

I. COUNTRY REFORM PROGRESS

Malawi is in a challenging economic situation as macroeconomic imbalances widened significantly due to several years of unsustainable domestic and external borrowing. The 2023/24 tax-to-GDP ratio was 14.6 percent of GDP and the overall balance including grants recorded a deficit of 7.5 percent of GDP. Reform efforts on tax policy, public financial management (PFM) and revenue administration are critical, but there are some delays in implementation. Comprehensive reforms are not expected before the 2025 elections.

FAD has been supporting Malawi's revenue administration reform program since 2020. Through the previous Revenue Mobilization Thematic Fund (RMTF) program, there have been three strategic missions including a repeat Tax Administration Diagnostic Assessment Tool (TADAT) evaluation. A post-TADAT mission supported the strategy for medium-term reforms based on the broader systemic issues identified by the TADAT assessment. The authorities have been supported by a resident advisor in tax administration. During the period, the authorities deployed all key modules of the new IT system, taxpayers can e-file for all core taxes, and tax revenue increased by 2.3 percentage points of GDP.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: The team has been supporting the government to improve tax policy design through comments to reform proposals, in particular value added taxes (VAT), through the IMF's African Department. Support to the authorities on income tax reform and on mining taxation is scheduled for November 2024-April 2025.

Next Steps: Support to improve tax policy design on income tax (including international tax issues) and mining taxation, including by the new regional tax policy advisor, who will take stock of existing capacity on tax policy analysis, identify gaps and develop a work program.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: The Malawi Revenue Authority (MRA) has made progress in several areas. It reviewed the performance of the VAT and has taken steps to address weaknesses identified. It commenced re-segmenting its taxpayer base, aimed at strengthening the management of the large taxpayer function. Work is progressing on cleansing the taxpayer base, streamlining the audit and arrears management processes. Developing a data management framework is necessary to improve management decision-making, work commenced in this area with the development of a data mart. The authorities will be developing a suite of VAT guides and undertake an independent review of the usage of the new IT system.

Next Steps: Strengthening digitalization efforts and compliance risk management function are key areas of support for the next period. These will include the development of a data management framework supported by the development of data marts; and build capacity in risk differentiation and VAT industry indexing tools. Supporting voluntary compliance efforts is to be achieved by the development of VAT guides, aimed at improving accuracy of reporting. Efforts are being made to improve the integrity and the tax register and VAT filing compliance.

III. LOGICAL FRAMEWORK

Country – Malawi		
RM I: Objective – Improve Tax Policy Design - TPD		Rating - 1
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	2 Partially Achieved	Draft VAT Bill prepared but delays in implementation (still pending Parliament approval) and draft Income Tax Bill under preparation.
RM I: Objective - Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 1
Outcome	Rating	Narrative
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	1 Not Achieved	CD activity scheduled for this calendar year (review of the fiscal regime and CD on Fiscal Analysis of Resource Industries (FARI) modeling of specific investment proposals).
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 1
Outcome	Rating	Narrative
Organizational arrangements enable more effective delivery of strategy and reforms	2 Partially Achieved	The recommended structure is yet to be sent to the Board. Delayed given the installment of a new Consul General.
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	2 Partially Achieved	KPIs were developed for monitoring and evaluating large taxpayer's office performance and effectiveness.
More independent, accessible, effective and timely dispute resolution mechanisms adopted	2 Partially Achieved	The establishment of an independent internal dispute resolution system is in process.
Transparency and accountability are more effectively supported by independent external oversight and internal controls	1 Not Achieved	Systems are being put in place for publishing plans and reports.
Digital technologies are better aligned with strategic objectives	1 Not Achieved	Programs are being developed and some are being implemented to achieve the desired outcomes.
RM II: Objective - Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 1
Outcome	Rating	Narrative
Audit and other verification programs more effectively ensure accuracy of reporting	1 Not Achieved	A program is being developed to improve the effectiveness of the audit function and to build audit capacity.
The integrity of the taxpayer base and ledger is strengthened	2 Partially Achieved	Programs commenced to improve the accuracy of the taxpayer registry.
A larger proportion of taxpayers meet their filing obligations as required by law	2 Partially Achieved	Work is in the early stage of development and implementation.
A larger proportion of taxpayers meet their payment obligations as required by law	1 Not Achieved	Programs are being put in place to achieve this outcome.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External climate/conditions		
RM I, RM II: External shocks (social, political, economic, etc.) impact government revenue and expenditures.	Very 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. Work with the authorities to monitor revenue measures and propose reform measures to boost collection and tax ratio.
Political Support		
RM I, RM II: 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. Continue working at both political and technical level with complementing instruments (program and CD) to reinforce country's commitments. Authorities will be supported to increase the tax-net to help with ultimate easing of the tax burden.
Management and Technical Staff Support and Commitment		
RM I, RM II: Low commitment of management and staff in finance, other ministries and MRA to adopt and implement tax reform measures.	Low	Engage with senior management and technical staff proactively 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.
RM II: High turnover of DG creates uncertainties, induces a lack of ownership, and slows down reforms.	Medium	Assist the authorities to strengthen middle managers' capacity, necessary to enable continuity and sustainability of reforms.
Resource Adequacy		
RM I, RM II: 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, RMII: Multiple donors are providing technical assistance on domestic resource mobilization and gaps, or overlaps may arise as a result.	Low	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.

V. PROJECT MANAGERS CONTACT INFORMATION

Project Manager	Module PM	E-mail
Ana Cebreiro Gomez (FADT2)	Ana Cebreiro Gomez (T2) Norris Miller (FADR2)	ACebreiroGomez@imf.org NMiller@imf.org