

I. COUNTRY REFORM PROGRESS

Malawi is reeling from several shocks, including a drought last year, which contributed to elevated inflation, and is now faced with falling grant inflows as the United States for Agency for International Development pulls back. In recent years, food insecurity has remained entrenched, macroeconomic instability increased, real growth lowered, and debt dynamics worsened. Reform ownership is weak, and general elections are scheduled for September 2025.

The FY2024/25 (April-March) fiscal balance fell short of the mid-year budget target due to extensive expenditure and revenue slippage. Domestic revenue fell short by 1.2 percentage points of GDP compared to the mid-year projections, largely stemming from the delayed implementation of tax policy and administrative measures envisaged in the fiscal year, including the value-added tax (VAT) bill amendment and opening of a voluntary tax compliance window for motorcycle operators. The FY2025/26 budget largely continues current policies, delaying the necessary adjustment. There has been limited progress in revenue mobilization, while implementation of revenue administration measures has been delayed to the second half of the fiscal year.

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 and commitment by the authorities, and multi-pronged assistance on both rationalization of income tax incentives and VAT exemptions, as well as strengthening of revenue and customs administration and enforcement, given persistent governance issues. Given scant technical resources in the government to autonomously design and implement effective revenue reforms, the GPFP project has a pivotal role to play in making such a shift viable.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: Initial tax policy support in FY25 involved an extensive review of the mining fiscal regime and provided capacity development (CD) on mining tax policy analysis and modeling (funded by the IMF's Managing Natural Resource Wealth Thematic Fund). Follow-up legal drafting assistance under the Global Public Finance Partnership (GPFP) was provided to reform the resource rent tax provisions currently in place under a few key Mining Development Agreements and clarify other aspects of mining taxation. The regional tax policy advisor based in Dar es Salaam has also been closely involved with the authorities in helping them develop a tax expenditure framework. IMF and World Bank have held CD coordination meetings to help increase work synergies and reduce duplication.

Previous Progress: Previous assistance (from 2020 through 2024) had a greater focus on VAT policy reform and tackling informality. While the most recent and ongoing CD will be able to leverage on the diagnostic work previously done, there will be a greater focus on income tax reform, as well as more frequent engagement through the regional long-term expert.

Next Steps: The regional tax policy advisor based in Dar es Salaam will provide follow-up CD and training on mining fiscal regime modeling. Upcoming CD on income tax policy reforms and legislative drafting (including on mining related issues) are intended to support the authorities so full VAT and income tax bills can be tabled shortly after the new parliamentary elections in September 2025 and begin yielding new revenue in 2026.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: The support provided to the Malawi Revenue Authority (MRA) has significantly enhanced domestic revenue mobilization, particularly through the focus on improving VAT performance and strengthening data management capabilities. This work is supported through the collaboration between the IMF's Fiscal Affairs Department (FAD) and IMF's Regional Technical Assistance Center in East Africa (AFE), facilitating a coordinated approach to address pressing revenue challenges and priorities related to tax compliance and capacity building.

Previous Progress: Previous initiatives laid a solid foundation for the current efforts, particularly in terms of strengthening the operations of the large taxpayer office (LTO), enhancing data management and analytical skills within the MRA. The full use of the new IT system is crucial in aligning MRA's objectives with broader fiscal goals

Next Steps: Looking ahead, the focus will be on consolidating recent achievements while addressing the gaps identified in MRA's operational capabilities. Key milestones include enhancing the use of the new IT system to ensure effective revenue collection, implementing the registration DataMart and implementing a compliance risk management framework. The need to meet the tax-to-GDP target of 18.4 percent by 2025/26 will drive strategic discussions on reform measures associated with strengthening the LTO, enhancing VAT performance and overall organizational arrangements within the MRA.

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 has been prepared but delays in implementation (still pending of Parliament approval).
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 FARI modeling of specific investment proposals).
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 new Commissioner General.
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	3 Largely Achieved	KPIs were developed for monitoring and evaluating LTO performance and effectiveness.
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	1 Not Achieved	Systems being put 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.
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	2 Partially 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 on-going to improve and maintain the accuracy of taxpayer registry.
A larger proportion of taxpayers meet their filing obligations as required by law	3 Largely Achieved	Work is in the early stage of development and implementation. To date good progress has been made.
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 has been largely achieved.

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.
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.

Description	Rating	Mitigation Measures
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 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, 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, RM II: Multiple donors are providing technical assistance on domestic resource mobilization 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.
RM II: Slow implementation of reforms	High	Aligning reforms 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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