and continues to face challenges when attempting to strengthen its fiscal resilience while reducing reliance on external borrowing. In response, the IMF has provided technical support, including consumption tax policies, particularly VAT reforms. The implementation of these policies has yielded mixed outcomes. Sri Lanka, in the short term, improved revenue mobilization, yet the impact of increased consumption taxes also affected consumer behaviour and economic growth dynamics. Some of the consumption tax policies were also affected by inefficient administration and broader economic instability.[127] In 2022, Sri Lanka defaulted on its public debt for the first time, with a debt-to-GDP ratio of 130%.[128]

123. KPMG, Draft Tax Code Of Ukraine - Principle Changes, US-Ukraine Business Council (June 25, 2010), https://www.usubc.org/site/member-news/draft-tax-code-of-ukraine-principle-changes-2; Klymenko: Government decided to postpone reduction in VAT, cut profit tax to 18%, Interfax Ukraine/Ukraine News Agency (Dec.18, 2013), https://en.interfax.com.ua/news/economic/182658.html.

124. World Bank Group, Poverty & Equity Brief: Europe & Central Asia: Ukraine 1–2 (Oct. 2020), https://databankfiles.worldbank.org/public/ddpext_download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/SM2020/Global_POVEQ_UKR.pdf.

125. IMF, Ukraine Technical Assistance Report—Reducing Social Security Contributions and Improving the Corporate and Small Business Tax System, IMF Country Report No. 16/25, pp. 38–39 (Jan. 2016); Iryna Fedets and The Institute for Economic Research and Policy Consulting - Kyiv, Ukrainian SMEs Want Deregulation and Friendlier Tax Authorities, Oct. 16, 2016, 4liberty.eu, https://4liberty.eu/ukrainian-smes-want-deregulation-and-friendlier-tax-authorities/.

126. Statista, Ukraine: National Debt in relation to Gross Domestic Product (GDP) from 2013 to 2029, https://www.statista.com/statistics/427246/national-debt-of-ukraine-in-relation-to-gross-domestic-product-gdp/ (last visited Dec. 22, 2024); Contact Ukraine, VAT Tax in Ukraine, https://www.contactukraine.com/taxation/vat-tax#:~:text=Main%20VAT%20rate%20is%2020,exempt%20from%20taxation%20by%20VAT (last visited Dec. 22. 2024).

127. Press Release no. 24/14, IMF, IMF Staff Concludes Visit to Sri Lanka (Jan. 19, 2024).

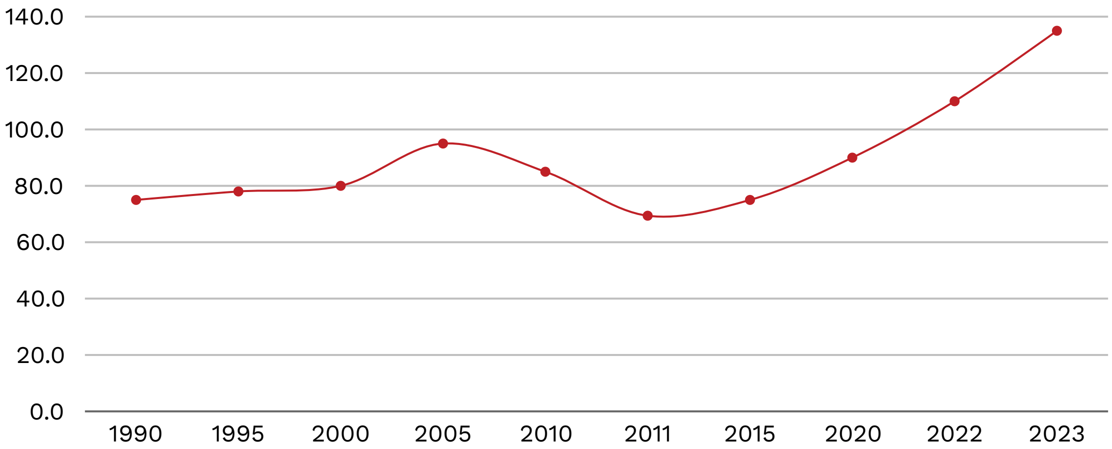
128. The Countries in the Grip of Debt Crises, Reuters (Feb. 24, 2023).

The default was exacerbated by the global economic slowdown caused by the COVID-19 pandemic. Moreover, a series of missteps and external shocks led to a severe financial crisis, evidenced by a lack of foreign exchange reserves, hyperinflation, and shortages of essential goods. The economic situation deteriorated, and political turmoil and widespread social unrest erupted, ultimately forcing then-President Gotabaya Rajapaksa to flee the country.[129]

The Sri Lankan government has implemented VAT reforms with the support of the IMF to enhance fiscal resilience. The IMF's tax policy advice to Sri Lanka, particularly concerning the country's rising public debt, has also undergone significant evolution in recent years. In 1998, Sri Lanka introduced a GST to replace the turnover tax. The threshold for registration for the GST was set at Rs. 500,000 per quarter or Rs. 1,800,000 per annum, with a tax rate of 12.5%.[130] In the early 2000s, with an average debt-to-GDP ratio of over 80%, Sri Lanka faced persistent fiscal deficits and growing public debt despite the GST. The IMF's recommendations during this period focused on broadening the tax base and improving tax administration to increase government revenue. The IMF suggested enhancing VAT compliance and addressing inefficiencies within the tax system.[131]

Consequently, Sri Lanka implemented gradual VAT reforms and introduced various tax measures aimed at fiscal balance. Notably, in 2002, the government introduced VAT by abolishing the GST and National Securities Levy, with a threshold for registration of Rs. 500,000 per quarter or Rs.1,800,000 per annum and charged under three types of ratios: 0%, 10%, and 20% for goods specified in extant tax law schedules.[132] Despite these efforts, the reforms were often insufficient to tackle the broader fiscal challenges, reflecting limited success in stabilizing public finances.[133] Figure 6 shows that, although the debt figures decreased by the mid-2000s from the 2000 debt-to-GDP ratio of 96% in 2001, the debt level remained above the recommended threshold of 60%, averaging over 70% from 2000 to the 2010s.

Figure 6: Gross Debt-to-GDP Ratio: Sri Lanka



Source: World Economics[134]

129. Id.

130. History of Inland Revenue, Policy Changes Over the Years, Sri Lanka Inland Revenue (last updated Feb. 28, 2023), https://www.ird.gov.lk/en/about%20ird/sitepages/policy%20changes.aspx?menuid=110406.

131. Id.

132. History of Inland Revenue, supra at 130.

133. Id.

134. World Economics, Sri Lanka, Sri Lanka Debt to GDP Ratio: %, https://www.worldeconomics.com/grossdomesticproduct/debt-to-gdp-ratio/Sri%20Lanka.aspx (last visited Dec. 22. 2024).

As Sri Lanka's public debt escalated, the IMF's recommendations became more targeted. The IMF advised increasing VAT rates and reducing tax exemptions to enhance revenue generation. In 2016, Sri Lanka raised the VAT rate from 11% to 15% and reduced several tax exemptions in the face of worsening debt levels.[135] The 2016 VAT rate increase was part of efforts to boost revenue, which saw an increase in VAT revenue from 4.8% of GDP in 2015, to 6.2% in 2018.[136] However, the VAT hikes and reduction of exemptions led to higher living costs disproportionately affecting low-income households and sometimes resulted in public resistance. Interestingly, despite the increments, the debt-to-GDP ratio increased from 75% in 2016, to 82% in 2018.[137] Deyshappriya has shown that this VAT increase impacted less financially well-off individuals more by straining individual spending income and purchasing power while increasing inequality.[138] Eventually, boosts in the VAT rate increased the probabilities of being extremely poor, poor, or not poor by 0.017%, 1.39%, and 4.16%, respectively, while shrinking the probability of being non-poor by 5.57%.[139] Thus, Sri Lanka's VAT rate increase of 4% further worsened individuals' well-being by increasing the level of poverty.

By 2019, Sri Lanka's fiscal situation severely deteriorated with increasing debt levels. The IMF's advice included stringent measures to stabilize the economy, such as further VAT increases and improved tax administration. During this period, VAT rates remained high, and fiscal consolidation efforts were intensified to ensure long-term fiscal sustainability.[140] The COVID-19 pandemic exacerbated Sri Lanka's economic difficulties, leading to a further rise in public debt. The IMF recommended temporary VAT rate adjustments and targeted fiscal support while emphasizing the need for long-term structural reforms.[141]

Sri Lanka defaulted on its international debt in 2022, marking a historic first. The IMF continued to advise on fiscal reforms, including VAT adjustments and fiscal consolidation measures. The crisis response involved recommendations for debt restructuring and the implementation of social protection measures to mitigate impacts on vulnerable populations. The IMF's recommendations also focused on negotiating with creditors for debt restructuring and continuing to improve revenue intake through tax reforms, but nothing concrete has been decided as of this writing.

135. Roshini Fernando, Sri Lanka's 2018 Budget Includes Indirect Tax Proposals, EY GLOBAL Tax News Update (Feb. 2, 2018), https://globaltaxnews.ey.com/news/2018-5244-sri-lankas-2018-budget-includes-indirect-tax-proposals#:~:text=Sri%20Lanka's%20Minister%20of%20Finance,Budget%20on%209%20November%202017.&text=Under%20the%20Budget%2C%20the%20VAT,quarter%20(LKR12%20million%20annually); Benjamin Fernandez Ovalle, Sri Lanka: Government Debt Burden Leads to Increase in VAT, Thomson Reuters Blog (Mar. 18, 2016), https://tax.thomsonreuters.com/blog/sri-lanka-government-debt-burden-leads-to-increase-in-vat/.

136. IMF, Sri Lanka: 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Sri Lanka, IMF Country Report No. 18/324 (Nov. 2018), https://www.imf.org/en/Publications/CR/Issues/2018/12/05/Sri-Lanka-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-46473 accessed 20 July 2024.

137. World Economics, supra note 134.

138. Ravindra Deyshappriya, Impact of Value Added Tax on Poverty in Sri Lanka, J. Mgmt. & Tourism Rsch. 57, 70–78 (2018), https://www.researchgate.net/publication/341281245_Impact_of_Value_Added_Tax_on_Poverty_in_Sri_Lanka.

139. Id.

140. IMF, Sri Lanka: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Sri Lanka, IMF Country Report No. 21/187 (July 2021), https://www.imf.org/en/Publications/CR/Issues/2021/07/02/Sri-Lanka-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-463304.

141. IMF, Sri Lanka: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Sri Lanka, IMF Country Report No. 22/123 (June 2022), https://www.imf.org/en/Publications/CR/Issues/2022/06/29/Sri-Lanka-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-465663.

The short-term effects of VAT increases included higher consumer prices and reduced spending, which strained economic activity. In Sri Lanka, preexisting vulnerabilities and external shocks, such as the COVID-19 pandemic, compounded these impacts. While VAT reforms aimed to stabilize public finances, they did not fully address underlying structural issues, leading to worsening economic conditions. Similarly, VAT hikes and other tax measures have contributed to social unrest and political instability. The impact of these reforms on the cost of living played a significant role in widespread protests and political upheaval in Sri Lanka. The government's response involved balancing fiscal requirements with social protection, but the severity of the economic crisis limited these measures' effectiveness.[142]

e) The Caribbean: Jamaica

Jamaica's experience with IMF-backed consumption tax reforms, including VAT rate increases, provides a valuable case study of the effects of such policies on fiscal sustainability and public debt management in small island developing states (SIDS). These reforms, implemented as part of broader economic adjustment programs, have aimed to enhance revenue generation and achieve fiscal stability. However, their impact on economic growth and social welfare has been complex and multifaceted, revealing both benefits and challenges. The introduction and subsequent adjustments of the general consumption tax (GCT), Jamaica's version of VAT, have been pivotal in increasing government revenue. The GCT was first introduced in 1991 and has since undergone several rate adjustments, particularly during periods of fiscal distress. For example, during the 2008–09 global financial crisis and its aftermath, the Jamaican government, under IMF guidance, increased the GCT rate from 16.5% to 17.5% to boost revenue and stabilize the fiscal deficit.

The UN Economic Commission for Latin America and the Caribbean (ECLAC) reported that these adjustments contributed significantly to revenue mobilization.[143] By 2018, VAT/GCT revenues accounted for approximately 30% of total tax revenue, reflecting the effectiveness of the consumption tax in enhancing fiscal capacity. This increase in revenue was crucial for addressing fiscal imbalances and reducing the budget deficit, which had been a persistent issue for Jamaica. Granted, the VAT/GCT reforms succeeded in generating additional revenue, but they also posed challenges to economic growth and social welfare. Higher VAT rates can have a dampening effect on consumer spending, which is a critical driver of economic activity, especially in SIDS like Jamaica. The regressive nature of VAT means that it disproportionately affects lower-income households, increasing their cost of living and potentially exacerbating poverty and inequality. Jamaica's higher VAT rates contributed to increased living costs for low-income families, with food and basic necessities becoming more expensive.[144] This had adverse effects on social welfare, as lower-income groups bore a larger burden of the tax increase.

142. Deyshappriya, supra note 138.

143. Economic Commission for Latin America and the Caribbean (ECLAC), Fiscal Panorama of Latin America and the Caribbean 2019: Tax Policies for Resource Mobilization in the Framework of the 2030 Agenda for Sustainable Development (LC/PUB.2019/8-P) (2019).

144. IMF, Jamaica 2016 Article IV Consultation, Eleventh and Twelfth Reviews under the Extended Fund Facility and Request for Modification of Performance Criteria—Press Release; Staff Report; and Statement by the Executive Director for Jamaica, IMF Country Report No. 16/181, pp. 7–8, https://www.imf.org/external/pubs/ft/scr/2016/cr16181.pdf; IMF, Jamaica 2014 Article IV Consultation and Fourth Review under the Extended Arrangement under the Extended Fund Facility and Request for Modification of Performance Criteria— Staff Report; Press Release; and Statement by the Executive Director for Jamaica, IMF Country Report No. 14/169, June 2024, pp 4–9, https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Jamaica-Staff-Report-for-the-2014-Article-IV-Consultation-and-Fourth-Review-under-the-41670; IBRD, Project Performance Assessment Report Jamaica for Jamaica Economic Stabilization and Foundations for Growth Development Policy Loan (DPL) (P145995) (IBRD-83170), Sept. 20, 2019, 13–14, https://documents1.worldbank.org/curated/ar/336231570467350966/pdf/Jamaica-Economic-Stabilization-and-Foundations-for-GrowthDevelopment-Policy-Loan-DPL.pdf; Planning Institute of Jamaica, Economic and Social Survey Jamaica (2017), https://www.pioj.gov.jm; World Bank Group, Jamaica, World Bank Group in Jamaica (last updated Nov. 19, 2024), https://www.worldbank.org/en/country/jamaica/overview. See also Debt Justice, Life and Debt: Global Studies of Debt and Resistance: Jamaica Report (2013), 19–22, https://debtjustice.org.uk/wp-content/uploads/2013/10/Life-and-debt-C3-Jamaica.pdf. See also Jonathan Glennie, "Jamaica Can't Take All the Rap for Its Poor Performance on Millennium Development Goals," Guardian (Sept. 28, 2010), https://www.theguardian.com/global-development/poverty-matters/2010/sep/28/millennium-development-goals-jamaica-imf; Paul Bourne, The Incidence of Poverty in Jamaica Report (2022), 7–10, 18–30, https://www.researchgate.net/publication/361219793_The_Incidence_of_Poverty_in_Jamaica_REPORT/citation/download.

Jamaica's VAT/GCT reforms have been instrumental in addressing fiscal imbalances, which is critical for managing public debt levels but only in the short term. Jamaica has historically struggled with high public debt, often exceeding 100% of GDP.[145] However, the IMF also highlighted the need for structural reforms to sustain this progress, such as improving tax administration, enhancing public financial management, and promoting economic diversification.[146]

Jamaica's experience with IMF-backed VAT/GCT reforms illustrates the significant challenges associated with relying on consumption taxes for fiscal sustainability. While these reforms initially generated additional revenue and helped address short-term fiscal deficits, they have disproportionately burdened lower-income households, exacerbating poverty and social inequality. The regressive nature of VAT increases living costs for essential goods, dampening consumer spending and stalling economic growth, particularly in a small island developing state like Jamaica. Furthermore, the pressure to raise these consumption taxes often stems from the need to satisfy creditors who already benefit from high interest rates on existing debts, prioritizing debt obligations over citizens' welfare. Jamaica continues to grapple with high public debt levels, often exceeding 100% of GDP. The imposition of consumption taxes for long-term fiscal stability leads to a cycle of austerity and social unrest that undermines sustainable development while perpetuating the imbalance in favor of creditors benefiting from elevated interest rates.

The case studies presented above suggest a significant imbalance between fiscal resilience and the impacts of increased consumption taxes. This raises critical concerns about the sustainability and fairness of relying on consumption taxes like VAT as a key strategy for addressing fiscal deficits for debt sustainability. The reliance on consumption taxes to satisfy creditors can exacerbate inequalities and hinder sustainable economic growth, particularly when these taxes disproportionately affect lower-income households. For African countries, this underscores the importance of adopting a balanced approach that prioritizes social welfare alongside fiscal responsibility while taking IMF consumption tax recommendations with a grain of salt, as these recommendations are not in African citizens' best economic interests and welfare.

145. IMF, IMF: The Power of Partnership and Ownership (May 2019), https://www.imf.org/en/Countries/JAM/jamaica-lending-case-study.

146. Id.

6.0 Key Findings from the Study on IMF-Backed Consumption Tax Policy Reforms

This study mainly investigates the impact of IMF-backed consumption tax policy reforms on countries facing economic challenges. By examining historical data and case studies from various nations, the study provides a comprehensive analysis of how these tax reforms have impacted some countries more negatively than others.

> **The international debt architecture, which is largely dominated by institutions like the IMF and the World Bank, as well as creditor groups like the Paris Club, is misaligned with development priorities, particularly those of countries in the Global South.**

Initiatives such as the HIPC, MDRI, DSSI, and now the Common Framework, which have been globally touted as promoting financial stability and debt sustainability, have only perpetuated dependency on IFIs. These initiatives have induced dependency by imposing rigid austerity measures that undermine social welfare and economic sovereignty without addressing the capitalist ideals driving these initiatives—all while working in the creditors' best interests above any other stakeholder. These measures, influenced heavily by the United States and Global North, prioritize creditor interests, promote neoliberal policies, and lack enforceable solutions, thus exacerbating inequality and the recurring debt crises.

The use of 'soft' law approaches and the reliance on private sector debt restructuring mechanisms like CACs further highlight systemic imbalances that benefit creditors while burdening developing nations. The ongoing influence of neoliberalism and fiscal consolidation policies, alongside a disproportionate representation of Global North countries in the IMF's decision-making process, underscores the systemic unfairness in the global economic and debt governance architecture. This architecture is in dire need of substantial reform to address power imbalances and align global debt governance with the Global South's development needs as valuable stakeholders in the global economy.

The IMF wields significant influence in the global debt architecture, often using its policy advice, financial assistance, and surveillance as tools to push consumption tax reforms that disproportionately burden citizens. Through mechanisms like Article IV consultations, the IMF subtly enforces consumption taxes, such as VAT, as a preferred route for fiscal stability while sidestepping more equitable tax options, such as corporate taxes or trade taxes, because they impact investment income that ultimately burdens foreign investors and creditors. This narrow focus on consumption taxes reflects a short-sighted strategy that ignores deeper structural issues like inefficiencies in debt management, multinationals' rampant tax evasion, and many developing countries' weak administrative capacity. Rather than addressing the root causes of unsustainable debt—excessive debt-servicing costs, skewed international financial systems, and the concentration of wealth—the IMF's approach exacerbates fiscal imbalances. By compelling governments to rely heavily on regressive consumption taxes, the IMF shifts the burden of debt onto the most vulnerable populations, perpetuating inequality and undermining long-term development. This reveals the need for a more balanced and just fiscal strategy that doesn't prioritize creditors at the expense of economic equity and sustainability.

One key finding from the various justification frameworks linking IMF consumption tax policies to rising unsustainable public debt is the complexity and unintended consequences of IMF consumption tax policies.

While IMF-recommended consumption taxes, such as VAT, are often promoted as efficient revenue-raising tools, their effectiveness is contingent on broader economic conditions and fiscal management. The reliance on consumption taxes can exacerbate fiscal imbalances, particularly in economies with less advanced administrative capacities and large informal sectors or during periods of economic downturn. These taxes can depress consumer spending and economic activity, leading to lower-than-expected revenues, increased borrowing, and rising public debt. Furthermore, IMF conditionality and austerity measures often place disproportionate burdens on vulnerable populations, undermining long-term development. The most potent justification emerges from the macroeconomic discrepancy framework, which highlights the ripple effects of consumption taxes on inflation, investment, and economic growth, showing how they can fail to achieve fiscal stability while aggravating public debt burdens. Understanding these frameworks is essential for grasping the long-term implications of consumption tax policies on public debt and fiscal health—particularly in the context of developing economies—which helps craft the right tax policy that accommodates country dynamics rather than the current one-size-fits-all measure of consumption tax policy.

The experiences of Argentina, Ukraine, Sri Lanka, and Jamaica with IMF-backed consumption tax reforms highlight a critical finding that these reforms can generate short-term revenue gains and contribute to fiscal stabilization, but they often exacerbate existing socio-economic inequalities and hinder long-term economic growth.

Specifically, these consumption taxes tend to disproportionately burden lower-income households, leading to increased living costs, reduced consumer spending, and ultimately, slower economic recovery. This cycle emphasizes the importance of implementing inclusive and sustainable tax policies that not only address immediate fiscal challenges but also promote social equity and economic resilience in the face of external shocks. For developing countries, the lesson is clear: effective tax reform must consider the broader social implications to achieve lasting fiscal stability and economic growth.

The Ghanaian experience emphasizes the need for a holistic approach to fiscal policy that goes beyond merely implementing consumption taxes.

Effective revenue mobilization should be accompanied by comprehensive reforms in public financial management, enhancing transparency, accountability, and efficiency in public expenditures. Such reforms can help ensure that increased tax revenues are effectively used to improve fiscal stability and reduce public debt levels. Social considerations in tax policy design are critical when crafting and implementing consumption taxes like VAT. This can be achieved through measures such as exempting more basic goods and services from VAT or providing targeted relief to vulnerable populations and conducting steady VAT impact analyses on vulnerable populations. Such measures can more readily address the distributional impacts of consumption taxes and negative socio-economic effects and foster broader public support for tax reforms, ultimately leading to more sustainable fiscal outcomes.

7.0 Policy Recommendations to Mitigate the Impact of IMF-Backed Consumption Tax Policies

Countries facing fiscal challenges from implementing IMF-backed consumption tax reforms, such as VAT increases, can adopt several solutions to mitigate adverse effects while maintaining fiscal stability. These solutions focus on enhancing economic resilience, promoting social equity, and ensuring sustainable growth without solely depending on regressive tax measures.

a) Diversifying the tax base and broadening fiscal practice reforms

The global debt and financial architecture must undergo significant reform since its current structure accelerates reliance on consumption taxes, such as VAT, which disproportionately harm ordinary people. The IMF, acting both as a lender and guarantor of policies adopted by borrower nations, often imposes consumption tax reforms as a precondition for accessing further international funding. This gives other lenders confidence in a country's fiscal health but places a heavy burden on lower-income populations that face rising costs for basic goods and services. By favoring consumption taxes over more progressive tax measures, the existing debt framework perpetuates economic inequality and exacerbates public debt because governments are forced to borrow more to meet fiscal shortfalls, further entrenching their dependence on external financing.

To counter these adverse effects, one effective strategy is to diversify the tax base, reducing reliance on VAT and other regressive consumption taxes. This can be achieved by strengthening progressive income, property, and corporate taxes, ensuring wealthier individuals and larger businesses contribute a fairer share of national revenue. For instance, Chile's introduction of a wealth tax alongside higher corporate taxes demonstrates how such reforms can ease the burden on lower-income households while providing a more equitable distribution of revenue. In this way, a broadened tax base can generate sufficient revenue without exacerbating inequality, allowing governments to invest in long-term economic growth rather than relying on debt to meet fiscal obligations.

Further reforms should also include the introduction of new taxation forms, such as carbon taxes and pollution charges, which can serve as alternative revenue sources while promoting environmental sustainability. These taxes not only raise revenue but also encourage businesses to adopt greener practices, thus fostering sustainable development. By diversifying both the tax system and the economic base, governments can build resilience against fiscal crises, reduce public debt, and ensure that tax reform benefits are shared more equitably across society. This holistic approach addresses the root causes of debt dependence, ensuring a more stable and sustainable fiscal future.

b) Preventing tax increments and streamlining taxes but enhancing tax administration and compliance

Reconsidering the IMF's emphasis on consumption taxes is essential for mitigating the disproportionate burden these taxes place on lower-income populations. While consumption taxes like VAT are often favored for their ease of collection and revenue generation, they tend to have regressive effects since they apply equally to all consumers regardless of income or zero-rate measures. This priority placed on consumption taxes neglects their broader economic and social impacts, particularly in developing countries where significant portions of the population live in poverty. Countries should cautiously accept IMF policy recommendations and conduct consumption tax impact analyses that will guide them towards using more progressive tax structures, such as income or wealth taxes, to generate sufficient revenue while promoting greater equity within their tax systems.

A critical element of this shift should involve improving tax administration and compliance. By adopting modern technologies like digital tax-filing systems, blockchain, and data analytics, countries can significantly reduce tax evasion and ensure that all entities, particularly wealthier individuals and corporations, pay their fair share. Enhanced tax collection mechanisms will allow governments to maximize revenue without increasing consumption tax rates. For example, advanced digital systems simplify tax compliance, making it easier for businesses and individuals to fulfill their obligations, thereby boosting overall revenue generation. This ensures that reliance on regressive taxes is minimized, and more equitable and efficient revenue sources are tapped.

Moreover, counteracting consumption taxes' regressive nature requires the implementation of targeted social safety nets, such as cash transfers, food subsidies, and healthcare support for low-income households. These measures cushion the most vulnerable against VAT's negative effects, while broader economic diversification strategies can help reduce dependence on consumption taxes altogether. By investing in high-growth sectors, such as technology, renewable energy, and manufacturing, governments can foster inclusive economic growth, create jobs, and expand their tax base. This approach not only reduces vulnerability to external shocks but also lays the foundation for long-term fiscal sustainability and development, offering a more balanced and resilient alternative to current IMF-backed consumption tax policies and models.

c) Pursuing strategic regional partnerships with a focus on stopping massive, illicit financial flows

Countries can also boost their public debt sustainability and development efforts by forging partnerships with regional fiscal and development organizations that focus on curbing IFFs and creating more sustainable tax policies beyond the overburdened consumption tax route. These collaborations can provide alternative financing solutions that are often more favorable than IMF conditionality-backed assistance. For example, institutions like the ADB and the African Tax Administration Forum (ATAF) offer not only financial support but also technical assistance to help countries design more equitable tax systems and implement sustainable development policies. Such partnerships can deliver long-term economic benefits while reducing reliance on regressive taxation.

To move away from overreliance on consumption taxes, countries must prioritize increasing other revenue sources, particularly by curbing IFFs and enhancing international corporate taxation. IFFs represent a substantial loss of revenue for many developing countries, often outstripping the gains from increased consumption taxes like VAT. Strengthening legal frameworks, improving transparency, and collaborating on international tax enforcement efforts are critical to recovering these lost funds. Additionally, increasing corporate taxes, especially for multinational enterprises, would ensure a fairer contribution from businesses that often benefit from the very infrastructure and services that public revenue funds. This shift allows countries to generate sustainable revenue without exacerbating inequality.

8.0 Conclusion

This study elucidates the significant impact of IMF-backed consumption tax reforms on nations facing economic challenges, highlighting the intricate relationship between fiscal policies and socio-economic outcomes. Key findings indicate that, while these reforms may provide short-term revenue gains, they often exacerbate inequalities, hinder long-term economic growth, and disproportionately burden lower-income households. An analysis of case studies from Argentina, Ukraine, Sri Lanka, and Jamaica reveals that reliance on regressive consumption taxes such as VAT can depress consumer spending and escalate public debt, particularly in contexts characterized by weak administrative capacities and large informal sectors. Furthermore, a critique of the global debt architecture demonstrates how institutions like the IMF tend to prioritize creditor interests over equitable development. This prioritization perpetuates cycles of dependency and undermines economic sovereignty in the Global South.

To address these challenges, this study recommends a holistic approach that includes diversifying tax bases to incorporate more progressive tax structures, enhancing tax administration to improve compliance, and fostering regional partnerships aimed at curbing IFFs. By shifting the focus from regressive consumption taxes to more equitable revenue sources, African nations can bolster fiscal stability while promoting social equity and sustainable development. Ultimately, this research underscores the urgent need for reform in global debt governance and fiscal strategies, aligning them more closely with the Global South countries' development priorities to foster a fairer and more resilient economic landscape.

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