DOMESTIC REVENUE MOBILIZATION STRATEGY
2021 - 2026

THEME:
BUILDING A TAX
COMPLIANT CULTURE
FOR NATIONAL DEVELOPMENT

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ABREVIATIONS AND ACRONYMS

ACB	Anti-Corruption Bureau
AFCFTA	African Continental Free Trade Area
AG	Accountant General
ASYCUDA World	Automated System for Customs Data
ATI	Addis Tax Initiative
ATAF	African Tax Administration Forum
AU	African Union
BEPS	Base Erosion and Profit Shifting
COMESA	Common Market for Eastern and Southern Africa
CIT	Corporate Income Tax
COVID-19	Coronavirus Disease
CSOs	Civil Society Organizations
DPs	Development Partners
DRMS	Domestic Revenue Mobilization Strategy
ECAMA	Economic Association of Malawi
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
EFD	Electronic fiscal devices
EU	European Union
EPZ	Export Processing Zone
GDP	Gross Domestic Product
GoM	Government of Malawi
HIPC	Highly Indebted Poor Countries
HIV and AIDS	Human Immunodeficiency Virus Acquired Immune Deficiency Syndrome
ICAM	Institute of Chartered Accountants in Malawi
ICT	Information Communication Technology
IMF	International Monetary Fund
ITAS	Integrated Tax Administration System
LGAs	Local Government Authorities
Malawi 2063	Malawi's Long-term National Vision
MDAs	Ministries, Departments and Agencies
MGDS	Malawi Growth and Development Strategy
MIP 1	Malawi 2063 First 10-year Implementation Plan (2021 - 2030)
MoF	Ministry of Finance

MoLGRD	Ministry of Local Government and Rural Development
MRA	Malawi Revenue Authority
M&E	Monitoring and Evaluation
MoU	Memorandum of Understanding
NLGFC	National Local Government Finance Committee
NGOs	Non-Government Organizations
NTR	Non-Tax Revenue
PAYE	Pay as You Earn
PIT	Personal Income Tax
PFMSD	Public Finance Management Systems Division
QVR	Quinquennial Valuation Roll
RBM	Reserve Bank of Malawi
RPD	Revenue Policy Division
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SoE	State Owned Enterprise
SDG	Sustainable Development Goals
SMEs	Small, Medium, Enterprises
SWG	Sector Working Group
SWOT	Strengths, Weaknesses, Opportunities, Threats
TADAT	Tax Administration Diagnostic Tool
TWG	Technical Working Group
ULAs	Urban Local Authorities
VAT	Value Added Tax

FOREWORD BY THE HONOURABLE MINISTER OF FINANCE

Honourable Felix Lafiel Mlusu
Minister of Finance

This Domestic Revenue Mobilization Strategy (DRMS), which is to be implemented under the theme "Building a Tax Compliant Culture for national development" provides a roadmap for implementing short and medium-term measures for domestic revenue mobilization. The Strategy will be implemented from fiscal year[1] 2021/22 to fiscal year 2025/26 and is the Government's response to pressure exerted on the country's fiscus, given the inadequacy of public resources. The Strategy is the first of its kind, as the country has been operating without such a framework document and as a result revenue measures have tended to focus on short-term achievements without sufficient regard to medium-term revenue gains. The Strategy has been designed to support goals as espoused in the National Vision ''the Malawi 2063', its blueprint for implementation[2] and the Sustainable Development Goals (SDGs).

The DRMS is therefore a reflection of the Government's continued commitment to have adequate revenue to support the country's development agenda. Among the commitments in the Strategy is Government's obligation to improve service delivery and the quality of life of all Malawians by using resources prudently. Other commitments include making the tax system more efficient, transparent, fair and equitable over the medium term. This will entail equal sacrifice by all citizens.

Among the commitments in the Strategy is Government's obligation to improve service delivery and the quality of life of all Malawians by using resources prudently

The Strategy has been prepared at a time that the global economy is reeling from the effects of COVID-19 pandemic which has not spared Malawi. Notwithstanding the mitigating measures, that the Government is undertaking, the near-term economic impact on the national economy is devastating. We

[1]The Government has decided to change the fiscal year from July -June to April - March effective 2022/2023 FY. The fiscal year 2021/2022 will be a transitional year running from 1st July to 31st March [9 months].

[2]The Malawi 2063 was launched in January, 2021 to chart Malawi's new development trajectory. The first 10 year implemantation plan (MIP 1: 2021-2030) "Transforming Malawi into a middle income economy" was launched in November, 2021.

have seen border closures, higher transit costs, lockdowns, significant revenue losses and shortfalls in FDI due to the worsened economic outlook. This has opened urgent needs for increased critical spending on healthcare, social assistance to the most vulnerable and other measures to mitigate the impact of the pandemic and preserve macroeconomic stability. Notwithstanding the challenge that COVID-19 poses, the Ministry intends to build a strong foundation for public finance management reforms that would lead to stabilization of the key macro-economic variables. Pursuing further reforms in support of higher, more resilient and broad-based medium-term growth, improving governance, closing the financing gap and building a country that is more resilient to exogenous and climate shocks remains a top priority for the Government.

The key thrust of this Strategy is to sustainably increase revenues in a manner that facilitates inclusive private sector-led growth, as well as ensuring an even spread of the revenue burden on all citizens. To this end, policy and legislative measures will be implemented in the short and medium term that will relate tax and other incentives to potential for national gain and as much as possible eliminate all redundant tax exemptions and holidays. The intention is to implement revenue reform measures that are carefully targeted and evidence based. Given the potential that the country has to increase its revenue base, through among other things, incentivizing formalization of the large informal sector, steps will be taken to ensure the development of tax measures that target micro, small, and medium-sized enterprises.

It is my sincere hope that every citizen will join hands with Government to ensure that Malawi regains control of its fiscus through an increased revenue basket.

Honourable Felix Lafiel Mlusu
Minister of Finance

PREFACE BY THE SECRETARY TO THE TREASURY

Chauncy Simwaka
Secretary to the Treasury

This Domestic Revenue Mobilization Strategy, covering the period 2021/22 – 2025/26, is a reflection of the Malawi Government's continued commitment to uplift the welfare of Malawians. The Strategy seeks a sustainable growth trajectory in the domestic revenue mobilization by implementing wide-ranging tax and non-tax reforms. The Strategy has five strategic focus areas, namely broadening the tax base; improving tax compliance; improving the perception of the tax system; strengthening the institutional capacity for revenue mobilization; and improving non-tax revenue collection. The Strategy will serve as one of the key drivers for the achievement of priorities set out in Malawi 2063, its blueprint for implementation and the SDGs.

The Strategy builds on the successful implementation of public finance management reforms supported by a number of development partners such as the International Monetary Fund, the European Union, the World Bank, the African Development Bank and the German Government. The reforms have seen Malawi maintain a relatively higher level of revenue collections in recent times and improved economic policy management.

There has also been a significant focus on infrastructural development that has seen improvements in the power, transport, telecommunications and education sectors, as well as addressing barriers to doing business in Malawi, which are key to continued foreign direct investments and inclusive economic growth and poverty reduction.

While revenue mobilization efforts have enjoyed some level of growth, they are far below their potential, as the tax base remains narrow, with a huge and largely untapped informal sector and revenue from indirect taxes that is relatively low, compared to other regional jurisdictions. There is also a culture of non-tax compliance, limited capacity within the Malawi Revenue Authority and poor perception of the tax system by some stakeholders that compromise efforts to increase the revenue base. In addition, the policy and legal framework for tax and non-tax revenue is largely outdated and requires modernizing to be responsive to the emerging issues that the country desires to address.

The strategy has five strategic focus areas, namely broadening the tax base; improving tax compliance; improving the perception of the tax system; strengthening the institutional capacity for revenue mobilization; and improving non-tax revenue collection.

Notwithstanding the challenges cited above, Ministry of Finance is committed to a package of robust reform measures to upscale its revenue mobilization efforts. In this regard, the Ministry received Technical Assistance from the IMF to analyze revenue measures that could be considered moving forward. The results of the IMF missions and studies supported by other Development Partners, have informed some of the measures the Government will pursue in the short- to medium-term in this Strategy. In undertaking the revenue reform measures, Government is aware that raising revenue is not an end in itself, but a means to an end, which is improved service delivery and quality of life of the citizens of Malawi. To this end, Government commits itself to prudent management of public financial resources for the common good.

Given that this Strategy is a result of consultative and participatory processes that were characterized by inputs from a cross section of stakeholders, Ministry of Finance commits itself to provide feedback annually on progress regarding the implementation of revenue reform measures. To this end, it is my sincere hope that key stakeholders will continue to collaborate with Government in sustaining efforts necessary to achieve the desired results.

Chauncy Simwaka
Secretary to the Treasury

EXECUTIVE SUMMARY

PREAMBLE

This Domestic Revenue Mobilization Strategy (DRMS), covering the period 2021 – 2026, is the Government's response to the need for a comprehensive framework to guide revenue mobilization efforts in the short to medium term. The Strategy has been developed at a time that Government is facing challenges to fund its critical spending needs and development agenda. The Strategy aims to provide stability and transparency in revenue policy making process, as well as seeks to ensure that Government gradually reduces its reliance on external and domestic loans. In this connection, the Strategy will provide a platform for harnessing domestic revenue from the public and private sector for inclusive growth and poverty reduction, as it builds on the successful implementation of various domestic revenue mobilization efforts over the years. The Strategy is aligned to priorities set out in the National Vision Malawi 2063, providing a comprehensive development path that will change Malawi into an inclusively wealthy and self-reliant industrialized upper-middle income country and its first 10 year implemantation plan (MIP 1: 2021-2030). It is also aligned to regional development commitments within the context of the Southern Africa Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), African Union (AU) and African Continental Free Trade Area (AfCFTA)[3].

The Strategy was developed in a participatory manner to ensure collective ownership by a broad section of key stakeholders in the economic and public finance management space. In this regard, the Revenue Policy Division (RPD) of the Ministry of Finance worked collaboratively with the Malawi Revenue Authority (MRA) in engaging a cross section of stakeholders that included Ministries, Departments and Agencies (MDAs), private sector, and Non-Governmental Organizations (NGOs) and professional bodies.

In general, the Government has made tremendous strides in improving domestic revenues over the years, through the use of tax and non-tax fiscal instruments at its disposal. The largest share of Government's revenue has been through taxes, especially income taxes followed by Value Added Tax (VAT), customs and excise and lastly departmental receipts, levies and dividends. Although, domestic revenues have continued to increase in nominal terms, they have not been able to adequately support the budget. The Government is still largely dependent on external budgetary support to fund critical spending needs and development programs, and more recently has relied on loans from the

[3]Malawi submitted its instrument for ratification of the AfCFTA treaty on 15.01.2021 and is in the process of validation of the National AfCFTA implementation strategy.

banking sector and external creditors thereby increasing its debt stock.

STRATEGIC ISSUES

The situational analysis undertaken to support the development of this Strategy has revealed a number of strategic issues, which have been prioritised due to the impact they have on enhancing domestic revenue. The following are the main strategic issues to be addressed over the next five years:

(a) the narrow tax base;
(b) low tax compliance;
(c) poor stakeholder perception of the tax system;
(d) gaps in institutional capacity for revenue mobilization; and
(e) low non-tax revenue collections.

VISION, STRATEGIC GOAL AND OBJECTIVES

The Vision of this Strategy is 'Optimal domestic revenue for improved public service delivery and quality of life for all Malawians.'

The overall Goal of the Strategy is to increase the revenue to GDP ratio by 5 percentage points by 2025/26 fiscal year.

As a response to these strategic issues, Government has identified strategic focus areas, which shall be pursued in the next five years as follows:

(a) to broaden the tax base;
(b) to strengthen tax compliance;
(c) to improve the perception of tax system;
(d) to strengthen institutional capacity;
(e) to improve non-tax revenue.

Each strategic objective is supported by strategies and activities to ensure effective implementation. In addition, the strategy includes specific short- and medium-term revenue measures to anchor the budget[4].

The Strategy aims to provide stability and transparency in revenue policy making process, as well as seeks to ensure that Government gradually reduces its reliance on external and domestic loans.

Guiding Principles

(a) The tax policy will seek to promote horizontal and vertical equity in taxation matters.
(b) Government will seek to ensure that tax policies facilitate efficiency and economic growth.
(c) Government will endeavor to structure its tax laws in such a manner that promotes tax compliance.
(d) Government will seek to have tax laws that are predictable, stable and reliable to enable it to determine the level and timing of revenues.
(e) Government will endeavor to keep to the minimum the cost of revenue collection.
(f) Government, through MRA, will seek to protect taxpayer information from all forms of unintended and improper disclosure.
(g) Government, through MRA and other partners, will seek to educate taxpayers on taxes that exist and on how and when it is imposed upon them and others.
(h) Government will ensure automation of non-tax revenue collection and strengthening of its monitoring systems.

KEY SUCCESS FACTORS

A number of success factors have been identified that are necessary for the smooth implementation of this Strategy. These are highlighted below.

Political Support

(a) The Ministry of Finance will provide consistent leadership on revenue policy matters.
(b) The Minister of Finance will champion reforms related to domestic revenue mobilization.
(c) The Ministry of Finance, MRA, MDAs and other key stakeholders will work jointly to develop a positive image of domestic revenue reform initiatives.
(d) Key policy and legislative documents on Public Finance Management in Malawi will serve as a reference for key domestic revenue policy measures to ensure continuity in decision-making.
(e) Reform initiatives will be implemented in an incremental and orderly fashion to build consensus and ensure minimal disruption to business activity.
(f) Key reform initiatives will at all times take into account local conditions and capacity in terms of design and implementation.

Taxpayers' Support

Malawian taxpayers' support is one of the fundamental success factors for the DRMS implementation. Low tax compliance and taxpayers' resistance to pay their fair share of taxes may undermine the strategic intent and the strategy implementation. The strategy is therefore built on the premises that every economic sacrifice made by the Malawian population must give economic benefits in return by building and executing the so called "social contract".

External Support

Malawi still requires external support in the following areas:

(a) Successful implementation of a range of DRMS reforms. The Government will therefore continue collaborating with Development Partners for technical and financial assistance to ensure successful implementation of the DRMS.
(b) Capacity building at policy and implementation level to support innovative and best approaches to DRMS.
(c) External support may also be sought from global and regional level multilateral organizations, such as COMESA, SADC, ATAF, Addis Tax Initiative (ATI) to support modernization efforts and share lessons on good practices.

MAJOR RISKS TO DOMESTIC REVENUE MOBILIZATION STRATEGY IMPLEMENTATION

A number of risks have been identified to the successful implementation of the DRMS, as well as the mitigating factors or strategies. These are highlighted in Chapter Six.

[4]*See Annex 2*

Government builds hospitals

GLOSSARY OF KEY TERMS

TAX COMPLIANCE

The fulfillment of tax obligations by businesses and individuals. The four main categories of taxpayer obligations prescribed in tax laws are: (a) registration in the tax system; (b) timely filing of declarations; (c) payment of tax liabilities on time; and (d) complete and accurate reporting of information in tax declarations.

COMPLIANCE IMPROVEMENT PLAN/ STRATEGY

A high-level plan that describes, generally in a single document, the most significant compliance risks identified in the tax system and the actions the tax administration intends to take to mitigate those risks. Compliance improvement plans (also known as 'compliance' and 'compliance management' plans or programs) are commonly structured around major national taxes and taxpayer segments.

GOOD PRACTICE

A tested and proven approach applied by a majority of leading tax administrations. For a process to be considered 'good practice', it does not need to be at the forefront or vanguard of technological and other developments. Given the dynamic nature of tax administration, the good practices described throughout this Strategy can be expected to evolve over time as technology advances and innovative approaches are tested and gain wide acceptance.

NON-FILERS

Persons (physical or legal) who are required to file tax declarations but have not done so.

RISK MITIGATION STRATEGIES

Strategies and plans designed to address potential risks to the successful implementation of the Strategy.

TAX ARREARS

The total amount of domestic tax, including interest and penalties, which is overdue (i.e. has not been paid by the statutory due date for payment).

TAX AVOIDANCE

Practices by taxpayers to reduce tax liabilities by exploiting weaknesses in the law or through contrived schemes that push the boundaries of legal interpretation (e.g., use of complex and opaque structures by corporations to artificially shift income into low-tax jurisdictions). Also referred to as aggressive tax planning.

TAX COMPLIANCE GAP

The tax compliance gap is the difference between actual collections and potential collections, given the current tax structure. Typically, a top-down method is used in estimating the tax gap for indirect taxes, particularly VAT (i.e. using national accounts data, input-output or source-use statistical tables, customs records, as well as tax declaration data). A bottom-up method is generally used for direct taxes (i.e. using data from tax declarations, audit records, the taxpayer registration database, and public accounting records).

Cancer Centre

TAX EXPENDITURE

The tax expenditure is a measure of the tax revenue forgone as a result of special tax reliefs in the tax legislation made available to some taxpayers, which deviates from a standard (or benchmark) tax system.

TAX EVASION

Deliberate acts to conceal income in order to escape tax liabilities (e.g., hiding money in secret offshore bank accounts).

TAX TRIBUNAL

A specialist body providing quasi-judicial review of tax dispute decisions of the tax administration. A tax tribunal is not a court or part of a country's court hierarchy; however, its decisions are generally subject to review by the court/s.

TAXPAYER SEGMENTS

Taxpayer segmentation involves categorization of the taxpayer population into manageable groups that share common characteristics and potential compliance risks. A typical approach is to first segment the taxpayer population into businesses, individuals, government organizations, and non-profit bodies, and then break each category down into meaningful sub-segments based on, for example, size, sector, and entity type.

VAT COMPLIANCE GAP

The VAT compliance gap is the difference, in a given year, between actual VAT paid and the estimated amount of VAT that should have been paid (i.e. total VAT theoretically due).

VAT C-EFFICIENCY RATIO

The C-efficiency ratio is the most commonly used indicator for evaluating the revenue performance and overall efficiency of the VAT system. It is simply the ratio of actual revenues to theoretical revenues from a perfectly enforced tax system, levied at a standard rate on final consumption.

CHAPTER ONE

INTRODUCTION & BACKGROUND

1.0 PREAMBLE

The Domestic Revenue Mobilization Strategy (DRMS), hereafter referred to as the Strategy, provides a framework and road map for increasing the level of domestic revenue to fund the country's socio-economic and development agenda as set out in Malawi's long-term development vision ''the Malawi 2063'' and its blueprint for implementation. The Strategy will support the implementation and realization of the aspirations of the Vision, enable the Government to gain greater control of its budget and have more fiscal space to plan its resource allocation to fund the much-needed infrastructure development and social-policy spending, which will improve service delivery and quality of life of Malawians.

1.1 SOCIO-ECONOMIC CONTEXT

Malawi is one of the least developed countries in the world. Agriculture remains the country's key sector in the economy and the main foreign exchange earner, with tobacco, tea, sugar, coffee and cotton as the major export products followed by manufacturing and tourism. Over 90% of the crop cultivated is under rain-fed agriculture system making the country vulnerable to climatic shocks[5]. Efforts to diversify the economy to other sectors such as industry, mining, and tourism have not been effective for many reasons including poor infrastructure. These sectors, therefore, do not contribute as they should to the country's much needed revenue. Although the contribution of the services sectors to the total Gross Domestic Product (GDP) has increased steadily over the years, the contribution of agriculture to GDP remains high at 23% in 2020[6].

Agriculture remains the country's key sector in the economy and the main foreign exchange earner, with tobacco, tea, sugar, coffee and cotton as the major export products followed by manufacturing and tourism.

The country has experienced an average of 3.6% real GDP growth over the recent four years[7] period to 2020 falling below the 7% growth rate set in both the MGDS II and MGDS III. The GDP growth was driven mostly by good performance of the agricultural sector[8]. The annual average headline inflation rate for 2020 was recorded at 8.61% with food inflation at 13.0% and non-food inflation at 1.6%. In 2021, it is projected that the annual average headline inflation will continue to slowdown, reaching 7.5%[9]. Despite the country registering some level of growth and maintaining single digit inflation rates, a significant proportion of Malawians have yet to benefit from the improved macroeconomic parameters as evidenced by the prevailing poverty levels. About 50.8% of the population are estimated to be living below the poverty line of $1 per day and out of the total rural population, 56.6% are considered poor compared to 19.2% of the urban population[10].

[5] *National Agriculture Policy, p.17*

[6] *Annual Economic Report, 2021, p.9*

[7] *Annual Economic Reports 2020 and 2021*

[8] *IMF Country Report, p99, No 19/361*

[9] *Annual Economic Report, 2021. p.15*

[10] *Malawi Poverty Report, 2020*

Malawi is a youthful nation. Out of its 17.5 million population, 13 million are young people under the age of 35. Therefore, the youth represents a vast human resource potential that could positively contribute to national development if properly nurtured. Some of the problems faced by the youth include high unemployment and under employment, high illiteracy levels, HIV and AIDS, limited access to sexual and reproductive health services, limited access to technical and vocational training, and limited scientific and technological knowledge.

Malawi has made progress in building its human capital - the knowledge, skills and health that people accumulate over their lives. Life expectancy at birth is 63.7 years (2018 Population and Housing Census). The total fertility rate in 2015/16 was 4.4 children per woman down from 6.7 in 1992. Self-reported literacy (reading and writing in any language) is 71.6 for males and 65.9 for females (15+ years of age). However, poverty and inequality remain stubbornly high.

The national poverty rate decreased slightly from 51.5% in 2016 to 50.8% in 2019, but extreme national poverty increased from 20.1% in 2016 to 20.5% in 2019. Poverty is driven by low productivity in the agricultural sector, limited opportunities in non-farm activities, volatile economic growth, rapid population growth, limited coverage of safety net programs and targeting challenges [11].

Malawi's development challenges are multi-pronged, including vulnerability to external shocks such as exogenous shock due to the COVID-19 pandemic and climate changes. Other challenges include rapid population growth and environmental degradation. Energy shortages still stand out, with about 11.4% of the population having access to electricity. Infrastructure development, the manufacturing base, and adoption of new technology is low. In addition, Malawi has challenges in fighting corruption as reflected in its ranking on the Transparency International Index.

1.2 RATIONALE FOR THE DRMS

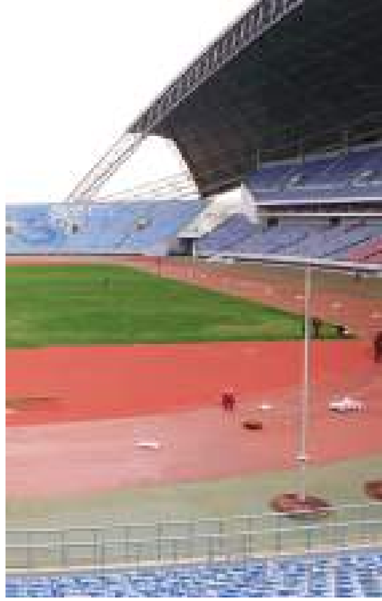
Malawi needs a Domestic Revenue Mobilization Strategy to provide a comprehensive framework that can guide its efforts to increase government revenue for supporting its development goals as set out in the country's long-term national development plans. Substantially higher expenditures are required on infrastructure, education, healthcare, energy, agriculture, tourism and other priorities, to raise and sustain a level of economic growth to uplift people out of poverty and improve the well-being of all Malawians. The Government has initiated revenue policy and legislative reforms aimed at broadening the revenue base and implemented measures to improve the efficiencies and effectiveness of its tax and non-tax collecting systems. Notwithstanding the measures taken by the Government, reforms that are more fundamental are required to meet its revenue objectives.

The motivation for DRMS is as follows;

i) To establish a medium-term framework for generating resources that the country requires in order to support the delivery of the Malawi 2063 and its implementation blueprint.
ii) To encourage greater self-reliance as well as increasing financing for economic development while maintaining a stronger sense of ownership of the policy levers.
iii) To generate and maintain constructive and inclusive dialogue within Malawi about the shape and balance of the tax administration system.
iv) To build consensus around an approach to taxation that is consistent with the aspirations of Malawians, society, and ways of doing business.
v) To provide greater certainty and confidence for domestic and foreign investors in the planned direction of taxation policy.
vi) To encourage a focus on investment-led formalization of business[11] over the medium term to promote growth and enhance the welfare of all Malawians.

[11] *Malawi Poverty Report, 2020*

Government builds stadiums



vii) To establish a stronger and more detailed framework of reference against which to measure progress towards medium-term revenue objectives.
viii) To highlight opportunities for a greater contribution to policy design and evaluation by academic and other experts and practitioners, through the development of a more formal and structured process of making tax policy.
ix) To sharpen the focus on improving the efficiency of tax administration and collection processes within government.
x) To show the government's commitment to eradicate corrupt practices in the administration and collection of taxes.
xi) To ensure transparency in the budget process (revenue planning and execution).

1.3 APPROACH OF DRMS

The development of the DRMS was conducted in a participatory manner to ensure ownership not only of the process, but also the strategic interventions to be implemented over the next five years. The approach entailed the establishment of a Technical Committee by the Secretary to the Treasury Chaired by the Director of Revenue Policy Division, which was responsible for drafting, facilitating the validation and dissemination of the DRMS. The Committee comprised of representatives from the Ministry of Finance (MoF) and the Malawi Revenue Authority (MRA).

The DRMS work involved extensive review and analysis of relevant policy and legislative documents, technical reports, as well as a review of regional and global trends and experiences in domestic revenue mobilization efforts (see Appendix 1). Given the need for transparency in the development of a DRMS, consultations were undertaken with key stakeholders involving public and private sector organizations and civil society organizations (see Appendix 2). To this end, a questionnaire was administered that sought to solicit inputs from a cross-section of stakeholders. The consultations were also meant to build consensus on the issues and strategies to be executed to address the revenue mobilization challenge. In addition, the SWOT[12] analysis technique was used to identify issues, which might compromise achievement of revenue goals and objectives, as well as to identify opportunities that can

[12]SWOT (Strengths, Weaknesses, Opportunities, and Threats). Strengths are the phenomena capable of aiding, in a long-term sense, the performance or the accomplishment of set objectives. Weaknesses are situations, phenomena that might hinder the accomplishment of set objectives. Opportunities are elements in the operating environment that an entity can take advantage of to further its cause. Threats are elements in the operating environment that could jeopardize accomplishment of an entity's objectives.

be exploited to maximize revenue gains (see Annex 1).

The development of the DRMS also benefited from inputs of all the relevant Divisions in the Ministry of Finance, as well as other key Government Departments and Agencies.

The objectives of the DRMS are as follows:

(a) To increase revenue to GDP ratio by 5 percentage points of GDP in five years;

(b) To support national development;

(c) To reduce tax compliance costs and improve investment climate; and

(d) To enhance fairness and transparency in the tax system.

1.4 OBJECTIVES OF THE DRMS

The main goal of the DRMS is to improve revenue collection to fund Malawi's social spending needs and development programs. The target is to raise the revenue to GDP ratio by at least 5 percentage points by 2025/26 fiscal year. In setting the DRMS objectives, the Government is cognizant of the need to achieve a better balance between competing challenges.

1.5 STRUCTURE OF THE DRMS

For purposes of clarity in presentation, the Strategy is organized into nine chapters. Chapter One, sets out the introduction and background to the Strategy, including the socio-economic context, rationale for the Strategy, approach and objectives of the Strategy. Chapter Two presents the Situation Analysis, while Chapter Three presents the Strategic Framework, which provides the strategic direction to be pursued over the next five years. Chapter Four, outlines the priorities for strengthening domestic revenue mobilization measures. Chapter Five, presents the key success factors for the implementation of the DRMS. Chapter Six, discusses the major risks to DRMS Implementation. Chapter Seven, sets out the DRMS Road Map, outlining the steps that will have to be followed to ensure smooth implementation of the Strategy. Chapter Eight, presents the DRMS Monitoring and Evaluation Framework, while Chapter Nine concludes with a discussion of the Implementation Arrangements for the DRMS. A number of annexes, which include SWOT analysis, specific DRMS measures, Implementation Plan, and Monitoring and Evaluation Plan are also part of the Strategy.

Capital Hill Building

CHAPTER TWO

SITUATION ANALYSIS

2.0 INTRODUCTION

The Strategy has been developed in the context of the global, regional and country economic outlook as well as the country general revenue policy and legislative environment. The Strategy has also taken into account the revenue performance in the country, as well as key constraints to revenue performance and the opportunities that exist to expand the revenue base.

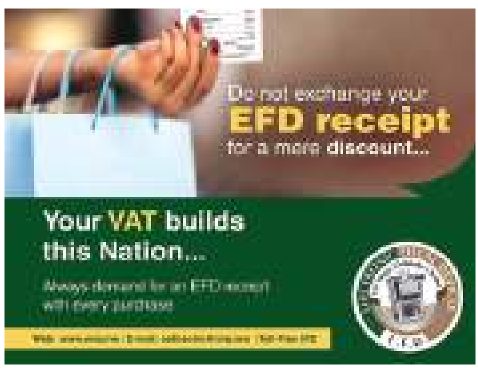
2.1 GLOBAL AND SUB SAHARAN AFRICA ECONOMIC OUTLOOK

The global spread of COVID-19 pandemic has caused an unprecedented shock to the world economy and led to a recession in most countries. According to the World Bank Global Outlook, the global economy is expected to grow by 5.6% in 2021 driven by the USA and China. However, uncertainty due to COVID-19 remains. By 2022, global economic growth is projected at 4.3%. In the Sub-Saharan Africa region, the economic growth is projected at 2.8% dampened due to elevated COVID-19 cases and low vaccinations. However, in 2022 the economic growth is projected at 3.3% on account of improved containment of COVID-19, vaccinations and agricultural production.

Malawi confirmed its first COVID-19 case in April 2020 and case numbers picked up considerably from June to August 2020. The numbers subsided from September 2020, averaging less than 10 cases per day, but picked up in January and in June 2021. Impacted by the COVID-19 pandemic, GDP growth contracted in 2020, at 0.9% as at December 2020 compared with earlier projection of 1.5%[13].

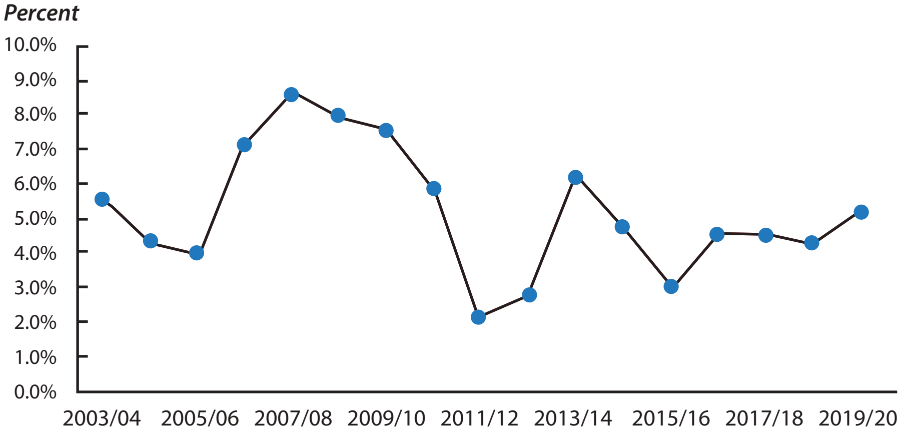
2.2 MALAWI ECONOMIC PERFORMANCE

The economic performance has been volatile, although some level of stability has been achieved in the recent past. As can be seen in figure 1, the economic performance was strong around 2006 to 2008, registering a minimum real GDP growth of around 6% per annum, largely due to good performance of the agricultural sector. During that period, the country reached a Highly Indebted Poor Countries (HIPC) completion status and benefited significantly from debt relief. In the period from 2010/11 following the HIPC debt relief, the economy registered slower economic growth rates mainly due to climatic change induced floods and droughts, and systematic pilferage of large amounts of government funds (cash gate) which resulted in withdrawal of budgetary support. During the same period, the country experienced intermittent power supply, fuel and foreign exchange shortages and increased inflation. In the recent past, the economy has registered an average growth of around 4.2%, largely driven by the steady pace of growth of the agricultural sector and relative stability in the macroeconomic variables such as the exchange rate, interest rates, low inflation and availability of foreign exchange.



[13]*Annual Economic Report, 2021*

Figure 1: Trends in real GDP growth 2003/04 -2019/20



Source: NSO and MoF

2.3 MEDIUM TERM ECONOMIC OUTLOOK

In the short-term, the economy is expected to grow by around 3.8% over the period 2021 – 22. The main driving force is the agriculture sector, which accounts for about 23% of GDP[14], followed by wholesale, retail and the manufacturing sector, which contributes about 12% and 11% respectively. The developments in global prices for agricultural commodities and fluctuations in weather patterns can affect the performance of the agricultural sector and the economy as a whole. The performance of the manufacturing sector will greatly depend on developments in energy supply and the financial sector. Nevertheless, the expected performance is premised on favorable weather conditions, attainment of economic and political stability as well as efforts to contain COVID-19 pandemic.

Owing to a number of COVID-19 redress measures, it is expected that the economy will make a gradual but steady recovery, which will support the aspiration of attaining a lower-middle income status in the long run. Attaining this status is based on the premise that the economy should in the medium-to long-term consistently grow by an average of not less than 6% annually.

2.4 REVENUE POLICY AND LEGISLATIVE FRAMEWORK

The Ministry of Finance, through the Revenue Policy Division, provides policy direction and is responsible for ensuring that the systems of revenue collection are in place and working effectively. Broadly, domestic revenue[15] is divided into tax revenue and non-tax revenue. The tax revenue is collected by MRA, while the Ministries, Departments and Agencies (MDAs) of Government collect the non-tax revenue. The tax revenue is broadly divided into domestic and customs taxes[16]. The non-tax revenue, on the other hand, comprise departmental receipts, fuel levies, treasury fund remittances and remittances from State-Owned Enterprises (SoEs) through dividends or surpluses.

The revenue collection and management function is enforced through a number of legislative instruments including the Malawi Revenue Authority Act, the Taxation Act, the Customs and Excise Act, the Value Added Tax Act, the Tax Administration Act, the Public Finance Management Act and other sectoral legislation of the MDAs for collecting non-tax revenue. Additionally, the SoEs make remittances to Government as provided for in the Dividend and Surplus Policy.

[14]Annual Economic Report 2021

[15]This classification is based on GFS 1986 format, however, once migrated to GFS 2014 the descriptions and classifications might change or be different.

[16]Malawi Revenue Authority Corporate Strategic Plan, p1-2

2.5 STRUCTURE OF MAJOR TAXES

Taxes on Income

In Malawi, income taxation follows the source based or territorial principle. This means that income tax is levied on any income, which has been generated or deemed to have been generated in Malawi irrespective of the residence of the income recipients. The Taxation Act is the legal instrument for levying income tax on taxable income earned from different sources. Income tax can be levied on companies or individuals in the form of Corporate Income Tax (CIT) and Personal Income Tax (PIT) respectively.

2.5.1 Corporate Income Tax (CIT)

The tax base for the CIT is the taxable income earned by corporates. Section 11 of the Taxation Act defines income as the total amount in cash received or accrued to a taxpayer from a source within Malawi or deemed to be in Malawi. Further, income includes capital gain and other types of capital or investment incomes such as interests and dividends. The realized foreign exchange gains or losses are either taxable income or tax deductible respectively.

The standard rate for corporate income tax is 30% for the companies incorporated in Malawi and 35% for branches of foreign registered companies. Pension funds income is taxed at 15% while dividends are taxed at 10% final tax.

The Taxation Act provides for a number of tax incentives in the form of capital allowances at various rates and pre-business expenses of up to 18 months as allowable deductions. Additionally, for the priority industries (agro-processing and electricity generation and transmission), the law provides for reduced rate for CIT of 0% for a maximum period of 10 years or 15% indefinitely. In addition, any business can benefit from a loss carry forward provision for a maximum period of 6 years.

2.5.2 Personal Income Tax (PIT)

The PIT is a schedular system with various rate structures applied to different income brackets for persons including partnerships and sole proprietors. The base for PIT is also territorial or source based. The PIT covers all the income on capital, labour and business income. A taxpayer is expected to consolidate all income and be taxed accordingly, based on the income brackets and tax rates, as prescribed under the Eleventh Schedule to the Taxation Act.

As can be seen from Table 1 and Table 2 below, there are different rates for income tax.

Table 1: Income Tax Structure for Employment Income[17]

Income bracket for employment income (MKW) Annual	Tax Rate
0-1,200,000	0%
1,200,000-12,000,000	25%
12,000,000-36,000,000	30%
36,000,000-72,000,000	35%
72,000,000 and above	40%

Table 2: Income Tax Structure for Other income[17]

Income bracket on income other than employment(MKW) Annual	Tax Rate
First K1,200,000	0%
Excess over K1,200,000	30%

Source: Taxation Act 2021

2.5.3 Other income taxes collected through withholding (Withholding Tax)

Certain income is subject to withholding tax at different rates. The rates range from 3% on foodstuffs to 20% on fees and interest income. The tax collected through the withholding mechanism is not a final tax; a taxpayer can claim a refund or top up tax payment, after filing a tax return, where it shows that income tax has been overpaid or underpaid respectively. See details in Table 3:

[17] *The income tax structure as at 2021/22 FY*

Table 3: Withholding Tax Rates

NATURE OF PAYMENT		NOTES	RATE ON GROSS PAYMENT
(a)	Royalties		20%
(b)	Rents	1	20%
(c)	Payment for any supplies to traders and institutions i. Foodstuff		3%
	ii. Other		3%
(d)	Commissions	2	20%
(e)	Payment for carriage and haulage		10%
(f)	Payment of tobacco and other farm products		
	i. Sale for the first 1200 Kgs or 10 bales of tobacco sold through auction floors		0%
	ii. Sale of tobacco in excess of 1200 Kgs or 10 bales sold through auction floors		3%
	iii. Sale of tobacco through farmer clubs at auction floors		0%
	iv. Payment for other farm produce		3%
(g)	Payment to contractors in the building and construction industries	3	4%
(h)	Payment for public entertainment	4	20%
(i)	Payment for casual labour i. Payment of up to K35,000		0%
	ii. Payment in excess of K35,000		20%
(j)	Payment for services		20%
(k)	Interest	5	20%
(l)	Fees	2	20%
(m)	Winnings on betting and gambling including lotteries	6	20%

Notes:

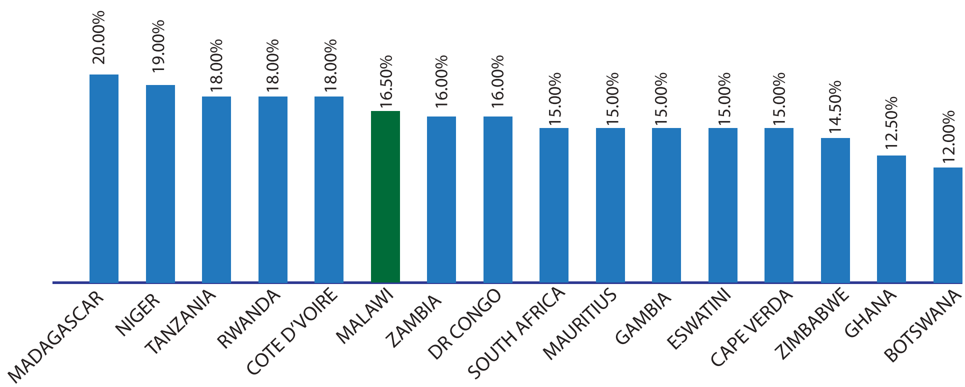
1. Includes rent for moveable and immoveable property, whether paid under a lease or otherwise, but excludes rent payable by an individual whose source of income is only from employment and the rent is payable in respect of property used as a dwelling house.
2. Excludes fees and commissions on which P.A.Y.E. is being operated but includes technical fees and management fees to the extent they do not relate to reimbursement of expenses.
3. Includes contractors and subcontractors of any category.
4. Includes payment to musicians, radio and television artist, athletes and theatres, but excludes payments to radio and television artists which are subject to P.A.Y.E.
5. Excludes-
   (a) interest payable to a person exempt from income tax under the First Schedule of the Taxation Act;
   (b) interest payable to a person, not being a person resident in Malawi, whose income is liable to non-resident tax under section 76A of the Taxation Act; and
   (c) interest, however arising, payable by any person to an institution registered under the Banking Act.
6. (1) "Winnings" means any payment made to any person who wins a bet, a gamble or any gaming activity including lottery.
   (2) Withholding tax shall be charged on winnings in excess of K100,000.

Source: Taxation Act

2.5.4 Value Added Tax(VAT)

The Value Added Tax (VAT) is levied on final consumption of goods and services. The VAT was first known as Surtax and was introduced under the Customs and Excise (Tariffs) Order of 1989. The name Value Added Tax was introduced in 2005 following the enactment of the VAT Act and the VAT standard rate was 17.5%. In 2008/09 FY, the Government reduced the VAT standard rate to 16.5% to provide some relief to taxpayers and to be regionally competitive. As can be seen in figure 2 below, Malawi's standard VAT rate is slightly above the regional average rate of 16.07%.

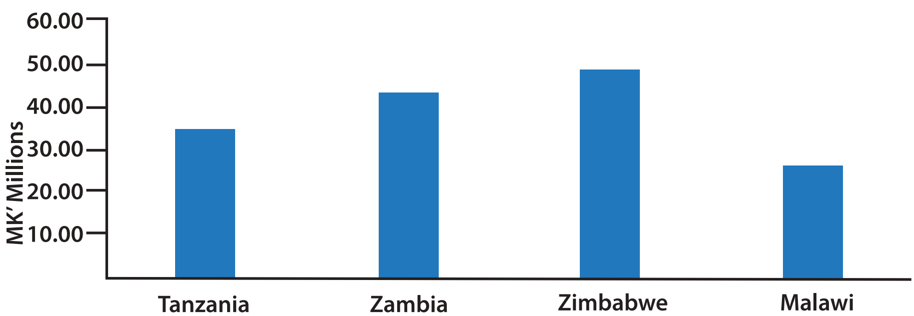
Figure 2: VAT rates in selected African Countries (2020)



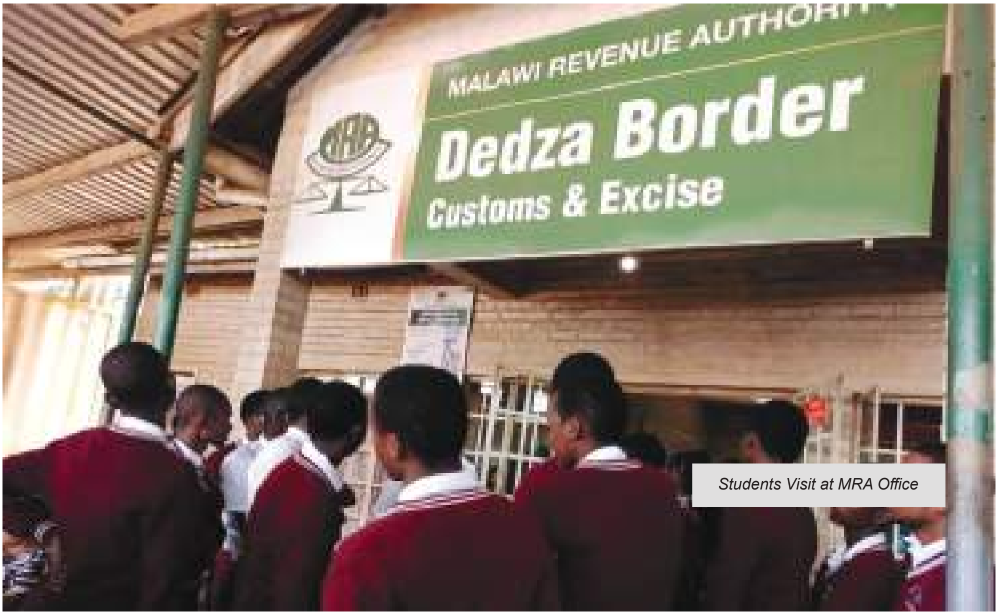
Source: ATAF, PwC, Revenue Authorities

The VAT is levied on a broad range of goods and services, except for exempt goods, zero-rated and relief supplies as provided for in the First, Second and Third Schedules of the VAT Act respectively. In terms of VAT administration, every business with an annual turnover in excess of MK25 million is required to register for VAT, but voluntary registration is allowed for those with an annual turnover below the registration threshold. Figure 3 below, shows that Malawi has the lowest VAT registration threshold among the neighboring countries.

Figure 3: VAT Registration thresholds in neighboring countries



Source: IMF staff report, 2020 & MoF staff calculations



Students Visit at MRA Office

2.5.5 Customs and Excise Tax

The Customs and Excise Act provides for powers to levy customs duty on import or export of goods in line with tariff rates as specified in the Customs and Excise (Tariffs) Order[18]. Excise duties are typically applied to specific products to address negative externalities and influence human behavior. Normally, excise tax is levied on alcohol, tobacco, sugary beverage and petroleum products such as fossil fuels. Thus, excise tax levied on excisable products could be thought of as "repair cost" for the incidental damages the excisable product causes to health and the environment. A further rationale for excises is that they can encourage an "ability-to-pay" approach, taxing luxury items consumed by higher-income individuals. In general, customs revenue is declining due to the regional economic integration agenda, which requires countries to remove tariff barriers to trade.

2.5.6 Non-tax revenue (NTR)

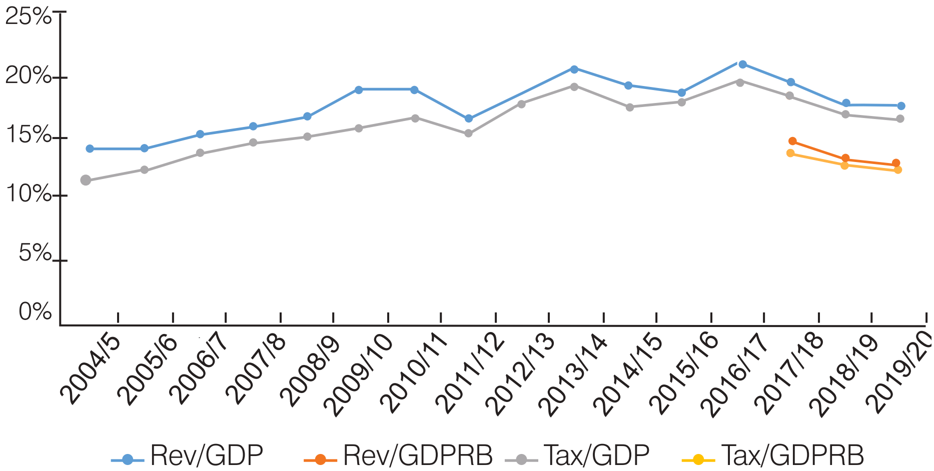
It refers to all government revenue not derived from taxes. These include user fees and charges, treasury fund remittances, fuel levies and remittances by SoEs. The user fees and charges are collected on the payment for government services, while treasury funds remittances comprise surpluses the government receives from treasury funds as established under section 30 of the Public Finance Management Act (2003). The fuel levies are levied on the fuel pump price whilst remittances by SoEs comprise surpluses and dividends from state owned enterprises.

2.5.7 Domestic Revenue Performance 2004/05- 2019/20

As can be seen from Figure 4, domestic revenue performance (revenue excluding grants) has increased by an average of 6% of GDP by 2016/17, from 14% of GDP in 2004/05 to circa 20% of GDP by the end of 2016/17 fiscal year. For the same period tax revenues also increased by an average of 6% of GDP, namely from 12% of GDP in 2004/05 to 18% of GDP by the end of 2016/17 fiscal year. However, following the rebasing of GDP in 2020, domestic revenue to GDP ratio was 13.4% in 2019/20 fiscal year, while tax revenue to GDP ratio became 12.6%. Malawi's domestic revenue performance is below the average performance for the SADC, SACU and Sub-Saharan Africa countries. The average perfomance of tax to GDP ratio for Africa is 16%[19].

[18]The Customs and Excise Tariffs (Order) provide tariff rates for all products imported or exported
[19]Revenue Statistics in Africa, 2020.

Figure 4: Trends in revenue performance

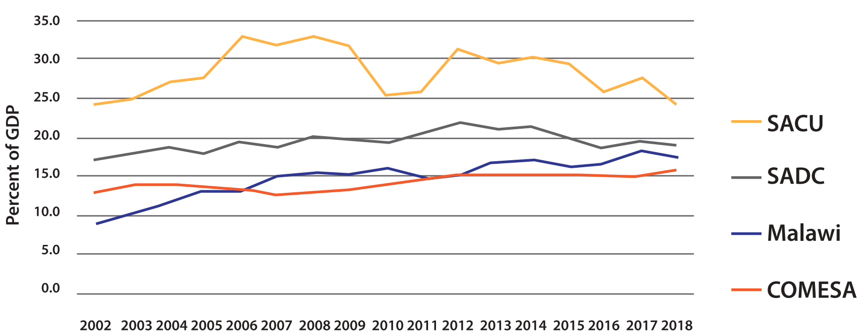


Source: MoF, staff calculation, Revenue Policy Division

According to the World Bank, a tax to GDP ratio of 15% is the minimum threshold required for the Government to provide basic goods and services to the citizenry while the United Nations estimates that developing countries need to raise at least 20% of their GDP through taxes to meet SDGs by 2030. In this connection, Malawi generally needs to strengthen revenue mobilization efforts given the low revenue and tax to GDP ratios that are below the international standards. Further, given the fiscal pressures on the Government, domestic revenues are far below the expenditures, which hover around 25% of GDP[20], while total public debt is around 54% of GDP[21].

Figure 5 below compares Malawi's revenue performance with peers in the region. It shows that Malawi is a lot better when compared with COMESA countries, but lags behind SADC and SACU countries. This entails that Malawi has potential of generating more revenue thereby creating more fiscal space.

Figure 5: Regional revenue performance - SADC/COMESA



Adapted Source: IMF Staff Estimates, 2019

[20] *Annual Economic Report 2021*

[21] *Mid-Year Public Debt Report, March 2021; based on December 2020 debt stock*

The revenue performance by category reveals that Malawi relies more on direct taxes than consumption taxes as illustrated in figure 6 below. With the implementation of targeted policy measures there is potential to expand consumption taxes and increase their share in the revenue mix since they are broader, more efficient and growth friendly than direct taxes.

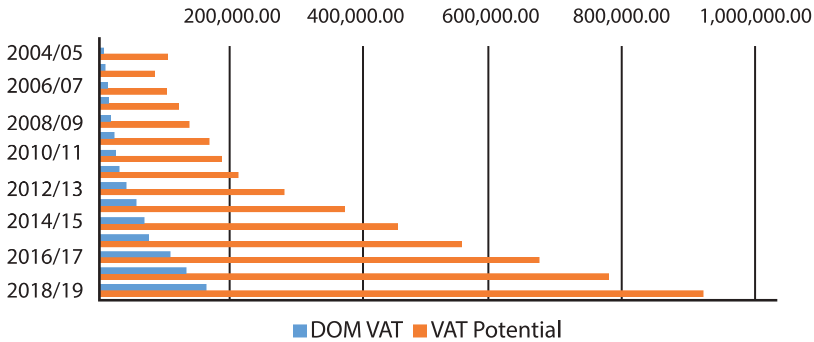
Figure 6: Performance by tax type (broad categorization)

Source: Ministry of Finance, staff calculations.

2.5.8 Value Added Tax Efficiency

A detailed analysis of domestic VAT gross collections over the past decade shows that on average Malawi collects about 14% of VAT[22] potential revenue. If the gross collections could be discounted for VAT refunds, the actual VAT collections could be much lower[23]. As can be seen from Figure 7 below, the scope for enhancing VAT collections is wide. In Sub-Saharan Africa, VAT-C efficiency stands at 35% while the World average is 51%. This entails that the domestic VAT collections could be doubled in the short term. The under performance in VAT collections points to gaps in tax policy and the capacity of the tax administration to enforce collections. Modernizing the VAT may provide an estimated additional 2% of GDP in VAT revenues. When considering policy options for closing the gap regard will be given to the characteristics of a good VAT system, as presented in Box 1 below.

Figure 7: Domestic VAT - C efficiency



Source: Ministry of Finance, staff calculations.

Box 1: Characteristics of a good VAT system

(a) Very broad base that includes all consumption expenditures;
(b) Single positive rate;
(c) Zero rate that applies only to exports;
(d) No exemptions;
(e) Zero registration threshold if collection costs equal zero;
(but because they are not, a calculated positive optimal threshold);
(f) Calculation of VAT liability using the invoice-credit method; and
(g) Levy VAT on a destination basis.

Source: IMF, 2018

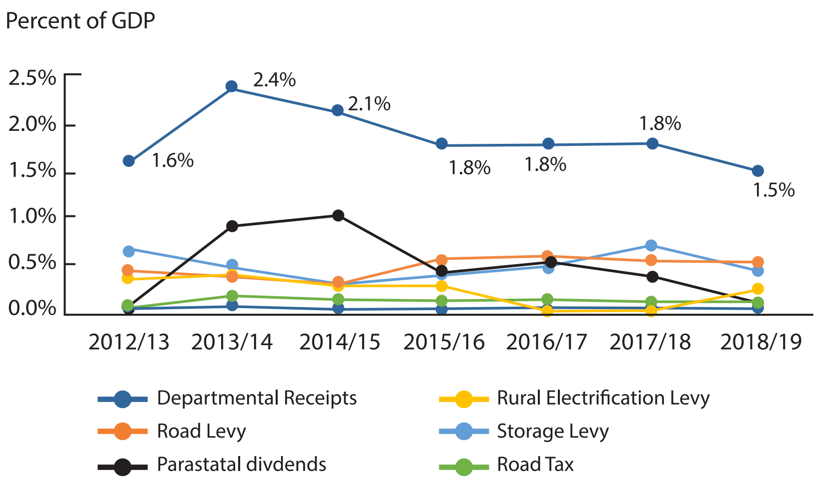
[22] The VAT-C efficiency ratio might be lower given the rebased GDP.

[23] VAT compliance GAP is estimated to be 4.8% of GDP, respectively VAT policy GAP 5% of GDP. Effective standard rate, after considering revenues collected from exempt supplies is 7.9%. This is substantially lower than the legislated rate of 16.5%.

2.5.9 Non-Tax Revenue Performance

The non-tax revenue collection has averaged 1.6% of GDP in the recent past. The fuel levies account for a larger proportion, while departmental receipts account for less than 0.5% of GDP. The recent studies on non-tax revenue performance[24] point to the fact that there is room for doubling non-tax revenue collection by the end of the Strategy period. Specific strategies to increase non-tax revenues would include: improving the efficiencies in collections systems of non-tax revenue, enhanced monitoring of performance of the non-tax revenue collection systems, as well as developing the non-tax revenue policy, automation and updating the legal framework.

Figure 8: Trends in non-tax revenue collection



Source: Ministry of Finance, staff calculations

As can been seen from Figure 8 above, fuel levies significantly contribute to the non-tax revenue collections, followed by departmental receipts and dividends from SoEs. The collections from SoEs can be boosted by strict adherence to the Dividends and Surplus Policy and continuous monitoring by the Treasury.

2.6 KEY CHALLENGES TO REVENUE MOBILIZATION IN MALAWI

Revenue mobilization in Malawi faces a number of challenges, which constrain the revenue collection potential of the country. The constraints are categorized into four broad areas namely: policy, legal and regulatory framework, tax administration and structural issues.

2.6.1. THE POLICY ENVIRONMENT

2.6.1.1 Policy Stability, Analysis and Coherence:

The business community has indicated that the tax policy in Malawi is uncertain, unclear and not well documented, making it difficult to make informed business decisions. In addition, sometimes there is incoherence between tax policies and priorities set out in the national development strategies, resulting into tax policies not being used effectively to stimulate economic growth. Further, there is inadequate capacity and data to support meaningful tax policy analysis, a fact that compromises the quality of tax policy measures.

2.6.1.2 Parliamentary oversight of tax policies:

The tax policies on which the Government budget is based are scrutinized by Parliament. However, the focus of Parliament is more on scrutinizing expenditures rather than on revenue policy measures.

2.6.1.3 Generous tax incentives regime:

The tax system offers numerous tax incentives, which are sometimes overlapping, hence difficult to analyze and track their impact. In addition, the incentive regime does not have a monitoring and evaluation framework

[24] *PwC, 2020 report on strengthening non-tax revenue administration in Malawi*

to assess its effectiveness neither are tax expenditure reports produced. For instance, as can be seen from Table 4 below, the tax system provides a number of incentives such as tax holidays, capital allowances, industrial rebate schemes, and a long list of zero rated and exempt products under the VAT Act. The incentives have largely not been able to attract and sustain new investments. Further, the tax incentive regime generally is not inclusive enough and not properly targeted, which has tended to compromise the equity, fairness, efficiency and effectiveness of the tax system. Over time, the gaps in the policy design and incentives have substantially narrowed the tax base, resulting in potential tax revenue losses. The revenue forgone due to different customs incentives is estimated to cost around MK60 billion[25] per year but the actual revenue forgone, considering also other incentives, is much higher.

Table 4: Selected Tax Incentives

Incentive	**Application**
Priority Sectors (Energy Generation and Distribution and Agro-processing)	• Tax holiday for up to 10 years or reduced corporate tax rate of 15% indefinitely. • Duty waivers on building materials and capital equipment. • Duty waivers on consumable products for the sector.
Manufacturing sector	• Pre- business expenses up to 18 months are allowable expenses. • 100% capital and investment allowance on new and unused plant and machinery and industrial buildings. • 40% capital and investment allowance on used plant and machinery and industrial buildings. • Industrial Rebate Scheme. Manufactures under the scheme can import raw materials duty-free and excise free while VAT is payable but claimable. • Tax holiday for up to 10 years for priority industries (Agro-processing).
Export Sector	• 25% international transport allowance for non-traditional exports. • Exports are zero rated for VAT purposes, hence input VAT is claimable. • 30% export allowance for processed non-traditional exports. • 10% export allowance for unprocessed non-traditional exports.
Agriculture, pastoral and farming operations	• 100% expensing of capital expenditures with respect to land preparation, construction of dykes, boreholes, wells, works for prevention of soil erosion, aerial and geophysical surveys. • Growers of tea, coffee, tobacco, sugar, cocoa to a plantation level are recognized as manufacturers, which means they can claim all incentives available to manufacturers. • Annual and initial allowances on staff housing in the agriculture sector is claimable.

[25] *A Comprehensive Analysis and Review of Investment, Production and Export Incentives in Malawi, 2016, p.116 IMF Tax Policy Mission 2016*

Tourism Sector (units for more than 50 rooms)	• Duty waivers on furniture, hotel utensils, minibuses, carpets, off-road scenery vehicles etc.
Mining Sector	• 100% expensing of expenditure in the first year. • Duty waivers on specialized mining equipment. • Exploring mining companies can register for VAT and claim input VAT even though they are not making taxable supplies.
Construction	• Import duty and excise free importation of crane lorries, concrete mixer lorries, mobile drilling derricks, track laying tractors for the construction industry, cess pool and water bowsers
Export Processing Zones (EPZ)	• Duty free importation of raw materials, equipment and machinery for production of export goods.

Source: Taxation Act, VAT Act, Customs and Excise Act, EPZ Act.

2.6.1.4 Insufficient Tax Policy consultation:

There is insufficient involvement of some stakeholders such as Civil Society Organizations (CSOs) and the public in tax policy design and implementation. Therefore, their involvement in tax policy issues would enhance transparency in tax policy formulation and understanding of the impact of the revenue measures by citizenry. Further, a consultative tax policy formulation process would enhance social contract and minimize the potential hostilities with the revenue collecting entities such as the Malawi Revenue Authority (MRA), Road Traffic and Safety Services and the Department of Immigration and Citizenship Services.

Presently, the MRA almost exclusively undertakes taxpayer education programs compromising the acceptance of messages due to clear link between revenue collection and public service delivery. CSOs, if adequately involved, can play a vital role in taxpayer education, raising awareness on tax issues and the mandate of the MRA.

2.6.1.5 Ineffective taxation of informal sector:

Measures to tax the informal sector are not effective as they have not been fully responsive to the unique nature of the sector. As a result, the contribution of the informal sector to the revenue purse remains negligible, thereby placing a heavier burden on the formal sector. Therefore, devising effective measures to tax the informal sector has the potential of improving the equity of the tax system and increasing tax revenue.

2.6.2. LEGAL AND REGULATORY FRAMEWORK

2.6.2.1 Outdated Tax Legislation:

The tax laws are outdated and in need of a comprehensive review to modernize them and cover emerging taxation issues such as e-commerce or the digital economy, international framework for information exchange, dealing with base erosion and profit shifting issues, property tax and taxation of high net worth individuals, pool betting and currency trading.

2.6.2.2 Fragmented Taxation Amendments:

The tax legislation is amended on annual basis, but the main acts are not timely consolidated to incorporate the new changes. As a result, the tax laws are fragmented making it equally difficult for the MRA and the taxpayers to fully comprehend the changes and ensure uniform interpretation and enforcement of the tax laws, which in turn has negatively affected tax compliance.

2.6.2.3 Tax Clauses in Agreements:

Government has entered into Agreements with International Organizations or businesses, which contain provisions that exempt them from paying taxes. The Agreements have resulted into loss of revenue to the Government. In 2016, for example, it was estimated that the Government lost about 0.27% of GDP in tax revenue on imports due to such agreements[26]. The tax clauses will have to be reviewed and amended accordingly with a view to protect the revenue base.

2.6.3 PRINCIPLES OF EFFECTIVE TAX ADMINISTRATION

To provide a context for tax administration reforms, the principles of effective tax administration are set out in Box 2 below. These principles are essential to the development of the package of revenue mobilization measures presented in the Strategy.

Box 2: Principles of effective tax administration

A proper legal framework for tax administration that provides an appropriate balance between the rights of taxpayers and the powers of the tax agency.

Efficient organizational and staffing arrangements, featuring: strong headquarters; function-based organizational design; minimal management layers and appropriate spans of control; streamlined field operations; and organizational alignment to key taxpayer segments (e.g., a large taxpayer office); and sufficient numbers of staff assigned to each level of the organization and each function.

A system of self-assessment directed at creating an environment of taxpayer voluntary compliance (thereby minimizing intrusion of revenue officials in the affairs of voluntary taxpayers, while concentrating enforcement efforts on those representing a higher risk).

Streamlined collection systems and procedures aimed at securing timely revenues without imposing undue compliance costs and inconvenience on the business sector.

Service oriented approaches whereby the tax administration operates as a trusted advisor and educator, ensuring that taxpayers have the information and support they need to meet their obligations voluntarily.

Risk-based audit and other verification programs aimed at detecting taxpayers who present the greatest risks to the tax system, supported by effective dispute resolution.

Extensive use of IT to gather and process taxpayer information, undertake selective checking based on risk analysis, automatically exchange information between government agencies, and provide timely information to support management decision making and tax policy formulation.

Modern human resource management practices that provide incentives for high performance and non-corrupt behavior among tax officers as well as develop staff skills and professionalism.

Effective models for ongoing institutional change, including enhancing strategic planning capabilities, building coalitions with external stakeholders, and developing an internal culture that is receptive to change.

An environment of integrity and good governance with transparency of taxpayer rights and required staff conduct, with mechanisms to assure integrity of systems, procedures and staff practices, and to regularly inform the public of organizational goals, plans, efforts, and outcomes

[26] *IMF Tax Policy Mission 2016*

2.6.4 ISSUES AFFECTING TAX ADMINISTRATION IN MALAWI

2.6.4.1 Manual system of collecting domestic taxes:

In collecting domestic taxes, MRA is currently using systems that are largely manual. This has created challenges in enforcing tax compliance and reconciliation of taxpayer accounts. However, MRA is making efforts to automate its systems to improve taxpayer experience through expansion of options for paying taxes, such as internet banking and electronic payments, and use of mobile money platforms. In addition, MRA has initiated a project known as Msonkho Online (Integrated Tax Administration System) which is being piloted and is expected to roll out by the end of December 2021. The Msonkho online System will facilitate electronic filing and payment of taxes thereby reducing administration costs and the cost of compliance for the taxpayer. The System will also facilitate linkages with third parties to generate data for business intelligence and analysis.

2.6.4.2 Unreliable taxpayer database:

The Tax Administration Diagnostic Tool (TADAT) assessment[27] and other reports found that the taxpayer register is unreliable as it contains incomplete and sometimes outdated information. This is reflective of the manual environment in which the domestic taxes division operates. The lack of a reliable taxpayer database makes it difficult to enforce tax compliance and conduct timeous and effective audits. There are also challenges to capture information from third party sources for the purpose of ascertaining taxable transactions, taxes due as well as detecting fraudulent transactions and tax evasion.

2.6.4.3 Weak Business Analysis and Intelligence:

There is inadequate information sharing within the divisions of the MRA to facilitate audits, enforce compliance and effective taxpayer service provision. Additionally, information sharing with third parties, such as the regulatory bodies and government institutions is largely absent, thus, making it difficult to perform meaningful analysis to inform decisions to address tax fraud, evasion and non-compliance.

Paper files at MRA archive

2.6.4.4 Low taxpayer compliance:

Tax non-compliance is a common phenomenon in Malawi and is observed in registration, filing of tax returns and payment of taxes. In general, there is a low tax compliance culture due to the following factors:

i) Corruption and lack of transparency[28]:
MRA is among some of the Government entities that are perceived to be corrupt and lacking transparency in dealing with taxpayers. This has created animosity and lack of trust between the Authority and the taxpayers. Further, there

[27] *TADAT Assessment Report (2015)*

[28] *Governance and Corruption Survey, ACB 2013 report; Political Economy of the State of Corruption in Malawi, 2019 Report*

are limited feedback mechanisms between the public and other stakeholders on how revenue is used towards provision of public services, hence affecting their willingness to pay taxes.

ii) Delays in processing tax refunds:
It has been observed that tax refunds tend to take more time to be processed than allowed under the law. It takes longer for the tax refund to be affected in practice, since the taxpayer is often subjected to an audit before a refund can be honoured. However, when taxpayers fail to remit taxes on time, penalties and interest accrue, yet the same benefit does not accrue to taxpayers when the Government delays to affect the tax refund in time. This state of affairs, sometimes results in non-compliance and hostility between the taxpayer and the MRA.

iii) Limited awareness of tax policy and legislative framework:
The public and other stakeholders have insufficient knowledge of the policy and legislative framework that govern the administration of taxes in Malawi. Consequently, this has negatively affected taxpayers' responsiveness to honouring their tax obligations.

MRA on the way towards automation

2.6.4.5 Porous Borders facilitating smuggling:
The geographical location of Malawi poses a unique challenge to control smuggling of goods into the country. Malawi shares a long border with Mozambique, Zambia and Tanzania, which is not secured. Consequently, smuggling is common along the borders resulting in revenue loses through unlevied customs taxes. In addition, the proliferation of smuggled goods has negatively affected local industries due to unhealthy competition.

2.6.4.6 Weak Institutional Capacity:
MRA has limited capacity to enforce tax compliance in some areas. Besides the administrative challenges already discussed, MRA, has inadequate skills in emerging fields such as transfer pricing, digital economy, e-commerce, auditing of financial and telecommunication sectors who use advanced IT systems. In addition, MRA has challenges with the integration of its systems, ineffective performance management system, existence of a fragmented corporate compliance strategy, inadequate enforcing mechanisms to tax the booming informal sector, weak monitoring and evaluation systems and limited customer care management systems.

2.6.5. STRUCTURAL ISSUES

2.6.5.1 Large Informal Sector:
According to the Malawi Labour Force Survey of 2013, about 88.7% of the labour force is engaged in the informal sector[29] . Therefore, the sector does provide a huge opportunity to grow the tax base. However, the entities in the sector do present capacity challenges to effectively administer the taxes due to their sheer number and smallness. In addition, a high proportion of people in the sector have low literacy levels which affects their ability to keep records and file tax returns. Most of them are highly mobile and difficult to locate their place of business. Furthermore, the areas where they live and operate their businesses are generally underdeveloped which creates resistance to taxation.

2.6.5.2 Cash Based Economy:
The Malawi economy is generally cash based and about 45% of the adult population are financially included of which only 19% has access to banking services[30]. A large proportion of citizens are using cash for transactions instead of electronic payments such as point of sale devices, internet banking and mobile money applications. The cash-based economy makes it difficult to track payments and generate data for business intelligence analysis, resulting in revenue leakages or losses.

2.7 FACTORS AFFECTING NON-TAX REVENUE (NTR)

Government is aware that the performance of non-tax revenue especially departmental receipts, treasury funds and dividends from SoEs are not commensurate with the country's economic growth. The challenges affecting the collections of departmental receipts and remittance of dividends are highlighted below.

2.7.1 ASSESSMENT OF REVENUE

a) Weak Capacity for Revenue Forecasting and Analysis:
The current forecasting by MDAs and Treasury needs to be strengthened. There is limited application of econometric modelling which has tended to compromise the quality of forecasts.

(b) Non-uniformity in calculations of NTR i.e. development fees:
Such non-uniformity in calculations of NTR creates accounting discrepancies and hence leads to revenue loss.

(c) Weak understanding of the costs of non-tax revenue administration:
There is lack of clear understanding by some MDAs on the costs of providing services and collection of non-tax revenue. This results in sub-optimal pricing of the government services.

2.7.2 ADMINISTRATION AND COLLECTION OF NON-TAX REVENUE

(a) Challenges with payment instruments for revenue collections:
At present, the MDAs are accepting payment by non-bank certified cheques (despite regulation preventing it), leading to instances of dishonoured cheques. In addition, the MDA offices are permitted to collect revenues directly from payers as cash (to deposit at bank at end of day), which is creating potential for leakages and underreporting of revenues.

(b) Limitations in availability of revenue collection centres in remote locations:
There is limited availability of revenue collection points in remote areas, which significantly inconveniences certain payer groups (e.g. village fishermen) and also government officials operating in the field (e.g. forest officers). This results in delayed payments and increased risk of theft due to necessity to physically keep cash collections for a longer duration before the funds can be deposited in banks.

(c) Limitations in funding availability inhibit full agency operations at certain MDAs for NTR collections:
Some MDAs are not funded adequately as a result they are unable to maximize their full revenue collection potential since planning and financing for NTR enforcement activities is jeopardized.

(d) Low automation and integration of revenue administration: Adoption by MDAs of ICT systems is below par and manual revenue collection is prevalent with its inherent

[29] Taxation of the Informal Sector in Malawi, 2019, MoF/ADB, p.17
[30] Determinants of access to banking services, research study (2018), C.Chipeta and E. Kanyumbu.

risks of abuse and rent seeking.

(e) Sub-optimal collection of Treasury Funds:
Under the Treasury Funds (TFs) arrangement, collections and remittances from Treasury Funds have been a challenge due to inadequate facilities and equipment, lack of publicity and visibility for their services and inadequate staff capacity to enforce revenue collection.

2.7.3 DEBTOR MANAGEMENT (INCLUDING DUES RECOVERY)

Limitations in structured mechanisms for penalizing/corrective measures in case of non-compliance by payers on periodic NTR payments results in poor non-tax revenue collections. In addition, lack of automation in the NTR collection process creates information gaps for optimal end-to-end payer management. Non-timely collections and loss of revenues through interest forgone result in unpredictability in government cash flows.

2.7.4 BANKING OF REVENUE

(a) Cash handling and its potential misuse:
Revenue collectors maintain and keep the cash until it becomes substantial for depositing, a situation, which presents obvious risks in terms of accountability.

(b) Utilization of revenue at source by MDAs without authority:
The practice by MDAs of operating multiple revenue collection accounts is a major cause of leakage, including collections being spent at source. Section 32 of the Public Finance Management Act provides that there shall be established an MG1 account, into which shall be paid all money raised or received by or on behalf of the MDAs, except money reasonably excluded by an Act of Parliament. Compliance in this regard by MDAs is currently a serious challenge.

2.7.5 NON-COMPLIANCE TO THE DIVIDENDS AND SURPLUS POLICY

The Government, as the main shareholder in the SoEs, expects to receive dividends or surpluses from its enterprises. However, it has been observed that there is non-compliance to the dividends and surplus policy and that those who do remit surpluses often remit late and not in full. Governance and non-adherence to PFM Act requirements has been a challenge in most SoEs.

2.8 EMERGING REVENUE MOBILIZATION STRATEGIC ISSUES

The preceding situation analysis has revealed a number of strategic issues, which ought to be prioritized to enhance domestic revenue mobilization. The following are the main strategic issues to be addressed over the next five years:

(a) the narrow tax base;
(b) low tax compliance;
(c) poor stakeholder perception of the tax system;
(d) gaps in institutional capacity for revenue mobilization; and
(e) low non-tax revenue collections.

Government builds toll gates

2.9 INTERNATIONAL EXPERIENCES FOR SUCCESSFUL DRM REFORM PROGRAMS

Governments all over the world have desired to enhance domestic resource mobilization to provide quality public services and critical infrastructure for development. Below are highlights of some of the key factors for a successful domestic resource mobilization reform programme.

Box 3: Successful Factors for DRM Reforms

Strong Leadership and political backing: In the countries where tax reforms have been successful, strong political leadership and backing has been at the center of the reforms.

Tax policy reform and tax administration reform: In many countries, tax policy reform and tax administration reform have complemented each other. Countries, which have implemented both tax and administration reforms concurrently tend to experience revenue gains sustainably.

Broadening the tax base is effective and efficient: Base broadening, whether by reducing exemptions and exonerations, or by improved audit and enforcement, has been successful in raising revenues without imposing a greater tax burden on business and society.

Transparent tax consultations and discussions: Key stakeholders are able to buy into a tax reform that is transparent and where they provide sustained inputs.

Focused attention on building the taxpayer register and identifying non-filers: All countries that have made determined efforts to improve their tax rolls have benefitted in terms of improved tax compliance.

Simplification of tax procedures can deliver important gains in efficiency: Clearer tax procedures such as combining income tax and VAT payments to the same office, for example, can make paying taxes easier and less costly.

Sustained communications program throughout the reform period: The reform program should be communicated through all available media educating the public on the need for tax reforms.

Adopt an incremental or phased approach in tax reform: Introduce more attractive measures at the beginning of the reform program to the taxpaying public to build support for tax reforms and gradually implement more difficult tax measures.

Fighting corruption is an important strategy for tax reform: Reducing corruption helps increase tax revenue for Government and also enriches the taxpayer experience and strengthens social contract between the Government and the taxpayers

CHAPTER THREE

VISION, GOALS AND OBJECTIVES, AND GUIDING PRINCIPLES OF THE STRATEGY

3.0 VISION

Optimal domestic revenue for improved public service delivery and quality of life for all Malawians.

3.1 GOAL AND STRATEGIC OBJECTIVES

The overall Goal of the Strategy is to increase the revenue to GDP ratio by 5 percentage points by 2025/26 fiscal year.

The Strategy will aim to achieve the following strategic objectives over the next five years:

(a) To broaden the tax base;
(b) To strengthen tax compliance;
(c) To improve the perception of tax system;
(d) To strengthen institutional capacity; and
(e) To improve non-tax revenue collection.

3.2 GUIDING PRINCIPLES

(a) The tax policy will seek to promote horizontal and vertical equity in taxation matters.
(b) Government will seek to ensure that tax policies facilitate efficiency and economic growth.
(c) Government will endeavor to structure its tax laws in such a manner that promotes tax compliance.
(d) Government will seek to have tax laws that are predictable, stable and reliable to enable it to determine the level and timing of revenues.
(e) Government will endeavor to keep to the minimum the cost of revenue collection.
(f) Government, through MRA, will seek to protect taxpayer information from all forms of unintended and improper disclosure.
(g) Government, through MRA and other partners, will seek to educate tax payers on taxes that exist and on how and when it is imposed upon them and others.
(h) Government will ensure automation of non-tax revenue collection and strengthening of its monitoring systems.

CHAPTER FOUR

PRIORITIES FOR STRENGTHENING DOMESTIC REVENUES

4.0 OVERVIEW

In the medium term, the Government will, through this Strategy, aim at improving the overall efficiency and effectiveness of Malawi's revenue system, by among other things, expanding the tax base, enhancing tax compliance, improving the perception of the tax system, strengthening institutional capacity for revenue mobilization as well as improving non-tax revenues. The intention is to promote inclusive growth, enhancing accountability, investing in systems to reduce the cost of compliance and promoting growth related tax policies in line with the national development priorities. The Strategy seeks to ensure that revenue policies, legal framework and practices are in line with regional and international good practices. The priorities are set out in the form of strategic objectives, strategies and key activities. The specific short- and medium-term tax and non-tax reform measures are attached as Annex 2. The Strategy is supported by an Implementation Plan (see Annex 3) and a Monitoring and Evaluation Plan (see Annex 4).

4.1 STRATEGIC OBJECTIVE # 1: TO BROADEN THE TAX BASE

The tax base in Malawi is currently narrow constraining the Government efforts to achieve its development agenda. Over the next five years, Government is committed to implement broad based tax reforms to boost revenue mobilization efforts.

In order to achieve the strategic objective, Government will implement the following strategies:

(a) Strengthen taxpayer registration;
(b) Strengthen business intelligence and analysis;
(c) Review tax policy and legislation;
(d) Strengthen taxation of the informal sector; and
(e) Strengthen own source revenue generation capacity of Local Authorities.

The strategies with their associated activities are set out below:

Strategies	Key Activities
1. Strengthen taxpayer registration	1.1. Clean and update tax register. 1.2. Use of third-party information, such as regulatory bodies and MDAs, with regard to business transactions or withholding tax (WHT) data, to detect unregistered taxpayers. 1.3. Work with MDAs, such as the Ministry of Trade and Industry and other business support organizations (e.g. Small and Medium Enterprises Institute), on formalization of businesses.
2. Improve business intelligence and analysis	2.1. Introduce Statistics and Business Intelligence Unit at MRA. 2.2. Identify and analyse high-risk areas with reference to persons (natural and legal), commodities and transactions. 2.3. Strengthen analytical capabilities. 2.4. Integrate central and local government IFMIS systems. 2.5. Initiate regular exchange of information among Government institutions and other regulatory bodies. 2.6. Improve data warehouse to facilitate data exchange. 2.7. Improve data quality and availability.
3. Review tax policy and legislation	3.1. Rationalize income tax exemptions, incentives and eliminate discretion (e.g. by introducing sunset clauses, repealing unproductive tax holidays, reviewing investment allowances). 3.2. Review the PIT brackets to align them with inflation and ensure progressivity of the tax system. 3.3. Implement the principle of worldwide taxation of residents (tax foreign income of individuals/ entities). 3.4. Develop and implement policy for negotiation of tax treaties on avoidance of double taxation and prevention fiscal evasion of taxes on income. 3.5. Strengthen international tax information exchange capability. 3.6. Renegotiate old or disadvantageous tax treaties. 3.7. Counteract international tax avoidance and evasion in line with BEPS action plans. 3.8. Redesign and broaden VAT base - reduce zero rated and exempt list for VAT. 3.9. Review the list of excisable products and redesign excise taxation to align it with good international practice. 3.10. Rationalize and strengthen the withholding tax regime. 3.11. Develop and implement a Capital Gains Tax Act that will govern taxation of capital gains in general. 3.12. Develop comprehensive property tax legislation.
4. Strengthen taxation of informal sector	4.1. Introduce indicator-based Presumptive Tax Regime per sector and implement "block management" initiatives. 4.2. Collaborate with Ministry of Trade and Local Government, the Department of Registrar General to formalize the SMEs for Tax Purposes. 4.3. Encourage formation of SME's cooperatives for tax purposes. 4.4. Operationalize withholding tax on imports. 4.5. Implement tax clearance certificate.
5. Strengthen own-source revenue generation capacity of Local Authorities	5.1. Institute property legslation tax reforms. 5.2. Develop and update database of property owners. 5.3. Integrate stand-alone systems at council level and modernize tax and fee collection methods. 5.4. Strengthen enforcement mechanisms of local taxes and fees, incl. through "block management" initiatives. 5.5. Diversify own-source revenue potential through partnership agreements.

4.2 STRATEGIC OBJECTIVE # 2: TO STRENGTHEN TAX COMPLIANCE

Tax compliance is currently low. Improving tax compliance will entail carrying out a comprehensive package of reforms that will include raising public awareness on the benefits of tax compliance, simplifying tax laws and rules including their modernization, and establishing platforms that facilitate convenience of payment. In addition, it will entail improving the perception of the tax system by demonstrating the linkage between service delivery and taxes paid, the fairness and equitable nature of the tax system, as well as improving accountability to taxpayers by providing periodic reports on the Budget including tax expenditures.

In order to achieve the strategic objective, Government will implement the following strategies:

(a) Build tax compliance culture;
(b) Modernize and simplify tax laws and rules;
(c) Strengthen revenue enforcement;
(d) Improve taxpayer services and experience; and
(e) Strengthen audit capacity.

The strategies with their associated activities are set out below:

Strategies	Key Activities
1. Build tax compliance culture	1.1. Develop and implement taxpayer education strategy. 1.2. Improve taxpayers' outreach and education, including introducing taxpayer's day. 1.3. Organize targeted tax campaigns including 'Know Your Taxes Week'. 1.4. Establish a call centre at MRA. 1.5. Introduce a minimum voluntary registration threshold for VAT or other criteria for small businesses registration. 1.6. Improve VAT refund system. 1.7. Introduce Award system for compliant taxpayers. 1.8. Improve the appeals process. 1.9. Develop tax compliance strategy. 1.10 Develop and implement a tax compliance strategy by taxpayer segmentation.
2. Modernize and simplify the tax laws and rules	2.1. Revise tax laws, rules and procedures reflecting good practice 2.2. Design and implement a simplified tax return for small taxpayers to improve compliance. 2.3. Develop and distribute brochures of the tax laws, rules and procedures for ease of reference including translation into the main local languages. 2.4. Publish tax rulings. 2.5. Abolish excises on non-standard goods.
3. Strengthen revenue enforcement	3.1. Enforce returns submissions and tax payments. 3.2. Strengthen control on the use of EFDs; 3.3. Timely detect non-filers. 3.4. Capture 'inactive' taxpayers. 3.5. Improve return filing process. 3.6. Develop and implement separate compliance plans for large/medium/small taxpayers. 3.7. Improve detection of non-compliant professionals. 3.8. Strengthen exchange of information and data interoperability. 3.9. Conduct regular audits. 3.10. Establish procedures for monitoring the implementation of incentives regimes. 3.11. Develop tax arrears manual.

	3.12. Develop and implement a tax debt recovery strategy. 3.13. Collaborate with other Government agencies such as Malawi Police Service and Immigration to deal with smuggling of goods.
4. Improve taxpayer services and experience	4.1. Implement complaints drop box in each taxpayer service office 4.2. Expand taxpayer service centres. 4.3. Establish platforms or mobile applications that facilitate convenience of payment. 4.4. Strengthen online system platforms (ITAS, ASYCUDA World). 4.5. Establish mobile tax compliance office(s). 4.6. Fast track the establishment of One Stop Border Post and implement an electronic single window at each border crossing point. 4.7. Implement e-filing for key tax types. 4.8. Implement integrated taxpayer account.
5. Strengthen audit capacity	5.1. Develop and implement audit manual on specific industries (banking, insurance, telecommunications, mining, construction). 5.2. Implement a green/red channel VAT refund system with post-refund audits on green channel firms. 5.3. Conduct extensive and rigorous post-audit review to ensure high quality output. 5.4. Implement audit capacity development initiatives.

4.3 STRATEGIC OBJECTIVE # 3: TO IMPROVE THE PERCEPTION OF TAX SYSTEM

The perception of various stakeholders of the tax system is generally unfavourable for a host of reasons that relate to the fairness of the system, as well as the manner tax measures are introduced and administered. In this regard, Government will introduce comprehensive measures designed to address negative perceptions of the tax system.

In order to achieve the objective of improving the perception of the tax system, Government will implement the following strategies:

(a) Improve tax disputes resolution mechanism; and
(b) Improve transparency.

The strategies with their associated activities are set out below:

Strategies	**Key Activities**
1. Improve tax disputes resolution mechanism	1.1. Develop tax appeals manual. 1.2. Develop tax appeals guide and upload it on the website. 1.3. Expedite administrative dispute resolution and clear the backlog of cases. 1.4. Collaborate with the Ministry of Justice and Constitutional Affairs to facilitate publication of the Revenue Appeals Tribunal Regulations. 1.5. Expedite the establishment of a Revenue Appeals Tribunal.
2. Improve transparency	2.1. Strengthen outreach and communication on tax issues including improving on-line content. 2.2. Collect data for comprehensive tax expenditure analysis. 2.3. Publish tax expenditure reports as part of the national budget process. 2.4. Establish a tax policy forum.

4.4 STRATEGIC OBJECTIVE # 4: TO STRENGTHEN INSTITUTIONAL CAPACITY

Government is aware of the need to continuously build capacity in order to boost revenue mobilization efforts to be undertaken in the medium term. To this end, Government will implement the following strategies to build institutional capacity to sustain the reforms:

(a) Develop staff skills and professionalism;
(b) Improve staff conduct; and
(c) Develop analytical skills, micro-simulation capacity, and other tools for tax policy analysis.

The strategies with their associated activities are set out below:

Strategies	Key Activities
1. Develop staff skills and professionalism	1.1. Develop and implement a Human Resource Strategic Plan. 1.2. Recruit and train more young and talented staff. 1.3. Update and enforce Performance Reporting and Evaluation System. 1.4. Implement knowledge management platform. 1.5. Institutionalize staff exchange programs between the MoF and MRA as well as attachments to regional bodies, tax administrations, Ministries of Finance and other international organizations. 1.6. Embrace change management. 1.7. Strengthen the tax training school in terms of infrastructure improvement and human and knowledge capacity of resource persons/lecturers. 1.8. Regular review of the curriculum of the tax training school to align with emerging taxation issues and conducting refresher courses in specific challenging tax matters.
2. Improve staff conduct	2.1. Strictly enforce the code of conduct of revenue officers. 2.2. Adopt zero tolerance towards unethical or corrupt practices and implement anti- corruption measures. 2.3. Sanction staff involved in malpractice. 2.4. Update and publish anti-corruption policies and whistle blower arrangements. 2.5. Adopt customer-focussed approach. 2.6. Motivate and reward performance.
3. Develop capacity in revenue policy analysis.	3.1. Procure appropriate software for revenue policy analysis. 3.2. Develop and implement tools for tax and non-tax policy analysis. 3.3. Train analysts on the application of the tax policy analysis tools and revenue forecasting. 3.4. Develop and implement a data warehouse.

4.5 STRATEGIC OBJECTIVE # 5: TO IMPROVE NON-TAX REVENUE COLLECTION

Non-tax revenue offers significant scope for growth to complement tax revenues. Currently, non-tax revenue contributes about 1.6% of GDP. The systemic challenges that compromise its potential, include less than optimal policy environment and inadequate institutional arrangements, as well as systematic management and administrative challenges. In recognition of these challenges, Government has embarked on a number of non-tax revenue reforms. The reforms entail the automation of the processes, the development of a policy for non-tax revenues and strengthening of systems and procedures pertaining to its management. This Strategy will ensure appropriate oversight by the Ministry of Finance is provided for the smooth implementation of the various non-tax revenue reforms.

In order to achieve the objective of improving non-tax revenue over the strategy period the Government will implement the following strategies:

(a) Institute governance arrangements to oversee implementation of non- tax revenue policy;
(b) Improve non-tax legislation;
(c) Implement Dividend and Surplus Policy and monitor compliance;
(d) Improve the pricing, quality and delivery of public services;
(e) Require MDAs in collaboration with the Ministry of Finance to establish collection targets in their strategic plans;
(f) Promote use of ICT in the collection and management of non-tax revenue;
(g) Undertake cost reduction initiatives to augment revenue;
(h) Improve remittance, monitoring and reporting requirements;
(i) Improve capacity for assessment of revenue;
(j) Improve debtor management administration (including dues recovery); and
(k) Improve banking arrangements of revenue.

The strategies with their associated activities are set out below:

Strategies	Key Activities
1. Institute governance arrangements to oversee implementation of non-tax revenue policy	1.1. Establish Coordinating Committee on Non-Tax Revenue of Treasury and relevant MDAs. 1.2. Develop and implement non-tax revenue policy. 1.3. Hold quarterly meetings to review progress on the implementation of the non-tax revenue policy. 1.4. Provide quarterly progress reports to the Secretary to the Treasury and the responsible Minister on implementation of non-tax revenue reform measures.
2. Improve non-tax legislation	2.1. Review the non-tax legislation of the MDAs.
3. Implement Dividend and Surplus Policy	3.1. Strictly monitor the adherence to the Dividend and Surplus Policy in collaboration with the Public Finance Management Systems Division (PFMSD).
4. Improve the pricing, quality and delivery of public services	4.1. Regularly review the user fees and charges to align them with cost of delivery of the services and adjust with inflation. 4.2. Develop and implement Service Charters in the public service.
5. Require MDAs to establish collection targets in their strategic plans	5.1. Develop in consultation with the MDAs, clear and implementable operational strategies and key performance indicators to boost collections.
6. Promote use of ICT in the collection and management of non-tax revenue	6.1. MDAs will be required to embrace ICT, as part of their business processes in the collection systems.
7. Undertake cost reduction initiatives to augment revenue	7.1. Review the cost structure of services by Government. 7.2. Institute business process re-engineering in MDAs.
8. Improve remittance, monitoring and reporting requirements	8.1. Implement strict monitoring and evaluation of revenue collection systems with MDAs. 8.2. Introduce incentives such as Appropriation in Aid to improve revenue collection.

9. Improve capacity for assessment of revenue	9.1. Build capacity for revenue forecasting and analysis. 9.2. Standardize calculations of NTR (i.e. development fees). 9.3. Strengthen understanding of revenue administration costs.
10. Improve debtor management/ administration (including dues recovery)	10.1. Standardize modes (payment instruments) for revenue collections. 10.2. Increase availability of revenue collection centres in remote locations. 10.3. Operationally support with adequate funds for full agency operations at certain MDAs for NTR collections. 10.4. Automate and integrate revenueadministration. 10.5. Optimize collections of Treasury Funds.
11. Improve banking arrangements of revenue	11.1. Institute controls for cash management. 11.2. Provide clear guidelines for utilization of revenue at source by MDA without authority and monitor the same. 11.3. Review and update MoUs with the Commercial Banks. 11.4. Ensure strict penalties for the Banks that withhold revenues for unauthorized period(s). 11.5. Conduct regular reconciliation of remittances between the Commercial Banks and the Reserve Bank of Malawi.
12. Strengthen Anti-corruption measures in MDAs	12.1. Collaborate with the Anti-Corruption Bureau (ACB) on corruption prevention for MDAs.

CHAPTER FIVE

KEY SUCCESS FACTORS

KEY SUCCESS FACTORS

The successful implementation of the DRMS rests on a number of factors, which include the following:

5.0 POLITICAL SUPPORT

(a) The Ministry of Finance will provide revenue policy guidance.

(b) The Minister of Finance will champion reforms related to domestic revenue mobilization.

(c) MoF, MRA and MDAs will work jointly to develop a positive image of domestic revenue reform initiatives. In this regard, Government and MRA will collaborate with Civil Society Organizations (CSOs) and other key stakeholders to sensitize various stakeholders on the reforms it is implementing.

(d) Key policy and legislative documents on Public Finance Management in Malawi will serve as a reference for key domestic revenue policy measures to ensure continuity in decision-making.

(e) Reform initiatives will be implemented in an incremental and orderly fashion to build consensus and ensuring minimal disruption to business activity.

(f) Key reform initiatives will at all times take into account local conditions and capacity in terms of design and implementation.

5.1 TAXPAYERS' SUPPORT

Malawian taxpayers' support is one of the fundamental success factors for the DRMS implementation. Low tax compliance and taxpayers' resistance to pay their fair share of taxes may undermine the strategic intent and the Strategy implementation. The strategy is therefore built on the premises that every economic sacrifice made by the Malawian population must give economic benefits in return by building and executing the so-called "social contract". When paying taxes, the respective taxpayer may not immediately get a direct return for the tax paid (the sacrifice made) but the benefits will be provided through public services (healthcare, education, social spending), modern facilities and infrastructure built by the GoM and funded by revenue collected. Prudent, transparent and corruption free use of public funds as well as accountability in public service delivery and management of public resources, and improved adherence to the rule of law is the GoM's commitment under the Strategy.

5.2. EXTERNAL SUPPORT

Malawi still requires external support in the following areas:

(a) Successful implementation of a range of DRMS reforms. The Government will therefore continue collaborating with Development Partners for technical and financial assistance to ensure successful implementation of the DRMS.

(b) Capacity building at policy and implementation level to support innovative and best approaches to DRMS.

(c) External support may also be sought from global and regional level multilateral organizations, such as COMESA, SADC, ATAF, ATI, AU and AfCFTA to support modernization efforts and share lessons on good practices.

CHAPTER SIX

MAJOR RISKS TO DOMESTIC REVENUE MOBILIZATION STRATEGY IMPLEMENTATION

MAJOR RISKS TO DOMESTIC REVENUE MOBILIZATION STRATEGY IMPLEMENTATION

Major risks to the implementation of the DRMS	Risk Mitigation Strategies
External Economic Shocks	• Implementing sound economic management and building resilience.
Climate Change and natural disasters affecting the economy	• Supporting Natural Resource Management strategies. • Disaster funding.
Covid-19 pandemic	• Implementing Covid-19 preventive measures. • Investments in the Health Sector.
Continuity of political buy-in for reform	• Adopt long term planning.
Challenges with drafting amendments to tax legislation	• Ensure proactive collaboration with MoJCA and legislative bodies
IT systems disruptions	• Use multiple internet service providers
Cash Based Economy	• Adopt electronic payment systems and enhance financial inclusion drive.
Insufficient funding for implementation	• Ensure budgetary allocations for DRMS implementation • Engage DPs to support DRMS initiatives through technical assistance and funding
Weak DRMS Monitoring and Evaluation	• Establish Monitoring and Evaluation Committee to track performance. • Ensure collaboration between monitoring institutions • Implement system checks and ad-hoc audits • Undertake rolling annual reviews and report against progress.

CHAPTER SEVEN

THE DOMESTIC REVENUE MOBILIZATION STRATEGY ROADMAP

INTRODUCTION

The ensuing Road Map is intended to guide the phased systematic implementation of the DRMS. It provides for a great deal of flexibility and latitude that allow for customised interventions over the medium term. The phased nature of the Road Map allows manageable bites' to be taken at every stage of implementing the Strategy, ensuring that each stage is treated with the attention it deserves. The Road Map also recognises the iterative nature of revenue policy formulation and implementation and therefore allows for simultaneous planning and implementation of activities. The roadmap is not intended to guide each DRMS related decision, but to offer broad guidance on interventions and measures that are required to successfully formulate and implement DRMS in Malawi.

7.1 OBJECTIVES

The main objectives of the DRMS Road Map are as follows:

(a) To offer guidance on the key activities required to implement a DRMS;
(b) To help facilitate identification of the progress being made in the formulation and implementation of DRMS measures;
(c) To facilitate the sequencing or logical implementation of DRMS; and
(d) To help various stakeholders engaged in the implementation of DRMS measures to anticipate and be prepared to deal with emerging challenges and issues.

7.2 KEY STEPS IN THEIMPLEMENTATION OF THE DRMS

The key steps in the implementation of the DRMS are as follows:

STEP 1: COMMUNICATION STRATEGY/ PLAN FOR DRMS

This step allows for awareness raising of key stakeholders expected to be involved in the implementation of the DRMS. It will entail promoting the virtues of the DRMS, as well as being a tool for galvanising, mobilising, and eliciting the support and participation of all key stakeholders including the public. This is expected to continue for the life of the Strategy.

The step would entail sensitization on the DRMS Policy and Implementation Framework and Agenda, highlighting the benefits of DRMS, its key features and roles and responsibilities of various stakeholders in the implementation process. The stakeholders targeted are as follows:

(a) Principal Secretaries' Committee on the Public Service Management, Public Sector Reforms and the Economy;
(b) Relevant Parliamentary Committees;
(c) Relevant Ministries, Departments and Agencies;
(d) Local Authorities;
(e) Tax Practitioners;
(f) Institute of Chartered Accountants in Malawi;
(g) Law Society of Malawi;
(h) Economics Association of Malawi;
(i) Private Sector or Representative Bodies;
(j) General Public;
(k) Academia and Training Institutions;
(l) Media;
(m) Regulatory Bodies;
(n) Development Partners.

STEP 2: IMPLEMENTATION

This step allows for the systematic implementation of the Strategy. The key steps for the implementation are as follows:

(a) Technical Level Meetings
Following the launch, an inaugural meeting at technical level will be held to coordinate and collaborate on the implementation of first year DRMS initiatives.

(b) Review and Reporting
This stage will allow for review and reporting of DRMS measures.

(c) Alignment and Harmonization
This stage will entail theharmonization and alignment of reporting and review processes in anumber of areas as well as budgeting for DRMS measures.

STEP 3: MONITORING MEETINGS AND REPORTING ON IMPLEMENTATION OF DRMS

This step will entail doing the following:

(a) Collect and analyse data on the various monitoring indicators;
(b) Prepare quarterly reports on the implementation of DRMS;
(c) Facilitate annual reviews and report on the same;
(d) Facilitate mid-term review of the DRMS; and
(e) Facilitate an end-term review of the DRMS.

The Road Map also recognises the iterative nature of revenue policy formulation and implementation and therefore allows for simultaneous planning and implementation of activities.

Government builds infrastructure

CHAPTER EIGHT

THE DRMS MONITORING AND EVALUATION FRAMEWORK

8.0 INTRODUCTION

Monitoring and Evaluation (M&E) are necessary to ensure a successful implementation of the DRMS. Therefore, an M&E Plan will form the basis for a systematic measurement of progress of achievement of the strategic objectives of the DRMS. The M&E Plan will provide an overview of the envisaged activities and facilitate collection of data that can assist in undertaking the following:

(a) inform decisions on DRMS activities;
(b) track progress of implementation of various DRMS activities;
(c) assess strategies, systems, and processes to identify and correct deficiencies/weaknesses in implementation of DRMS; and
(d) promote collaboration among implementing agencies by sharing implementation reports.

8.1 THE STRUCTURE AND TEAM

The Revenue Policy Division, working in close collaboration with the Accountant General has the responsibility to co-ordinate and monitor the implementation of the DRMS through a Monitoring Committee (Moni-Com) comprising seventeen (17) representatives, as follows:

The Moni-Com, which will be chaired by the MoF, should meet at least twice a year will among others, have the following responsibilities:

(a) conduct monitoring and evaluation activities;
(b) advise implementing agencies on implementation strategies and measures;
(c) hold periodic review meetings to provide opportunities for sharing of experiences;
(d) generate reports;
(e) develop data collection instruments and tools;
(f) provide technical support to implementing agencies where warranted, and
(g) generally facilitate the implementation of the DRMS.

8.2 SPECIFIC ACTIVITIES

8.2.1. Data Collection and Tools

During implementation, RPD, through the Moni-Com, will continuously track progress made and routinely supervise the collection of quantitative and qualitative data to verify progress towards achieving the agreed targets.

Table 5: Moni-Com Members

No	Institution	Representatives
1	MoF (RPD, AG, Budget Division, Economic Affairs, PFMSD)	5
2	MDAs	8
3	Malawi Revenue Authority (MRA)	4
		17

8.2.2. Data Quality Review
RPD, through the Moni-Com, will review non-confidential data gathered to ensure quality, accuracy, reliability, timeliness and objectivity of the data received.

8.2.3 Progress Reports
Annual Progress Reports will be produced to provide a systematic and structured review of implementation of the actions. Periodic reports will also be produced to address specific issues that may arise. The reports so generated will form part of reports on the state of DRMS in Malawi that the RPD issues annually.

8.2.4 Stakeholder Participation
Participatory sessions will be organized annually for civil society, academia, professional bodies, the private sector, and government and development partners and other key stakeholders to actively participate in the process to review the progress of implementation of DRMS. RPD should adopt a systematic dissemination approach to ensure that stakeholders, especially those in the regions and districts, fully participate in the M&E process and ensure relevant feedback is obtained and shared among stakeholders.

8.3 MONITORING AND EVALUATION

The M&E plans and tools will be used to generate information and data that will allow the measurement of changes that may occur because of the implementation of the DRMS. To guarantee efficiency and effectiveness, baselines will be drawn according to the data collected and evaluations conducted. Evaluation efforts will include commissioning and supervision of a number of evaluation efforts: mid-term (i.e. at end of year 2), ad hoc evaluations, special thematic studies and final evaluations (i.e. at end of year 5) to inform the formulation of the next DRMS.

Government builds infrastructure

CHAPTER NINE

IMPLEMENTATION ARRANGEMENTS

IMPLEMENTATION ARRANGEMENTS

9.0 GOVERNANCE AND MANAGEMENT STRUCTURES FOR DRMS

The implementation of the DRMS will involve a number of stakeholders at the national and local levels and will therefore require clear mechanisms for coordination and governance to be implemented successfully. This section outlines governance and coordination arrangements that will guide implementation and facilitate monitoring of progress of the DRMS, beginning with high-level mechanisms. The coordination and management arrangements for DRMS are set out below.

9.1 MINISTRY OF FINANCE

The MoF will provide policy guidance and direction in the implementation of the DRMS. In this connection, the RPD will serve as the Secretariat. All relevant Divisions within MoF will collaborate with RPD to plan and implement various revenue mobilization measures.

In pursuit of its mandate in connection with DRMS, MoF will perform the following duties:

- (a) Provide policy guidance and direction on DRMS measures;
- (b) Monitor implementation of DRMS measures;
- (c) Facilitate the conduct of research and studies on emerging taxation issues to support policy formulation and implementation; and
- (d) Provide periodic reports on progress in implementing the DRMS.

9.2 MALAWI REVENUE AUTHORITY

MRA will be responsible for implementing tax administrative related measures on behalf of Government. It will also take on the implementation of levies as provided under various statutes.

In addition to its functions stipulated under the MRA Act, the MRA is expected to perform the following duties in connection with DRMS:

- (a) Administer and enforce laws or specified provisions of the tax related legislation;
- (b) Promote voluntary tax compliance to the highest degree possible;
- (c) Continuously work to improve the standards of service delivery to taxpayers in order to improve efficiency and effectiveness, reduce tax compliance costs and maximize collection;
- (d) Operate rigorously to counteract tax fraud and any other forms of fiscal evasion;
- (e) Advise the Minister of Finance on matters relating to the administration and collection of revenue;
- (f) Perform such other functions in relation to revenue mobilization/ collection as directed by the Minister of Finance; and
- (g) Participate in implementing DRMS and collaborate with the Revenue Policy Division in the periodic reviews.

9.3 MINISTRIES, DEPARTMENTS AND AGENCIES

Ministries, Departments and Government Agencies, including SoEs that collect non-tax revenues in the form of departmental receipts, levies, dividends and other sources are expected to coordinate with MoF in the determination of rates, collection methods, and remittances to Treasury, including management of the collected revenues. MoF will also collaborate with the MDAs for inputs required for policy formulation and implementation.

9.4 LOCAL AUTHORITIES

Local Authorities are mandated to collect taxes and other fees including property taxes in return for service delivery.

They will therefore collaborate with MoF on measures required to raise revenues. In relation to the DRMS, the Local Authorities in consultation with the Revenue Policy Division will perform the following duties:

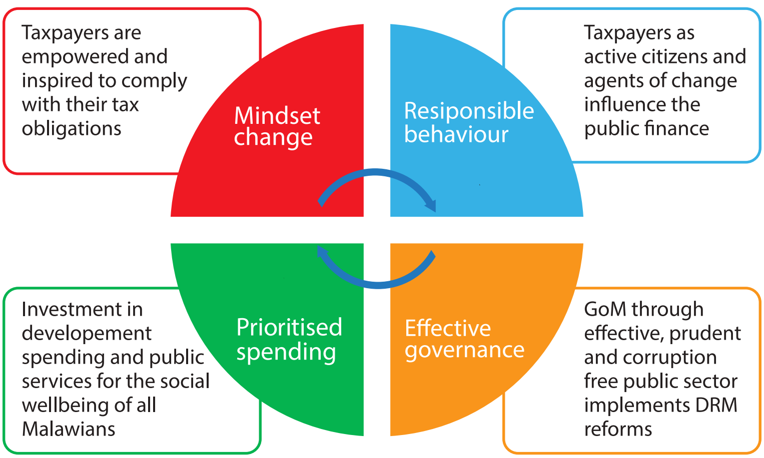
(a) Develop and review revenue generation by-laws;
(b) Develop and implement strategies and systems for collection of revenues in local authorities;
(c) Regularly monitor implementation of revenue collection measures;
(d) Collaborate with RPD on any capacity building initiatives to enhance revenue collection and analytical skills;
(e) Engage and consult local authority residents on new revenue measures;
(f) Ensure that the service delivery is linked to the revenue collections to secure social capital with the communities.

9.5 THEORY OF CHANGE

The theory of change for DRMS recognizes that for the Strategy to be successful and to achieve both the medium-term vision and objectives, there is need to not only implement interventions but also to promote a transformative mindset and develop a positive nation-wide attitude towards tax compliance and responsible social spending. As envisaged in the Malawi 2063 and MIP 1 the following enablers: Mindset Change, Effective Governance Systems and Institutions, Enhanced Public Sector Performance, Private Sector Dynamism, Human Capital Development, Economic Infrastructure and Environmental Sustainability, are the building blocks towards the realization of any substantial national goal including towards the DRMS aspirations.

Figure 9 below presents the theory of change for the successful implementation of the DRMS themed "Building of tax compliance culture for national development".

Figure 9: Theory of Change for DRMS Implementation



Assumptions

The successful implementation of DRMS will depend on a number of assumptions over the period of the strategy:

- The identified strategic objectives and interventions will be implemented and monitored;
- All stakeholders will join their efforts to ensure mobilization of sufficient resources;
- There will be peace, political and macroeconomic stability;
- Adequate measures will be taken to promote the accelerated recovery from COVID-19 pandemic and the economy will return to stable growth;
- Prudent management of public funds will become a norm;
- Unethical or corrupt practices will not be tolerated;
- Investment in ICT infrastructure and digital access to services will be promoted and implemented nationwide;
- Timely and accurate data will be fed into the M&E system.

Government builds roads and bridges

ANNEX 1: SWOT ANALYSIS FOR DOMESTIC REVENUE MOBILIZATION STRATEGY

STRENGTHS

- Peaceful country
- Macroeconomic stability
- Leadership committed to reform agenda and mindset change
- Continuous reform and modernization
- Competent staff at technical level
- Access to training (in-house and external)
- Segmentation of taxpayers (large/medium/ small)
- Semi-autonomous revenue authority
- MRA has offices in strategic locations
- MRA has predictable funding
- Stakeholders willing to contribute to policy development

WEAKNESSES

- Insufficient coordination between investment promotion objectives and revenue mobilization needs
- Excessive tax incentives generating revenue losses
- Gaps in tax policy design
- Policy instability
- Outdated legislation and scattered amendments
- Porous borders (smuggling)
- Predominantly cash-based economy
- Huge informal sector
- Non-compliance and low taxpaying culture
- High cost of tax compliance
- Inadequate information sharing
- Lack of transparency on tax expenditure (revenue forgone)
- Manual procedures in revenue generating agencies (MRA, MDAs)
- Inadequate budget allocations to MDAs
- Skills gap in revenue generating agencies
- Staff ethics and integrity
- Inadequate performance measurement systems
- Negative corporate image of revenue generating agencies

OPPORTUNITIES

- Potential for economic growth
- Access to information and communication technology (automation and access to third party data)
- Potential of social response of tax reform (tax compliance = more revenue = better social spending)
- Increased cooperation among authorities
- Access to technical assistance funded by development partners
- Youthful population (future potential)
- Taxation of high-net-worth individuals
- Whistler-blower programme
- Embrace better recruitment policy

THREATS

- External economic shocks
- Climate change and natural disasters affecting the economy
- Covid-19 pandemic
- Continuity of political buy-in for reform (willingness to implement strategies)
- IT system disruptions
- Insufficient funding for implementation
- Unfavorable public perception (service delivery, corruption)
- Poor enforcement of existing laws

ANNEX 2: SUMMARY OF TAX AND NON-TAX SHORT- AND MEDIUM-TERM REVENUE MEASURES

Overall Goal: To improve domestic revenue collection to finance Malawi's development agenda. The Government aims to increase revenue to GDP ratio by 5 percentage points by 2025/26 fiscal year.

Strategic Objectives:

(a) To broaden the tax base.
(b) To improve tax compliance.
(c) To improve the perception of tax system.
(d) To strengthen institutional capacity.
(e) To improve non-tax revenue.

SHORT TERM TAX MEASURES (UP TO 2 YEARS)

Tax Policy Reforms	Tax Administration Reforms	Legal Reforms
Income	**Strengthen taxpayer registration and enforcement**	**Modernize And Simplify Tax Legislation**
Introduce a presumptive tax on commercial passenger vehicles at a flat fee per seat. Redesign the Turnover Tax for those below the VAT threshold and adjust the rate over time. Increase the WHT rates for services below 20% to a range of 6% -15%. Rationalize income tax exemptions, allowances and a discretion.	Clean up taxpayer registration database. Expand taxpayer base by systematic use of third-party information to detect unregistered taxpayers. Work with MDAs and other business support organizations on formalization of businesses. Develop strategy for registration of informal operators. Clarify that a priority non-profit or public exempt entity is taxable on any commercial or business activities that it engages in; taxable on their investment income; required to pay Fringe Benefits Tax; and required to withhold PAYE. Roll out use of EFDs to all taxpayers with certain threshold.	Fast track the establishment of Revenue Appeals Tribunal. Review Taxation Act, VAT Act, Customs and Excise Act. Development of the relevant subsidiary legislation. programme **Improve PFM Legislation** Finalize and gazette the PFM Act **Improve Non-Tax Legislation** Strengthen regulatory framework of non-taxes (broaden base, remove distortions, timely gazette revised user fees and charges). Implement enabling legislation for use of various payment modes and legal validity of e-documents.

Value Added Tax
Redesign VAT tax exemptions on foodstuffs.
Redesign VAT tax exemptions on other goods (exempt mosquito nets, farming inputs, medicines, medical equipment, syringes, sterilizers, condoms, schoolbooks, other books, military equipment, humanitarian aid, goods exempt under international agreements, land).
Redesign VAT tax exemptions on services (exempt public transport by road or rail, health services, banking services, primary education, secondary education, tertiary education, funeral services, life insurance services, lease of land or buildings for residential purposes).
Redesign VAT zero-rating (zero-rate the export of goods or services for use outside the country, international transport of goods or passengers including a supply of goods and services related to that).
Improve VAT refund system and conduct extensive audits to authenticate claims (implement expedited refunds).
Increase VAT registration threshold to K25,000,000 and index it to inflation thereafter.
Customs and Excise
Rationalize Customs Procedure Codes (CPC) and the Tariff and align it with the regional commitments and best practice.
Introduce an import surcharge on selected goods and review continuously.
Align excise tax on excisable goods to regional average to protect domestic production and reduce smuggling.
Introduce pre-paid excise tax stamps on some excisable products.
Review customs duty, excise duty, VAT, and levies applicable on fuel.

MEDIUM TERM TAX MEASURES (UP TO 5 YEARS)	
Income Policy Reforms Introduce indicator-based presumptive tax per sector. Treat the presumptive tax as a minimum tax for all active MSME's. Provide a tax credit for the presumptive tax where businesses submit income tax returns in excess of the presumptive tax.	**Legal Reforms** Enact a new and improved Investment Allowance targeted at the small number of national priorities established in the Malawi 2063. The allowance should allow a company in a priority industry to deduct the full cost of eligible capital assets in the year that the asset was put into use and create a pool with any unused deductions that could be carried forward indefinitely.
Implement principle of worldwide taxation of residents (tax foreign income of individuals/ entities).	Develop and implement a Capital Gains Tax Act that will govern taxation of capital gains in general.
Implement fringe benefits tax on employees of government departments and agencies.	Implement a broad restriction on deductibility of interest (exclude banks and insurance companies) to e.g. 30% of EBITDA.

Review the PIT regime to enhance the progressivity of the personal income tax system.
Review the incentives schemes such as investment or capital allowances, tax holidays and reduced tax rates.
Review the tax regimes governing the ICT sector to ensure regional competitiveness.
Reduce the rate of Export Allowance to 20% of taxable income in respect of processed qualifying goods.
Gradually reduce general corporate income tax rate (following the broadening of revenue base and revenue permitting).
Credit excises on inputs for production of excisable products.
Value Added Tax
Possibility to decrease VAT rate (following the broadening of revenue base and revenue permitting).
Improve VAT refund system in terms of adequacy of the fund and administration capacity.
Pay interest on delayed refunds.
Customs and Excise
Switch from ad-valorem to specific excise taxation for goods with negative externalities (such as alcohol and tobacco).
Adjust specific excises for inflation (at least annually).
Review excises tax regime on motor vehicles.
Abolish excises on non-standard goods.
Redesign carbon tax on fuel and link it to the amount of carbon emissions produced. exemption.
Improve base coverage, assessment, billing, collection, and enforcement through use of ICT.

ANNEX 2

Non-Tax Measures Short Term Non-Tax Measures Policy Reforms/Legal Reforms
All MDAs to bank with the Reserve Bank of Malawi.
Develop and Implement Non-tax Revenue Policy.
Review and align fees and charges with cost of provision of services.
Promote use of ICT in the collection and management of non-tax revenue.
Implement Dividend and Surplus Policy.
Medium Term Non-Tax Measures
Evaluate effectiveness of Treasury Funds and in the medium-term phase out the use of Treasury Funds to close the funding gaps from the normal budget operations.
Automation of all non-tax revenue collection systems.
Property Tax Reforms Short Term Property -Tax Measures
Policy Reforms/Legal Reforms
Review and redesign the stamp duty and estate duty regime.
Ensure licenses and fees are primarily for regulatory purposes and not to be used as a revenue enhancing tool.
Expand enforcement options to allow for collection of arrears from third parties (e.g., tenants, employers, and banks).
Ensure up to date property database for tax purposes.
Medium Term Property-Tax Measures
Enhance oversight roles of LGAs by focusing on property assessment and collection of property rates.
Perform an inventory of all the high-value buildings constructed after the last QVR and add these to the roll through supplementary valuations.
Implement a simplified system that approximates value for residential property taxation.
Regularly review exempted properties to ensure that they still qualify for an exemption.
Improve base coverage, assessment, billing, collection, and enforcement through use of ICT.
Develop a comprehensive Property Tax Legislation and implement innovative, cost effective valuation and billing of all city properties in order to significantly spread the property tax burden and improve revenue.

ANNEX 3: IMPLEMENTATION PLAN

Strategic Objective (1): Broadening the Tax Base

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
Broaden Tax Base	Strengthen Taxpayer registration	Clean and update taxpayer register (s).	MRA					
		Use of third-party information to detect unregistered taxpayers.	MRA					
		Work with MDAs and other business support organizations on formalization of businesses.	MRA/MoF- RPD					
	Improve business intelligence and analysis	Introduce Statistics and Business Intelligence Unit.	MRA					
		Identify and analyse high-risk areas with reference to persons (natural and legal), commodities and transactions.	MRA					
		Strengthen analytical capabilities.	MRA					
		Integrate central and local government IFMIS systems.	MoF-AG/ MoLGRD					
		Initiate regular exchange of information with Government institutions and other regulatory bodies.	MRA					
		Improve data warehouse to facilitate data exchange	MDAs					
		Improve data quality and availability	MDAs					
	Review tax policy and legislation	Rationalize income tax exemptions, incentives and eliminate discretion.	MoF-RPD/MRA/ MoJCA					
		Review the PIT brackets to	MoF-RPD/MRA/					

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
		align them with inflation and ensure progressivity of the tax system.	MoJCA					
		Implement principle of worldwide taxation of residents (tax foreign income of individuals/entities).	MoF-RPD/MRA/ MoJCA					
		Develop and implement policy for negotiation of tax treaties on avoidance of double taxation and prevention fiscal evasion of taxes on income.	MoF-RPD/MRA/ MoJCA					
		Strengthen international tax information exchange capability.	MoF-RPD/MRA/ MoFA					
		Renegotiate old or disadvantageous tax treaties.	MoF-RPD/MRA/ MOoFA					
		Counteract international tax avoidance and evasion in line with BEPS action plans.	MRA					
		Redesign and broaden VAT base- reduce exemptions and zero-rated products.	MoF-RPD/MRA/ MoJCA					
		Redesign excise taxation. Rationalize the Customs Procedures Codes and Tariff and align it with the regional commitments and best practice.	MoF-RPD/ MRA/Ministry of Trade/Ministry of Industry/MoJCA					
		Rationalize and strengthen the withholding tax regime.	MoF-RPD/MRA/ MoJCA					
		Develop Capital Gains Tax legislation.	MoF-RPD/MRA/ MoJCA					
		Develop Property Tax legislation.	MoF-RPD/ Ministry of lands/MoLGRD/ MoJCA					

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
	Strengthen taxation of informal sector	Introduce indicator-based presumptive tax regime per sector and implement "block management" initiatives.	MoF-RPD/ MRA/Ministry of Trade/MoJCA					
		Collaborate with Ministry of Trade and Local Government, the Department of Registrar General to formalize the SMEs for Tax Purposes.	MoF-RPD/ MRA/ Ministry of Trade/Registrar General					
		Encourage formation of SME's cooperatives for tax purpose.	MoF-RPD/ Ministry of Trade					
		Operationalize withholding tax on imports	MRA/RPD					
		Implement tax clearance certificate	MRA/RPD					
	Strengthen own-source revenues of Local Authorities	Institute property tax legislation reforms.	MoLGRD/MoF-RPD/MoJCA					
		Develop and update database of property owners.	MoLGRD/ NLGFC					
		Integrate stand-alone systems at council level and modernize tax and fee collection methods.	MoLGRD/ NLGFC/MoF					
		Strengthen enforcement mechanisms of local taxes and fees, incl. through "block management" initiatives.	MoLGRD					
		Diversify own-source revenue potential through partnership agreements.	MoLGRD					

Strategic Objective (2): Strengthen Tax Compliance

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
Improve Tax Compliance	Build a Tax Compliance Culture	Develop a taxpayer education strategy.	MRA					
		Improve taxpayers' outreach and education, including introducing taxpayer's day.	MRA					
		Organize targeted taxpayer campaigns including " Know Your Taxes Week''.	MRA/MoF-RPD					
		Establish a call centre.	MRA					
		Introduce a minimum voluntary registration threshold for VAT or other criteria for small businesses registration.	MRA/MoF-RPD					
		Improve VAT refund system.	MRA/MoF-RPD					
		Introduce Award system for compliant taxpayers.	MRA					
		Improve the appeals process.	MRA					
		Develop and implement a tax compliance strategy by taxpayer segmentation.	MRA/MoF-RPD					
	Modernize and simplify the tax laws and rules	Revise tax laws, rules and procedures reflecting good practice.	MRA/MoF-RPD					
		Design and implement a simplified tax return for small taxpayers to improve compliance.	MRA/MoF-RPD					
		Translate rules and procedures into main vernacular languages.	MRA/MoF-RPD					
		Publish tax rulings.	MRA					
		Abolish excises on non-standard goods.	MoF-RPD/MRA					
	Strengthen revenue enforcement	Enforce returns submissions and payments, such as sending reminders.	MRA					

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
		Strengthen control on the use of EFDs.	MRA					
		Timely detect non-filers.	MRA					
		Capture 'inactive' taxpayers.	MRA					
		Improve return filing process.	MRA					
		Develop separate compliance plans for large/ medium/small taxpayers.	MRA					
		Improve detection of non-compliant professionals.	MRA					
		Strengthen exchange of information and data interoperability.	MRA/MoF/ Immigration/ ACB/ Road Traffic/ FIA/NRB/ MACRA/PPDA					
		Conduct regular audits.	MRA					
		Establish procedures for monitoring the implementation of incentives regimes.	MRA					
		Develop and implement a tax arrears manual.	MRA					
		Develop and implement a tax debt recovery strategy.	MRA					
		Collaborate with other MDAs to deal with smuggling of goods.	MRA					
	Improve taxpayer services and experi-ence	Implement complaints drop box in each taxpayer service office.	MRA					
		Expand taxpayer service centres.	MRA					
		Establish platforms or mobile applications that facilitate convenience of payment.	MRA					

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
		Strengthen online system platforms (ITAS, ASYCUDA World).	MRA					
		Establish mobile tax compliance office(s).	MRA					
		Fast track the establishment of One Stop Border Post and implement an electronic single window at each border crossing point.	MRA/MoF					
		Implement e-filing for key tax types.	MRA					
		Implement integrated taxpayer account	MRA					
	Strengthen audit capacity	Develop and implement an audit manual on specific industries (banking, insurance, telecommunications, mining, construction sector).	MRA					
		Implement a green/red channel VAT refund system with post refund audits on green channel firms.	MRA					
		Conduct extensive and rigorous post-audit review to ensure high quality output.	MRA					
		Implement audit capacity development initiatives.	MRA					

Strategic Objective (3): Improve the Perception of the Tax System

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
Improve the perception of the tax system	Improve tax disputes resolution mechanism	Develop tax appeals manual.	MRA					
		Develop tax appeals guide and upload it on the website.	MRA					
		Expedite administrative dispute resolution and clear the backlog of cases.	MRA					
		Collaborate with the Ministry of Justice and Constitutional Affairs to facilitate publication of the Revenue Appeals Tribunal Regulations.	MoF/MRA					
		Expedite the establishment of a Revenue Appeals Tribunal.	MoF/MoJCA					
	Improve transparency	Strengthen outreach and communication.	MRA					
		Collect data for comprehensive tax expenditure analysis.	MoF/MRA					
		Publish tax expenditure reports as part of the national budget process.	MoF/MRA					
		Establish a Tax Policy Forum.	MoF					

Strategic Objective (4): Strengthen Institutional Capacity

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
Strengthen Institutional Capacity	Develop staff skills and profes-sionalism	Develop and implement a Human Resource Strategic Plan.	MRA/MoF					
		Recruit and train more young and talented staff.	MoF/MRA					
		Update and enforce Performance Reporting and Evaluation System.	MRA					
		Implement knowledge management platform.	MoF-RPD/MRA					
		Institutionalize staff exchange programs between the MoF and MRA as well as attachments to regional bodies, tax administrations, Ministries of Finance and other international organizations.	MoF-RPD/MRA					
		Embrace change management.	MoF-RPD/MRA/ MDAs					
		Strengthen the tax training school in terms of infrastructure improvement and human and knowledge capacity of resource persons/ lecturers.	MoF-RPD/MRA					
		Regular review of the curriculum of the tax training school to align with emerging taxation issues and conducting refresher courses in specific challenging tax matters.	MoF-RPD/MRA					
	Improve staff conduct	Strictly enforce the code of conduct of revenue officers.	MoF-RPD/MRA/ MDAs					
		Adopt zero tolerance towards unethical or corrupt practices and announce anti-corruption measures.	MoF-RPD/MRA/ MDAs					

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
		Sanction staff involved in malpractice.	MoF-RPD/MRA/ MDAs					
		Update anti-corruption policies and whistle blower arrangements.	MoF-RPD/MRA/ MDAs					
		Adopt customer-focussed approach.	MoF-RPD/MRA/ MDAs					
		Motivate and reward performance.	MoF-RPD/MRA/ MDAs					
	Develop capacity in revenue policy analysis.	Procure appropriate software for revenue policy analysis.	MoF-RPD					
		Develop tools for revenue analysis.	MoF-RPD					
		Train staff on application of revenue policy analysis tools and forecasting.	MoF-RPD					
		Develop Data warehouse.	MoF-RPD/MRA					

Strategic Objective (5): Improve Non-Tax Revenue Collection

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
Improve non-tax revenue	Institute governance arrange-ments to oversee implementa-tion of non-tax revenue policy	Establish Coordinating Committee on Non-Tax Revenue.	MoF-RPD/MDAs					
		Develop and implement non-tax revenue policy.	MoF-RPD/MDAs					
		Hold quarterly meetings to review progress on the implementation of the non-tax revenue policy.	MoF-RPD/MDAs					
		Provide quarterly progress reports to the Secretary to Treasury and the responsible minister on implementation of non-tax revenue reform measures.	MoF-RPD/MDAs					

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
	Improve non-tax legislation	Review the non-tax revenue legislation.	MoF-RPD/AG/ MDAs					
	Implement Dividend and Surplus Policy	Strictly monitor the adherence to the Dividend and Surplus Policy in collaboration with the Public Finance Management Systems Division (PFMSD).	MoF-PFMSD/ DSC/RPD					
	Improve the pricing and quality of delivery of services	Regularly review the user fees and charges to align them with cost of delivery of services and adjust it with inflation.	MDAs/ MoF-RPD					
		Develop and implement Service Charters in the public service	MDAs					
	Requiring MDAs to establish revenue collection targets in their strate-gic plans	Develop in consultation with MDAs, clear and implementable operational strategies to boost collections.	MoF-AG/MDAs					
	Promote use of ICT in the collection and man-agement of non-tax revenue	MDAs will be required to embrace ICT, as part of their business processes in the collection systems.	MoF-AG/ MDAs					
	Under-take cost reduction initiatives to augment revenue	Review cost structure of Government Services.	MoF-AG/MDAs					
		Institute business process re-engineering for non-tax revenue.	MoF-AG/MDAs					
	Improve remittance, monitoring and report-ing require-ments	Implement strict monitoring and evaluation of revenue collection systems with MDAs.	MoF-AG/RPD					
		Introduce incentives to improve revenue collection.	MoF-AG/RPD					

Strategic Objective	Strategies	Activities/Measures	Responsible Body	Time Frame				
				Y1	Y2	Y3	Y4	Y5
	Improve capacity for assessment of revenue	Build capacity for revenue forecasting and analysis.	MoF/MDAs					
		Standardize c alculations of NTR such as development fees.	MoF/MDAs					
	Improve debtor manage-ment ad-ministration (including dues recov-ery)	Standardize modes (payment instruments) for revenue collections.	MDAs/MoF-AG					
		Increase availability of revenue collection centres in remote locations.	MoF-RPD/AG/ MDAs					
		Operationally support with adequate funds for full agency operations at certain MDAs for NTR collections.	MoF-RPD/AG/ MDAs					
		Automate and integrate revenue administration.	MoF-AG/RPD/ MDAs					
		Optimize collection of Treasury Funds.	MoF-RPD/AG/ MDAs					
	Improve banking ar-rangements of revenue	Institute controls for cash management.	MoF-AG/RPD/ MDAs					
		Provide clear guidelines and restrict utilization of revenue at source by MDAs.	MoF- AG/RPD					
		Review and update MoUs with the Commercial Banks.	MoF-AG/MDAs					
		Ensure strict penalties for the Banks that withhold revenues for unauthorized period(s).	MoF-AG/MDAs					
		Conduct regular reconciliation of remittances between the Commercial Banks and the Reserve Bank of Malawi.	MoF-AG/MDAs/ RBM					
	Strengthen Anti-cor-ruption measures in MDAs	Collaborate with the Anti-Corruption Bureau (ACB) on corruption prevention for MDAs.	MoF/MDAs/ACB					

ANNEX 4: MONITORING AND EVALUATION PLAN

Strategic Outcome/ Output	Performance Indicators	Indicator Definition	Baseline	Targets		
			2019/ 20	2021/ 22	2022/ 23	
STRATEGIC OUTCOME OVERALL: Improved domestic revenue mobilization						
Strategic Outcome 1: Improved domestic Revenue Mobilization	**Outcome Indicators**					
	Domestic Revenue (revenue excluding grants) as share of GDP	Measure revenue performance	13.4%	13.7%	14.6%	
STRATEGIC Objective 1: Broaden Tax Base						
Expected Output 1.1: Taxpayer register updated and maintained	**Output Indicators**					
	New number of Taxpayers registered, updated annually (Domestic)	Number of taxpayers in the tax register registered in a fiscal year	2019/20: 10968	12718	8000	
	New number of Taxpayers registered, updated annually (Customs)	Number of taxpayers in the tax register registered in a fiscal year	2019/20: 10537	8000	8000	
Expected Output 1.2: Improved Business Intelligence and analysis	# of business and intelligence reports produced	# of business and intelligence analytical reports identifying risks uncovered and interventions undertaken	N/A	4	4	
Expected Output 1.3: Tax policy and legislation reviewed	# of tax policies and legislation reviewed	# of changes made to the tax policies and laws, and quantified impact	0	1	1	

			Means of Verification	Frequency	Data Collection Instruments/ Strategy	Responsibil-ity for data collection
2023/ 24	2024/ 25	2025 26				
15.8%	17.0%	18.4%	Revenue Reports/ Fiscal Table	Annually	Reports	MoF- RPD/ Economic Affairs Department
5000	5000	5000	Tax Register	Annually	Tax Register	MRA
8000	8000	8000	Tax Register	Annually	Tax Register	MRA
4	4	4	Risk Profile Register	Quarterly	Risk Profile Register	MRA
1	1		Reports	Annually	Final Policy documents and gazzetted Act	MoF

Strategic Outcome/ Output	Performance Indicators	Indicator Definition	Baseline	Targets		
			2019/ 20	2021/ 22	2022/ 23	
Expected Output 1.4: Informal Sector Businesses formalized.	# of formalized Micro, Small Medium Enterprises registered and paying tax	Counting number of informal businesses (MSME) that have been formalized, registered and paying taxes	N/A	100	100	
Expected Output 1.5: Informal Businesses trained in book keeping, filing returns and calculation of their tax dues	# of informal businesses trained in book keeping, filing returns and calculation of their tax dues	Counting number of informal businesses trained in book keeping, filing of returns and calculation of their taxes	N/A	100	100	
Expected Output 1.6: Revenue from own sources improved	Proportion of local authority funds from own sources, as percentage of the local council budget	Amount of local funds from own local sources divide by the total local budget				
STRATEGIC Objective 2: Strengthen Tax Compliance						
Expected Output. 2.1 Improved tax compliance	Average number of taxpayers filing returns on time for LTO and MTO (PAYE, CIT & VAT)	Average Tax filing rate for LTO and MTO (PAYE, CIT & VAT)	60%	70%	80%	
	Average number of taxpayers paying taxes on time for LTO and MTO (PAYE, CIT & VAT)	Average Tax payment rate for LTO and MTO (PAYE, CIT & VAT)	70%	75%	80%	
Expected Output. 2.2 Modernized and simplified tax laws and rules	Revised tax laws, rules and procedures reflecting good practice and translation into main local languages	# of laws and rules that have been modernized and simplified, translated.	0	2	2	

				Means of Verification	Frequency	Data Collection Instruments/ Strategy	Responsibil-ity for data collection
	2023/ 24	2024/ 25	2025 26				
	100	100	100	Tax Register	Annually	Tax Register	MRA/Ministry of Trade
	100	100	100	Tax Register	Annually	Tax Register	MRA
				Budget/ Financial Statement	Annually	Budget/Financial Statement	National Local Government Finance Committee
	85%	90%	90%	MRA Annual Reports	Annually	Taxpayer returns	MRA
	85%	90%	95%	MRA Annual Reports	Annually	Taxpayer returns	MRA
	1	1	2	Taxation amendment gazette	Annually	Gazette	MoF-RPD

Strategic Outcome/ Output	Performance Indicators	Indicator Definition	Baseline	Targets		
			2019/20	2021/22	2022/23	
Expected Output. 2.3. Improved revenue enforcement	Ratio of tax debt to total tax revenue	the percentage of tax debt to total tax revenue	2019/20: 4%	3.5%	3%	
Expected Output. 2.4. Improved taxpayer service and experience	Proportion of taxpayers satisfied with MRA/Ministry of Finance services	# of taxpayers satisfied with MRA services to the total number of the sampled taxpayers	2019/20: 65%	68%	70%	
Expected Output. 2.5. Improved audit capacity (mining, banking, insurance, telecoms and construction	# of audit capacity development initiatives undertaken, number of audit risks monitored	# of trainings undertaken in audit proportion of MRA budget for audits	N/A	2	2	
	% of audit risks monitored	Measure audit risks profile and impact	N/A	100%	100%	
STRATEGIC Objective 3: Improve perception of the tax system						
Expected Output. 3.1. Improved Tax dispute Mechanism	Number % of taxpayers satisfied with tax dispute system	Measure adherence to the dispute resolution process and set time limits	N/A	50%	60%	
Expected Output. 3.2. Improved Tax transparency	Publication of Revenue Performance reports, publication of tax expenditure report	Publication of tax expenditure report covering customs and domestic taxes and revenue performance report	1	1	1	
	Tax Policy Forum established	Transparency in tax policy making	0			
STRATEGIC Objective 4: Strengthen Institutional Capacity						
Expected Output. 4.1. Improved staff skills and professionalism	Proportion number of staff well trained for the jobs	Capacity to undertake their tasks professionally	N/A	60%	65%	

				Means of Verification	Frequency	Data Collection Instruments/ Strategy	Responsibil-ity for data collection
	2023/ 24	2024/ 25	2025 26				
	3%	2.5%	2%	Tax revenue performance reports	Quarterly	Monthly tax collection reports	MRA
	72%	74%	75%	Taxpayer Satisfaction Survey Report	Annually	Questionnaire	MoF/MRA
	2	2	2	MRA Annual Reports, Audit reports	Annually	Reports	MRA/MoF
	100%	100%	100%	Audit reports	Annually	Reports	MRA/MoF
	65%	70%	75%	Taxpayer Satisfaction Survey, Tribunal Reports	Annually	Reports	MoF/MRA
	1	2	2	Published reports	Annually	Tax returns/ customs import data	MoF/MRA
		1	1	Meeting Reports	Annually	Reports	MoF
	70%	85%	90%	Training Reports	Annually	Reports	MoF/MRA

Strategic Outcome/ Output	Performance Indicators	Indicator Definition	Baseline	Targets		
			2019/ 20	2021/ 22	2022/ 23	
Expected Output. 4.2. Improved staff conduct	#1.the proportion of staff adherence to code of conduct	Measures compliance with rules and regulations and acting with integrity	N/A	100%	100%	
	#2: performance awards	Percentage of performing staff that have been awarded	N/A	100%	100%	
Expected Output. 4.3. Improved capacity in revenue policy analysis	# staff trained in revenue policy analysis and use of data analysis software	# of staff trained in revenue policy analysis and use of data analysis software.	N/A	8	8	
Expected Output. 5.1. Governance arrangements to oversee implementation of non-tax revenue instituted	Governance members appointed and operational	Measure functionality of the governance structure for non-tax revenue				
Expected Output. 5.2. Non-tax revenue legislation improved	Non-tax legislation reviewed	Refers to responsiveness of the legislation to emerging issues				
Expected Output 5.3. Dividend and Surplus Policy implemented	# of public enterprises adhering to the Dividend and Surplus Policy	Measure to identify proportion of public enterprises that are complying with the Dividend and Surplus Policy	50%	60%	70%	
Expected Output.5.4. Pricing and quality of services improved	Services are on cost recovery basis	Indicators should demonstrate margin that recovers cost of delivery of services				
	Clients satisfaction of services rendered	# of clients that express satisfaction with services delivered				

				Means of Verification	Frequency	Data Collection Instruments/ Strategy	Responsibility for data collection
	2023/ 24	2024/ 25	2025 26				
	100%	100%	100%	Disciplinary hearing report.	Annually	Reports	MoF/MRA
	100%	100%	100%	Performance Award Reports	Annually	Reports	MoF/MRA
	8	8	8	Training Reports	Annually	Reports	MoF/MRA
				Minutes	Quarterly	Minutes	MoF-RPD
				Reports	On-going	Stakeholder consultations	MoF-RPD/ MDAs
	80%	90%	100%	Reports	Annual	Financial Statements	MDAs/MoF-AG/RPD/ PFMSD
				Reports	Quarterly	Reports	MDAs/ MoF-RPD
				Reports	Quarterly	Reports	MDAs/ MoF-RPD

Strategic Outcome/ Output	Performance Indicators	Indicator Definition	Baseline	Targets		
			2019/ 20	2021/ 22	2022/ 23	
Expected Output 5.5. Collection targets established in MDA Strategic Plans	# of MDAs with collection targets	Extent to which MDAs have set revenue collection targets	0%	50%	60%	
	# of MDAs who have their development plans/ strategies aligned to MW2063	Extent to which MDAs have strategically aligned intervention framework	0%			
Expected Output. 5.6. Use of ICT promoted in the collection and management of non-tax revenue	# of MDAs that use ICT collection facilities	Extent to which MDAs are using ICT collection facilities	14%	50%	60%	
Expected Output 5.7. Cost reduction initiatives undertaken	# of Cost Reduction Initiatives implemented by MDAs	# of cost reduction initiatives being undertaken by MDAs				
Expected Output. 5.8. Remittance, monitoring and reporting requirement improved	# of MDAs adhering to remittance requirements	Extent to which MDAs are adhering to remittance and reporting requirement			80%	
Expected Output. 5.9 Improved capacity for revenue forecasting	# of MDAs using standard forecasting tools	Show ability to make forecasts that recover costs	50%	60%	70%	
Expected Output 5.10. Debtor management improved	Arrears are kept within 30 days of delivery of service	Show arrears in the debtors register				
Expected Output 5.11. Improved banking arrangements of revenue	All receipts banked as collected	Adherence to requirements for banking same day they are collected		70%	80%	

				Means of Verification	Frequency	Data Collection Instruments/ Strategy	Responsibil-ity for data collection
	2023/ 24	2024/ 25	2025 26				
	70%	80%	100%	Reports	Quarterly	Reports	MDAs/ MoF-RPD
				Reports	Annually	Strategic plans	MDAs
	70%	80%	100%	Reports	Annually	Assessment	MDAs/ MoF-RPD/AG
				Reports	Annually	Assessment	MDAs/ MoF-RPD
	80%	90%	100%	Reports	Annually	Assessment	MDAs/ MoF-RPD
	80%	90%	100%	Reports	Annually	Assessment	MDAs/ MoF-RPD
				Reports	Annually	Assessment	MDAs/ MoF-RPD
	90%	100%	100%	Reports	Annually	Assessment	MDAs/ MoF-RPD

Strategic Outcome/ Output	Performance Indicators	Indicator Definition	Baseline	Targets		
			2019/ 20	2021/ 22	2022/ 23	
Expected Output. 5.12. Cash management controls instituted	Cash controls instituted # of MDAs	Rules for cash management instituted		100%	100%	
Expected Output. 5.13. Clear guidelines for revenue collection provided to MDAs	adhering to guidelines	MDAs operating with set guidelines		100%	100%	
Expected Output. 5.14 MoUs with Commercial Banks reviewed and updated	# of MoUs that are reviewed and updated	Relevance of MoUs to issues of MDAs		100%	100%	
Expected Output 5.15. Banks that withhold revenue penalized	# of Banks adhering to set rules	Adherence to set rules for remittance of funds				
Expected Output.5.16. Regular reconciliations of remittances conducted between Commercial Banks and Reserve Bank of Malawi	Reconciliations conducted as by guidelines	Adherence to guidelines				
Expected Output 5.17. Relationship between MDAs and the Anti-Corruption Bureau on prevention strengthened	# of functional MoUs between ACB and MDAs on corruption prevention	Provides for preventive measures to combat corruption		100%	100%	

				Means of Verification	Frequency	Data Collection Instruments/ Strategy	Responsibility for data collection
	2023/ 24	2024/ 25	2025 26				
	100%	100%	100%	Reports	Monthly	Quarterly Assessment	MoF-AG/ MDAs
	100%	100%	100%	Reports	Quarterly	Quarterly Monitoring	MoF-AG/ MDAs
	100%	100%	100%	Reports	Quarterly	Quarterly Monitoring	MoF-AG/ MDAs
				Reports	Quarterly	Quarterly Monitoring	MoF-AG
				Reports	Quarterly	Quarterly monitoring	MoF-AG/ RBM
	100%	100%	100%	Reports	Annually	Annual review	MoF- AG/ RPD/MDAs/ ACB

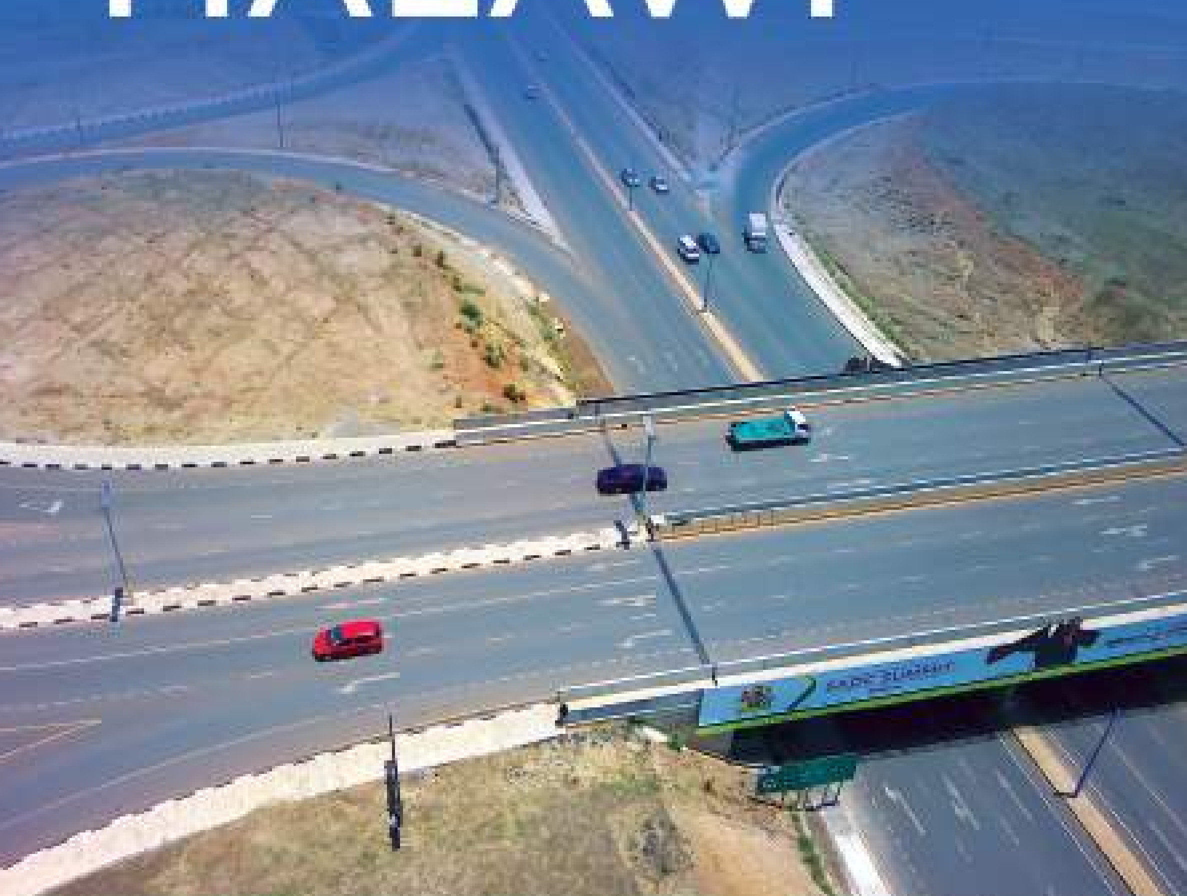
APPENDIX 1: LIST OF DOCUMENTS REVIEWED

1. Annual Economic Report, Ministry of Economic Planning & Development and Public Sector Reforms, 2021
2. Annual Economic Report, Ministry of Finance, 2021
3. Country Report, No 19/361, IMF
4. Country Report 2020, Developing a Revenue Mobilization Strategy, IMF
5. Determinants of Access to Banking Services, (2018), C.Chipeta and E. Kanyumbu.
6. Dividend and Surplus Policy for Statutory Bodies, January, 2020
7. Domestic Resource Mobilization In Africa: A Focus on Government Revenue, United Nations Economic Commission for Africa, 2016
8. Domestic Revenue Mobilization Strategy for Uganda (2019/20 – 2023/24)
9. Domestic Revenue Mobilization Strategy in Liberia (2018 – 2022)
10. Functional Review Report, Ministry of Finance, Economic Planning and Development, 2019
11. Governance and Corruption Survey, Anti-Corruption Bureau, 2013
12. Malawi 2063 (MW 2063), National Planning Commission, 2020
13. Malawi Growth and Development Strategy (2017 – 2022)
14. Malawi Revenue Authority, Corporate Strategic Plan (2017 – 2020)
15. Medium Term Revenue Strategy (MTRS) for Papua New Guinea (2018- 2022)
16. Medium Term Revenue Strategy, Civil Society Organization Reviews and Proposals
17. Mid Budget Review Statement 2019/20, Ministry of Finance, Economic Planning and Development
18. Mid-Year Public Debt Report, Ministry of Finance, 2021
19. National Agricultural Policy, Malawi, 2017
20. Overview of a Medium-Term Revenue Strategy, 2017
21. Political Economy of the State of Corruption in Malawi, 2019
22. Public Expenditure and Financial Accountability (PEFA) Assessment 2018, GoM, WB and DPs
23. Public Finance Management Rolling Plan, Ministry of Finance, Economic Planning and Development (2018 – 2022)
24. PwC Comprehensive Analysis and Review of Investment, Production and Export Incentives In Malawi, 2016
25. PwC Review of legal and regulatory framework for Non-Tax Revenue and Treasury Funds, 2020
26. Realizing Indonesia’s Economic Potential, IMF Publication, 2018
27. Strategic Plan (2017 – 2022), Ministry of Finance, Economic Planning and Development
28. Strategy for Comprehensive Tax Reform to Raise Revenue and Promote Growth, 2016
29. TADAT Assessment Malawi, 2015
30. Tax Policy Concept Statement 1: Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals
31. Taxation of the Informal Sector in Malawi, Ministry of Finance, Economic Planning and Development, 2019
32. Update on Activities of the Platform for Collaboration on Tax, 2017
33. World Bank Country Overview, Malawi

APPENDIX 2: LIST OF STAKEHOLDERS WHO RESPONDED TO CONSULTATIONS

1. Action Aid Malawi
2. Chancellor College- Economics Department.
3. Economics Association of Malawi
4. Ernest and Young
5. Institute of Chartered Accountants in Malawi
6. Malawi Confederation of Chambers of Commerce and Industry
7. Malawi Economic Justice Network
8. Malawi Revenue Authority
9. Mr. R.P Mwadiwa, former Secretary to the Treasury
10. Mzuzu University
11. PriceWaterHouse Coopers
12. Reserve Bank of Malawi
13. National Planning Commission

DEVELOP MALAWI



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