

I. COUNTRY REFORM PROGRESS

The Malawi Revenue Authority (MRA) is advancing comprehensive reforms under the government's six-year Domestic Revenue Mobilization Strategy (2021–26), aimed at broadening the tax base, improving compliance, and strengthening institutional capacity. Recent progress includes drafting a new Value-Added Tax (VAT) Bill and Income Tax Act, alongside operational improvements such as deploying core IT modules and enhancing data management frameworks. Donors have raised concerns about delays in legislative approval and the need for stronger governance arrangements, which the MRA is addressing through organizational restructuring and compliance risk management initiatives.

IMF capacity development (CD) has been pivotal, providing technical assistance on VAT performance, while supporting the full utilization of the new IT system (i.e., MSonko Online) and the retirement of the legacy system (i.e., SAS2) and risk-based audit programs. Coordination continues with development partners—including the IMF's Regional Technical Assistance Center for East Africa (AFE) and the German Agency for International Cooperation (GIZ) to support key core functions within both the Customs and Tax departments. This coordination has ensured alignment of reforms and resource pooling, fostering a collaborative approach to strengthen revenue administration and achieve Malawi's tax-to-GDP target of 18.4 percent by FY2025/26. Due to revenue shortfall, it is foreseeable that this target will not be met, and the authorities have set a revised target of 17.4 percent. As of November 2025, tax-to-GDP ratio stood at 11.2 percent.

Significant progress has been made in drafting new legal instruments to introduce hallmark modernized VAT and income tax systems, as well as improved mining fiscal regime arrangements, which puts the newly elected government in a prime position to enact reforms as soon as the upcoming budget cycle, conditional on announced reform ownership yielding momentum.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: A draft VAT Bill and full new Income Tax Act have been prepared through CD from the IMF's Fiscal Affairs Department (FAD) but there are delays in implementation (still pending Parliamentary approval, in part due to recent elections in September 2025). Extensive CD was provided in FY2025 and 2026 reviewing the fiscal regime for mining and developing capacity on Fiscal Analysis of Resource Industries (FARI) modeling of specific investment proposals, as well as tax expenditure reporting and microsimulation modelling. The new government will need some time to take ownership of reforms envisioned in both bills, but may provide new policy direction momentum. Close coordination with the World Bank continues to ensure delivery of consistent policy messaging and inclusion in potential program conditionality.

Previous Progress: Initial tax policy support under the Global Public Finance Partnership (GPFP) in FY25 focused on mining tax policy analysis, modeling, and legal drafting. The regional tax policy advisor based in Dar es Salaam has been closely involved with the authorities and provides a good cross-period and cross-administration anchor for continuity of assistance.

Next Steps: Future CD will focus on implementation support of the core set of reforms to VAT and income taxes for revenue mobilization purposes, while augmenting the analytical capacity at the Ministry of Finance and the MRA.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: Support to the MRA has contributed to stronger domestic revenue mobilization, with a focus on improving VAT performance and enhancing data management and data analytics. Joint efforts by FAD and AFE have enabled a coordinated response to tax compliance and capacity-building priorities in audit. While FAD focuses on supporting the development of monitoring tools, building capacity in broad-based audit techniques, AFE is providing specialized support aimed at building capacity to audit complex sectors such as telecoms, banks and financial institutions.

Previous Progress: Earlier CD initiatives laid the groundwork by strengthening the large taxpayer office (LTO) and improving data analytics capabilities. Encouraging the full utilization of the IT system and less reliance on the legacy is necessary for aligning MRA operations with broader fiscal objectives. Registration DataMart was piloted and determined to have significant potential for managing data and improving revenue performance and reporting.

Next Steps: CD efforts will aim to consolidate recent gains and address operational gaps. Priorities include optimizing the new IT system for revenue collection, full implementation and utilization of DataMart, and rolling out a compliance risk management framework. Strategic reforms continue to support achievement of the 18.4 percent tax-to-GDP target by FY2025/26, with emphasis on strengthening the LTO, enhancing VAT performance, and improving organizational arrangements. A roadmap for the decommissioning of the legacy IT system is a priority along with implementing an arrears management framework and data management framework.

III. LOGICAL FRAMEWORK

Country – Malawi		
RM I: Objective – Improve Tax Policy Design - TPD		Rating - 2
Outcome	Rating	Narrative
Increased/decreased revenue quantity	2 Partially Achieved	A draft VAT Bill and new Income Tax Act prepared, but there are delays in implementation (still pending Parliament approval).
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	2 Partially Achieved	Draft VAT Bill prepared and Draft Income Tax Bill under preparation
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 2
Outcome	Rating	Narrative

Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	2 Partially Achieved	FARI model developed, initial training on tax expenditure reporting delivered, and upcoming long-term resident advisor visit on VAT and personal income tax microsimulation modelling. In-house technical capacity at MRA and the Ministry of Finance remain weak.
RM II: Objective – Strengthened revenue administration management and governance arrangements (SDG 17.1) – RAM		Rating - 2
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 Commissioner General who is currently reviewing it.
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	3 Largely Achieved	There is active monitoring of KPIs and monthly reports produced on the performance of the large taxpayers' office.
More independent, accessible, effective and timely dispute resolution mechanisms adopted	4 Fully Achieved	The establishment of an independent internal dispute resolution system is completed.
Transparency and accountability are more effectively supported by independent external oversight and internal controls	4 Fully Achieved	Systems now in place to ensure consistency in publishing plans and reports.
Digital technologies are better aligned with strategic objectives	2 Partially Achieved	Programs are being developed and some being implemented to achieve the desired outcomes. Digitalization of the system is ongoing to retire the legacy system.
RM II: Objective – Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 3
Outcome	Rating	Narrative
Audit and other verification programs more effectively ensure accuracy of reporting	3 Largely Achieved	Program being developed to improve the effectiveness of the audit function and build audit capacity. Training of auditors has started and will continue.
The integrity of the taxpayer base and ledger is strengthened	3 Largely Achieved	Significant work is ongoing to improve and maintain the accuracy of taxpayer registry. The multiple tax system is a challenge.
A larger proportion of taxpayers meet their filing obligations as required by law	3 Largely Achieved	Work in this area has advanced significantly and good progress has been made on improving filing compliance among all segments of taxpayers.
A larger proportion of taxpayers meet their payment obligations as required by law	3 Largely Achieved	Programs are being put in place to achieve this outcome. To date it is largely achieved.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I: 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. Severe macroeconomic constraints exacerbating fiscal risks to domestic debt and taxpayer base.
Political Support		
RM I: Lack of political support may slow down reforms. Recent elections in September 2025 may impact reform progress or yield renewed political momentum.	High	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: 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 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.
RM II: High turnover of holders of the post of Commissioner General creates uncertainties, creates a lack of ownership and slows down reform progress	High	Strengthen management at all levels and ensure there is a project management or reform unit or team in place to manage the reform programs
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. Adopt a multi-donor support approach to improve resource availability.
Other Risks		
RM I: Multiple donors are providing technical assistance on DRM 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.
RM II: Slow implementation of reforms	High	Aligning reform actions and timeline with conditions in the field (low capacity and lack of resources). Close monitoring and readiness to adopt necessary changes.

V. PROJECT MANAGERS: CONTACT INFORMATION

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