
MALAWI

2024 - ***Component: Revenue***

June ***Modules: RM I – Tax Policy***

MALAWI

PROJECT SUMMARY	
COUNTRY:	Malawi
LEAD DEPARTMENT:	FAD
REGION:	AFR
PROGRAM ID:	[To be filled out by Secretariat]
PLANNED DATES:	FY25 – FY26
FUNDING PROGRAM TITLE:	GPFP Malawi
PROJECT MANAGERS:	
RM I – TAX POLICY	Ana Cebreiro Gomez (FADT2)
ESTIMATED BUDGET	\$402,524
BUDGET FOR ENDORSEMENT:	\$175,199

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ACRONYM

CD	Capacity development
DRM	Domestic revenue mobilization
DRMS	Domestic Revenue Mobilization Strategy
ECF	Extended Credit Facility
FAD	IMF's Fiscal Affairs Department
MRA	Malawi Revenue Authority
PFM	Public financial management
VAT	Value added tax

MALAWI**I. PROJECT PURPOSE**

Malawi, one the world's poorest countries, has been facing long-standing macro-economic uncertainty and the lingering effects of external shocks. The country is recovering from a series of shocks—the COVID-19 pandemic, the food and fertilizer prices shock following the war in Ukraine, a cholera outbreak, and three cyclones. Additionally, the recent El Niño-induced drought complicated further this recovery, affecting more than 2 million households, mostly subsistence farmers. The economy is largely dependent on agriculture which is highly vulnerable to climate change. Malawi ranks 174 of 189 on the Human Development Index. Poverty is high and over 70 percent of the population is estimated to live below US\$2.15 a day.¹

The authorities have expressed interest in a new capacity development (CD) project on tax policy to continue the IMF's Fiscal Affairs Department's (FAD) support to the country's reforms on domestic revenue mobilization (DRM). This new CD project will progress on the work done to support the authorities' capacity on tax policy since FY 2020. During the 2024 Spring Meetings, the Financial Secretary prioritized the following areas: (1) fiscal regime analysis of the mining industry; (2) review of income tax Bill; and (3) tax expenditure reporting. These activities on tax policy complement the revenue administration project under the GPFP approved in January 2024.

The estimated budget for this two-year project is \$402,524 but endorsement is requested for \$175,199 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

¹ World Bank, [Poverty & Equity Brief](#), Malawi, Africa Eastern & Southern, April 2024.

II. BACKGROUND

Macro-fiscal situation

Malawi's economic growth remains stagnant due to macroeconomic uncertainty and the lingering effects of external shocks. Sizeable macroeconomic imbalances and unsustainable public debt have eroded fiscal space for investment in physical and human capital and the provision of social safety nets, limiting the scope for inclusive and sustainable growth. Real GDP growth for 2023 is estimated at 1.5 percent, 0.1 percentage points lower than originally projected; and for 2024 it has been revised from 3.3 to 1.8 percent (mainly to a projected 8.4 percent contraction of agriculture GDP due weather-related shocks). Inflation started declining in 2024, reaching 31.8 percent at the end of March. Although domestic revenues have continued to increase in nominal terms, they have not adequately supported the budget. In FY23/24 (April-March), there was a significant fiscal slippage, and the FY24/25 draft budget is based on unrealistic revenue assumptions.

The Government is implementing a wide range of structural reforms in line with the Malawi 2063 strategy. This strategy aims at transforming Malawi into a middle-income economy by 2030 and ensuring the achievement of the 2030 Sustainable Development Agenda. The government has made significant strides on public financial management (PFM) reforms to control expenditure. Although tax collection is on an upward trajectory—with an estimated increase of 1.9 percentage points in the Tax-to-GDP ratio from 11.9 percent in 2018/19 to 13.8 percent in 2023/24—it still falls short of the country's financial requirements. Efforts in DRM are ongoing, with the authorities aiming for an exceptional increase of 1.8 percentage points in FY2024/25.

Country engagement and alignment to reform priorities

The government of Malawi has set a goal to grow tax to GDP ratio by at least 5 percentage points by 2025/26 as entailed in the 2021–26 Domestic Revenue Mobilization Strategy (DRMS). The strategy identifies the following five strategic focus areas for execution over the next five years: (i) to broaden the tax base; (ii) to strengthen tax compliance; (iii) to improve the perception of the tax system; (iv) to strengthen institutional capacity; and (v) to improve non-tax revenue.

An Extended Credit Facility (ECF) supported arrangement was approved in Nov 2023 and is scheduled to expire in Nov 2027. This program's objective is to restore a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth envisaged in Malawi 2063. To create a fiscal sustainable path, the ECF recognized that DRM will be a cornerstone of the ECF-supported program and capacity development efforts will continue to focus on this area. On the tax policy side, the program has stressed priorities on modernizing the tax system, with a focus on broadening the tax base.

FAD's capacity development support on DRM is key to maintain reform's momentum and ensure continuity and sustainability of reforms. With the focus of policymakers starting to shift to the September 2025 Presidential elections, the authorities' resolve for fiscal consolidation and structural reforms could weaken especially in the context of high inflation, foreign exchange shortages, food insecurity, and pervasive poverty which could spur social tensions. Continuing FAD's support on capacity development could help mitigate this risk.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Malawi in the area of tax policy. FAD CD will support improvements within the strategic objectives presented in Table 1 below:

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	• Improve Tax Policy Design • Strengthen Policy Monitoring, Evaluation, and Institution Building

A. RM I – Tax Policy

Scope

This project will strengthen the current FAD's engagement with the country on DRM by continuing supporting the authorities with the further development and implementation of their medium-term strategy (DRMS) covering the period 2021-26. Activities will focus on:

- Mining fiscal regime analysis: CD on modelling of current and future investment projects, including workshop to train staff from the Malawi Revenue Authority (MRA), Ministry of Finance and Ministry of Mining based on the Fiscal Analysis of Resource Industries (FARI) models. This activity will build on an earlier scoping mission financed by the Managing Natural Resources Wealth (MNRW) Trust Fund.
- Income tax modernization: review of the draft Bill in close coordination with Ministry of Justice, Finance, and MRA.
- Value added tax (VAT) legislative modernization: remote review of the VAT Bill, building on previous FAD's assistance in this area.
- Tax expenditure reporting: support to develop a tax expenditure report (including revenue forgone estimates) to improve the transparency of policy decisions as well as strengthening policy analysis.

Program Objectives

The objective of the program is to continue helping Malawi strengthen tax policy design and institutions to support fiscal consolidation while fostering sustainable and inclusive growth.

In particular, the CD activities under this new project will contribute to: (1) achieve a tax collection closer to the DRMS target; (2) support authorities develop capacity for analyzing the fiscal mining regime to be used as input in policy formulation; 3) develop authorities' capacity to analyze policy options with the objective of modernizing the tax system (broadening the tax bases, improving efficiency and equity, reducing complexity and increasing transparency).

Expected Results (outcomes)

- Strengthened tax policy analytics and advice of the Ministry of Finance.
- Improved economic efficiency of the tax system (reflected in less tax-induced distortions and better use of the tax system to address externalities).
- Increased revenue collection.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

This new CD project will continue FAD's support to Malawi to further develop and implement their DRM strategy (DRMS). Since February 2020, with FAD's support, Malawi has developed its DRM strategy and initiated its execution, albeit with some delays in certain areas. The focus of the support has been on broadening the income tax base, integrating the informal sector into the tax net more comprehensively, rationalizing tax expenditures, simplifying property taxes, and enhancing the design of excise taxes. This new project aims to build upon the previous support by continuing current activities. These include the comprehensive review of the Value-Added Tax (VAT) Bill and the analysis of the mining fiscal regime (building up on previous work under the Managing Natural Resources Wealth (MNRW) Trust Fund). While the draft of the VAT Bill is currently in preparation, its finalization is expected to be delayed until after the upcoming elections when a new government is in place. The project will also expand the scope of the current engagement by including new activities. In the area of mining taxation, this project will broaden the analysis of the fiscal regime to cover more projects. This will augment the capacity of the authorities in negotiating mine development agreements. Additionally, new activities will include support in modernizing the Income Tax Bill and enhancing capabilities on tax expenditure reporting (including estimates of revenue forgone).

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure STX work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.
- **Short-term expert (STX) visits** to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration and public financial management. The project will seek to use Portuguese-speaking experts.
- **Long-term expert (LTX) support.** The country will benefit from a regional LTX focused on improving digitalization in revenue administration across multiple countries.
- **Workshops**, during the HQ missions, staff visits, or STX visits, to share experiences, provide stakeholders with a view of progress achieved and challenges faced, and discuss with the managers and staff their views on the reforms and particular technical subjects.

C. Coordination / Cooperation

Coordination			
Partner	Type of coordination	Area of coordination	Frequency
IMF's area department country team and IMF Resident Representative	Supporting program benchmarks	Support to identify and monitor structural benchmarks on tax policy. Support to identify priority reform areas for the program and provide timely support to the authorities to implement them.	Quarterly
Cooperation			
Partner	Type of coordination	Area of coordination	Frequency
African Tax Administration Forum (ATAF), World Bank, Organisation for Economic Co-Operation and Development, African Development Bank, bilateral donors (e.g., European Union, German Corporation for International Cooperation; GIZ)	Exchange information / agree on areas to be covered by each donor to maximize complementarity	Mapping technical assistance and CD activities on PFM and tax policy across TA providers to identify synergies and complementarities	Annual (and during missions)

V. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Assessment	Mitigation Measures
External climate/conditions			
General	External shocks (social, political, economic, etc.) impact government revenue and expenditures.	High	Work with the IMF country teams and other IMF departments to analyze emerging fiscal risks and propose potential fiscal policies to minimize fiscal risks.
Political Support			
General	Lack of political support may slow down reforms - Upcoming elections in 2025 may impact reform progress.	Medium	Consult with IMF country team to assist authorities in recognizing the relevance of reforms.
Management and Technical Staff Support and Commitment			
RM I	Low commitment of management and staff in finance, other ministries and KRA to adopt and implement tax reform measures.	Medium	Engage with senior management and technical staff pro-actively to support the development of an implementation plan (and monitoring) while CD support is provided on an on-going basis. Provide support (jointly with the revenue admin team) for better management of reforms for achievement of desired strategic outcomes.
Resource Adequacy			
RM I	Insufficient technical capacity and human resources necessary to absorb support and implement reforms.	High	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited.
Other risks			
RM I	Multiple donors are providing technical assistance on DRM and gaps, or overlaps may arise as a result.	Medium	Take an active role in coordinating with other development partners to ensure complementarities in addition to active participation in the current country-level coordination framework.

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	FY28	FY29	Grand Total
RM I – Tax Policy						
HQ led CD mission	1	2	-	-	-	3
STX visits	1	-	-	-	-	-
Staff visits	-	-	-	-	-	-
Workshops (inc. during HQ and remote CD)	1	1	-	-	-	2
Total	2	3	-	-	-	5

Note:

- In-person delivery was chosen in most instances because of the poor technology available in Malawi and to maximize the transmission of knowledge.
- Hybrid delivery was chosen in several cases, in particular when an ex-ante review of new proposed legislation before the in-person missions.
- Collectively the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, remote, and hybrid activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM I – Tax Policy		
Q1/FY25	Field-based work	Income Tax Modernization: review (hybrid mission)
Q4/FY25	Field-based work	Mining taxation - Workshop on Fiscal Analysis of Resource Industries (FARI) models

*MALAWI***VII. PROGRAM FINANCIALS**

	FY25	FY26	FY27	FY28	FY29	Total
RM I – Tax Policy	\$163,737	\$212,454	-	-	-	\$376,191
Subtotal	\$163,737	\$212,454	-	-	-	\$376,191
Trust fund management fee (7%)	\$11,462	\$14,872	-	-	-	\$26,333
Total	\$175,199	\$227,326	-	-	-	\$402,524

The estimated budget for this two-year project is \$402,524 but endorsement is requested for \$175,199 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

VIII. TARGETED LOGICAL FRAMEWORK**A. RM I – Tax Policy**

Objective	
Improve Tax Policy Design	
Outcome(s)	Indicator(s)
Increased/decreased revenue quantity	Laws implementing amendments to raise revenues are passed Increase of tax-to-GDP in 1.8 percentage points
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	Adopt legislation that reduces economic distortions
Objective	
Strengthen Policy Monitoring, Evaluation, and Institutions	
Outcome(s)	Indicator(s)
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis	Improved models to design and evaluate fiscal regimes and forecast revenue in the extractive industry adopted Improved models to evaluate tax policy adopted