

I. COUNTRY REFORM PROGRESS

Malawi is reeling from several macroeconomic shocks. Reform ownership is weak, even after general elections in September 2025. Due to significant policy slippage, the IMF's Extended Credit Facility program for Malawi was automatically terminated in May 2025. Macroeconomic instability worsened in the context of election spending and the absence of reform. Growth is weak with high inflation and persistent foreign exchange and fuel shortages, and a high fiscal deficit. Malawi's public debt dynamics are deemed unsustainable. Against this backdrop, the new Minister of Finance has extremely ambitious near-term revenue mobilization targets in the order of 4 percent of GDP.

In this context, a revenue-focused fiscal reform is essential to establish policy credibility, bolster equity and self-sufficiency, reduce public debt vulnerabilities, and support investment and disinflation. Achieving ambitious revenue mobilization requires a fundamental change in ownership of reform efforts by the authorities, and multi-pronged assistance on both rationalization of income tax incentives and value-added tax (VAT) exemptions, as well as strengthening of revenue and customs administration enforcement, given persistent governance issues. Owing to scant technical resources in the government to autonomously design and implement effective revenue reforms, the Global Public Finance Partnership (GPFP) project has a pivotal role to play in making such a shift viable.

In practice, necessary adjustment continues to be delayed, with deferred implementation of revenue administration measures and keystone reforms of the VAT and Income Tax Act amendment bills, which are ready at a technical level thanks to IMF capacity development (CD) efforts in FY25 and FY26. Malawi's efforts to strengthen compliance improvement focused heavily on VAT administration, the Large Taxpayer Office (LTO), automation and data management, and core tax functions. In FY26, IMF CD helped the Malawi Revenue Authority (MRA) strengthen arrears management and taxpayer data integrity, deploy improved audit tools, and make better use of the new IT environment for compliance management. These steps improved operational control, though more traction is needed.

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 FAD CD but there are delays in implementation (still pending Parliamentary approval, in part due a new government that entered into power after elections in September 2025). Previously approved (but not implemented) VAT tax expenditure rationalization amendments were repealed by the new government in 2026. Extensive CD was provided in FY25 and FY26 reviewing the fiscal regime for mining and developing capacity on Fiscal Analysis of Resource Industries modeling of specific investment proposals, as well as tax expenditure reporting and VAT and personal income tax (PIT) microsimulation modelling. The new government will need more time to take ownership of reforms envisioned in both bills. Close coordination with the World Bank continues to ensure delivery of consistent policy messaging and inclusion in program conditionality (such as recent tax expenditure reporting).

Previous Progress: Initial tax policy support under the 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, including revenue forecasting skills.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: IMF CD support (HQ and through the Regional Technical Assistance Center for East Africa, AFE) helped the MRA strengthen its domestic revenue mobilization agenda, with concrete progress on arrears and data management and enhanced audit tools, supporting improved compliance management and implementation of the new IT environment. MRA is also on course to meet its FY25/26 revenue target, with the long-term resident advisor (LTX) continuing to monitor and report against GPFP milestones to sustain delivery focus.

Previous Progress: Under the GPFP project (May 2024–April 2027), support has been organized around four reform areas—VAT administration, LTO, automation/data management, and core tax and customs functions—complemented by AFE engagement. Earlier work helped build foundational capabilities in data analytics and audit and reinforced the shift toward fuller use of the new IT system and reduced reliance on the legacy platform.

Next Steps: CD will prioritize (i) completing migration to the new IT system, including a clear strategy and timetable to decommission the legacy system, and strengthening organizational arrangements to embed the new operating model; (ii) improving VAT control and refunds management, and reconciling VAT ledgers to strengthen revenue integrity; and (iii) deepening corporate data governance and practical audit techniques to sustain compliance gains. Continued HQ and AFE support will be aligned to these priorities, alongside continued dialogue with the authorities where priorities may shift.

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 have been 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 and Draft Income Tax Bill prepared, including provisions related to the mining fiscal regime. None of them have been approved yet and previous reforms have been repealed.
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; authorities benefited from training on tax expenditure reporting and CD support on VAT and PIT 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 pending submission to the Board. Delayed given the installment of a Commissioner General and executive team.
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 LTO performance.
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 are in place for 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 on-going to retire the legacy system.
SM 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.
RM II: Government revenue measures adversely impacted the tax ratio	High	Work with the IMF country team and authorities to monitor revenue measures and impact on tax ratio and propose reform measures to boost collection and tax ratio. Authorities are implementing measures such as electronic tax invoicing and strengthening property taxes
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 FAD revenue

Description	Rating	Mitigation Measures
		colleagues) focused on better management of reforms to achieve desired strategic outcomes.
RM II: Low commitment and capacity of management to reform	Low	In-country LTX continue to work closely with senior management to ensure reform activities are on track. Monitor and report regularly to IMF HQ.
RM II: High turnover of holders of the post of Commissioner General creates uncertainties, creates a lack of ownership and slows down reform progress	Low	Strengthen management at all levels and ensure there is a project management or reform unit / team institutionalized to manage the reform programs
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: Implementation progress may be delayed if there is little or no political and administrative support for CD recommendations	High	Aligning reforms actions, timeline with conditions in the field - low capacity and lack of resources. Close monitoring by the in-country LTX and suggest recommendations in line with international good practices.

V. PROJECT MANAGERS: CONTACT INFORMATION

Project Manager	Module Project Managers	E-mail
Maria Coelho	Maria Coelho (Tax Policy) Pauline Peters (Revenue Administration)	MCoelho@imf.org PPeters@imf.org