STUDY REPORT

ANALYSIS OF THE MALAWI TAX REGIME AND ITS IMPLICATIONS ON THE INVESTMENT CLIMATE

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EXECUTIVE SUMMARY

This study examines Malawi's tax system and its impact on investment, trade, and industry growth in the country's key sectors: agriculture, mining, manufacturing and energy. The Malawi Confederation of Chambers of Commerce and Industry (MCCCI) will use the study's outcomes for evidence-based policy advocacy in public-private sector dialogues. The study employs four main approaches namely: a desk review, case studies, econometric analysis, and comparability assessment with Malawi's peers.

The study found that Malawi's tax incentives have had mixed results, failing to attract and retain serious investors due to poor coordination, overlapping, and poorly designed incentives. To promote growth in agriculture, mining, manufacturing and energy sectors, the government should consider streamlining permitting processes, provide tax incentives with clear laid out eligibility criteria, and facilitate access to finance. The government should also review and reduce red tape in obtaining mining licenses and permits and align the fiscal regime with the Mines and Minerals Act (MMA) of 2019. The MMA should also be amended to address emerging issues on the fiscal regime and other processes. Additionally, the government should encourage investment in renewable energy sources by offering above average cost reflective tariffs to independent power producers and simplify the processes involved in obtaining licenses, permits, and tax incentives.

To create a more attractive investment environment, the government ought to improve the tax system to promote growth in the target sectors while avoiding stifling investment and trade. This includes reviewing current tax and tariff structures and evaluating existing tax incentives' effectiveness. A shift from direct dominated tax structure to more indirect taxes will be a positive development. The government should also consider reforming the tax refund management process, increasing the retention of VAT refunds beyond 3.0% of total revenue collection to clear refunds backlog, and automating the VAT refund application and disbursement process. Furthermore, strengthening the capacity of the Malawi Revenue Authority and encouraging meaningful public-private sector dialogues to advocate for evidence-based tax policies can also help create a competitive and minimally regulated business environment.

Despite challenges, Malawi presents an opportunity for investment in the energy sector, particularly in renewables. The country's relatively competitive tariff structure and incentives, combined with its commitment to renewable energy, makes it an attractive market for Independent Power Producers (IPPs) looking to invest in Sub-Saharan Africa. However, the government needs to address financing costs and infrastructure challenges to fully realize its potential. Government should also address energy shortfalls which continue to stifle economic recovery post COVID-19. The energy shortfalls, combined with foreign exchange and exchange rate misalignment continue to negatively affect investors' perceptions on doing business in Malawi. Furthermore, policy inconsistencies and conflicting legislations should be avoided as much as possible as this unstable operating environment does not give investors, confidence. Moreover, Government agencies should collaborate to devise ways of attracting and retaining investors in all the sectors including energy, mining, manufacturing and agriculture.

Overall, the government has an opportunity to promote growth and development in key sectors by implementing targeted policies and initiatives aimed at improving the investment climate. By implementing the recommendations in this study, Malawi can create a more attractive investment environment for businesses, leading to increased investment, exports, and economic growth in the country.

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1. INTRODUCTION

Taxes remain the main source of financing for most countries' national budgets. As nations intensify revenue collection to recover from the COVID-19 pandemic economic losses and to finance the implementation of different initiatives to achieve sustainable development goals, there is a need to ensure that taxes do not stifle investments and trade. A sound tax system should be accommodative and supportive of the growth of industries. This paper seeks to analyse Malawi's tax system with a focus on current tax and tariff structures, reforms, and regional comparability. Specifically, the main objectives of this study are firstly, to conduct a broad review of the tax and tariff cost-effectiveness and, secondly to assess the impact of current tax and tariff policy on business performance, investment, and exports.

The Malawi Confederation of Chambers of Commerce and Industry (MCCCI) will use the outcomes of this study in its public - private sector dialogues for evidence-based policy advocacy. *The study suits well with the key objectives of MCCCI, which include:*

a. Improving commerce and industrial development in Malawi through fostering a competitive and minimally regulated business environment.
b. Promoting, improving, and encouraging the development of business enterprises in Malawi; and
c. Facilitating the expansion of the base for entrepreneurship.

The outcome of this study aims to encourage evidence-based tax policies that promote trade and investment in Malawi. For better and more detailed analysis, the study has four main sectors of focus, namely: mining, agriculture, manufacturing and energy. Among the latter sectors, sector-specific focus is on high-value agricultural products with export potential, and tax environment for Independent Power Producers (IPPs), and other large energy generation projects like Mpatamanga hydro power plant, while for the former, focus is on mining for exports. The study also covers the manufacturing sector which a key sector relevant to the subject matter being analyzed.

The study adopted the following approaches:

a. Conducting desk review of the current tax and tariff structures in Malawi
b. Using case studies and econometric analysis, reviewing the implications of reforming tax or tariff lines for profit margins, production, job and export creation for companies, and revenue creation for the Government (disaggregated both into short term, <1 year and longer term, >1 year)
c. Conducting a tax and tariff comparability assessment with other countries within COMESA and SADC, comparing their performance against the indicators discussed under (b), where possible.

d. Consolidating the current impact of the tax system and tariffs in the promotion of trade, investments and exports and developing recommendations for reform of tax and tariff lines.

The project used both primary and secondary data in the four approaches mentioned above. A questionnaire was developed and administered to selected companies and government institutions across the four sectors of interest. Through this questionnaire, data was collected covering the taxes levied on companies, issues of concern on the applicable taxes, implications of the tax system on their business profit margin and capital injection, and proposals for tax reforms. Secondary data was used to supplement the primary data. African Centre for Tax and Economic Studies (ACTES) also participated in several meetings that brought representatives from the private sector during which concerns on taxes were fully discussed. Some of these meetings were: a Manufacturer's Association meetings and Minister of Finance & Economic Affairs 2023/2024 budget consultation meetings. Desk research focused on existing studies, literature, and related work to draw lessons.

2. OVERVIEW OF MALAWI'S TAX SYSTEM AND IMPLICATIONS ON INVESTMENT

The Malawi Revenue Authority (MRA) is the principal government agency responsible for administering tax laws in Malawi in line with Malawi's constitution. The Ministry of Finance and Economic Affairs (MoF&EA) is responsible for tax policy formulation and overseeing the strategy and operations of the MRA.

a. Overview of the MRA and mandate

The Malawi Revenue Authority (MRA) was established by the MRA act of 1998 and formally started operations in February 2000. Previously, functions of MRA were carried out by the departments of income tax and the department of customs and excise, both of which were under the Ministry of Finance. Nevertheless, MRA is under the supervision of the Minister responsible for Finance as a policy holder and its main purpose is to assess, collect, and account for tax revenue on behalf of the government of Malawi while ensuring facilitation of trade. MRA is also responsible for collection of some non-tax revenues such as the Technical, Entrepreneurial and Vocational Education and Training (TEVET) levy on behalf of the TEVET Authority. The institution is headed by the Commissioner General and has offices/duty stations across the country. At its core business of revenue collection, the institution has two main revenue divisions namely; Customs and Excise Division which administers and enforces the customs and excise act, and Domestic Taxes Division (DTD) which is responsible for administering and enforcement of the taxation act, value added tax (VAT) act, and the excise part of the Customs and Excise Act. These two main revenue divisions are supported by other divisions (support divisions) like Information Communication Technology (ICT), Finance, Modernization, Policy Planning & Research, Internal Audit, Tax Investigations, Human Resources, and Internal Affairs. The "support" divisions are key in ensuring that MRA, through the two revenue divisions, fulfills its mandate.

The Customs and Excise division collects mostly international trade taxes like import duty, import excise, export duty, and import VAT. These are taxes charged on goods entering or exiting the country. On the other hand, the domestic Taxes division as the name suggests focuses on collection of domestic taxes rather than international trade taxes. Such taxes include domestic excise, fringe benefit tax, domestic VAT, capital gains tax, dividend tax, corporate tax, payroll tax also called Pay as You Earn (PAYE), and non-resident tax. The Board of Directors, appointed by the government through the Office of President and Cabinet (OPC), oversees functions of MRA.

Apart from the Taxation, VAT, and Customs & Excise Acts, MRA also abides by the following acts:

i. Malawi Revenue Authority Act
ii. Tax Administration Act
iii. Technical, Entrepreneurial and Vocational Education and Training Act
iv. Roads Fund Administration Act

Below are the main functions of MRA:

i. To administer and enforce taxation laws like VAT act, Taxation Act, and Customs and Excise Act.
ii. To promote voluntary tax compliance and better standards of services to taxpayers.
iii. To take measures to counteract tax fraud and other forms of fiscal evasion.
iv. To promote and facilitate legitimate trade.

b. The current tax and tariff structures in Malawi

Tax revenue remains the main source for financing the Malawi national budget. In the 2022/23 budget, tax revenue is projected to contribute 77% of total revenues and grants, and 96% of domestic revenues. The 2022/23 budget projects to collect tax revenue equivalent to 13.4 % of Gross Domestic Product (GDP). The government's Domestic Resource Mobilization Strategy (DRMS) targets to increase the revenue GDP ratio by five percentage points by 2025/2026 fiscal year. The World Bank puts a tax to GDP ratio of 15% as the minimum threshold required for government to provide basic goods and services while the United Nations estimates that developing countries like Malawi should at least have the ratio at 20% to meet sustainable development goals. Malawi tax GDP ratio hovers around 11-13 % since 2013 and lags Southern Africa Development Corporation (SADC) average at 14.69% (ATAF, 2021). As the government focuses on maximizing revenue collections to finance expenditure needs, there is always a need to balance the tax regime to ensure that it does not stifle growth and resilience of the private sector.

The current taxes can firstly be categorized into income and profit taxes (examples are payroll tax, corporate tax, non-resident tax, and fringe benefit tax), international trade taxes, and taxes on goods and services (like excise duty and value added tax), and other small taxes like dividend tax and turn-over tax. Secondly, the taxes can also be categorized into direct taxes (like corporate tax) and indirect taxes (like value added tax and excise duties).

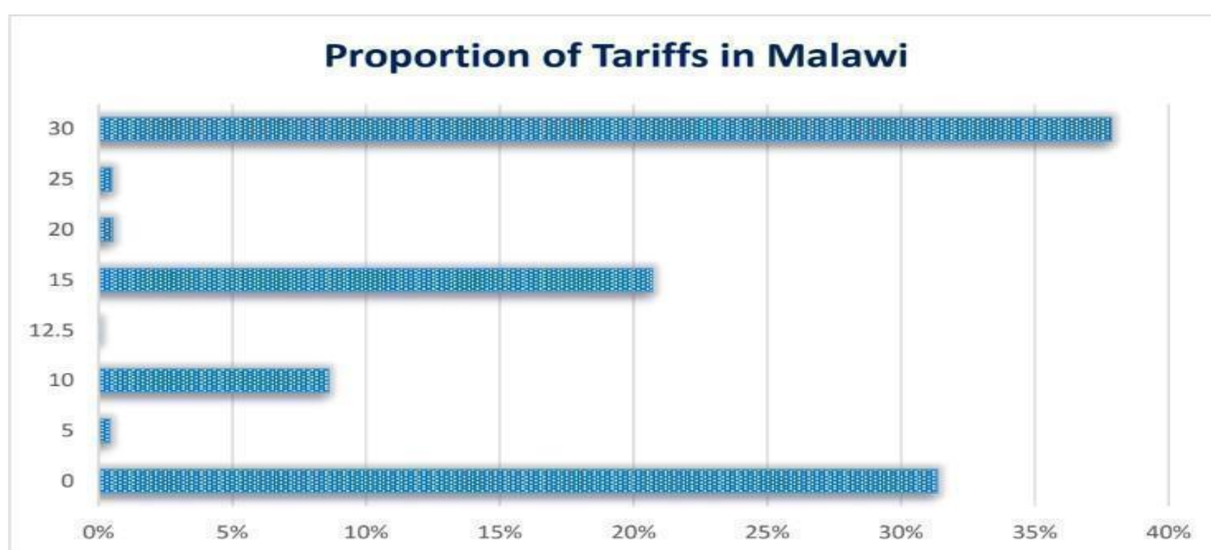
Expanding the second categorization, Malawi's tax system heavily relies on direct rather than indirect taxes though in theory good tax systems rely more on indirect taxes due to their broader coverage, friendliness to economic growth, and more efficiency. Direct taxes are imposed on and paid by a distinct individual on corporate income or profits while indirect taxes are imposed on transactions like purchases of goods and services, hence, can be passed on or avoided. For Malawi, the largest share of the government's revenue has been direct taxes, mostly income taxes followed by Value Added Tax (VAT), and then international trade taxes. Although domestic revenues continue to increase in nominal terms, they do not adequately support the budget, forcing the government into deficit financing largely through domestic borrowing. For instance, as of December 2022, net domestic borrowing for the 2022/2023 fiscal year was almost at par with tax revenues collected for the same period. Through Domestic Revenue Mobilization Strategy (DRMS), the government plans to implement targeted policy measures to expand consumption (indirect) taxes and increase their share in the revenue mix.

For the most part, tax rates in Malawi are standard except in a few cases where government sets different rates, provides incentives through reduced tax rates, or completely waives some taxes. For instance, the standard corporate tax rate across all sectors in Malawi is 30% of gross profit but mining companies incorporated outside Malawi are subjected to 35% corporate tax. The value added tax is also a standard 16.5% but some goods/services are zero rated or while others exempted. Significant

differences in tax rates across countries can affect allocation of investments as any serious investor weighs taxation highly in business ventures hence fiscal authorities need to closely monitor the tax structure and tariff rates in the quest for private sector growth. World Bank estimates show that Malawi's simple mean tariff rate for 2020 was 9.5% which is above sub-Saharan Africa average of 7.8%. Apart from the taxes administered by MRA, companies and individuals may also face other forms of taxes like levies on fuel, and taxes prescribed by other government agencies and local authorities like city assemblies. For a detailed discussion of the top tax heads in Malawi, see appendix 3A.

Import duty is a key international trade tax and largely affects movement of goods and services across borders. Figure 1 illustrates the share of the applicable import duty rates in Malawi. The most revenue intensive and commonly applicable duty rate is 30 %. With the dawn of the African Continental Free Trade Agreement (AfCFTA) and the associated tariff liberalization, the structure of these duty rates will likely change.

Figure 1: Proportion of applicable duty rates in Malawi



Source: Author's manipulation using Malawi's trade and customs data

Apart from taxes, the government also collects non-tax revenues (NTR), some of which is collected by MRA like the TEVETA levy. NTR includes toll gate fees, fuel levies, and user fees/charges by government departments like Malawi Police Service, Immigration department, and Registrar General for provision of different services. Investors and businesses factor in NTR in their business models hence excessive NRT may disadvantage businesses and/or countries like Malawi.

For the past decade, the Malawi tax system has also undergone various tax policy reforms to either increase revenue generation or encourage foreign and domestic investment. Sometimes, the reforms are geared at achieving equity and efficiency goals, but the tax justice goals are targeted scantily. Some notable reforms include integration of Income Tax and Value Added Tax (VAT) divisions into Domestic Tax Division, establishment of the Large Taxpayer Office (LTO), and the introduction of cargo trackers for trade taxes[1]. Some other reforms currently underway and those for the future relate to the automation of the collection of domestic taxes (i.e. VAT, personal income tax, corporate income tax).

[1] https://www.mra.mw/about/about-us

For Customs, the process of collecting trade taxes (i.e. import duty, import excise and import VAT) was automated in 2004, partly due to enforcement of good practices by the World Customs Organization (WCO). Currently, there are various reforms aimed at promoting voluntary tax compliance, enhancing revenue collection, and minimizing the cost of collection[2].

To sum it all, using the Government Finance Statistics (GFS) framework, the tax revenue can be categorized into broad categories like: taxes on income, profits, & capital gains; taxes on goods and service; and taxes on international trade and transaction. Tables 1a-c below show the composition of tax revenue category as percentage of total tax revenue, tax category nominal value, and tax category as percentage of GDP. From the tables, taxes on income, profits and capital gains (direct taxes) dominate taxes on goods and services (indirect taxes) as well as taxes on international trade & transaction. This cements the earlier observation that direct taxes dominate indirect taxes in Malawi. Furthermore, within income taxes, individuals contribute more taxes than corporations.

Tables 1*a-c*: Composition of Tax Revenue

Note that for interpretation purposes, the compositions below do not add up to 100 % due to overlaps. For instance, taxes payable by individuals are part of taxes on income, profits, and capital gains. The compositions were reported as they appear in the IMF GFS framework and government of Malawi annual economic reports which makes it easier for comparison with other countries that use IMF GFS.

Table 1a: Tax Composition as percentage of Total Tax Revenue				
	2019/20	2020/21	2021/22	2022/23
Taxes Payable by Individuals	31%	29%	29%	26%
Taxes Payable by Corporations & Enterprises	16%	19%	18%	21%
Taxes on Income, profits & capital gains	47%	48%	47%	47%
Taxes on goods and services	45%	44%	44%	44%
Taxes on international trade & transaction	8%	8%	8%	9%
Value Added Tax	27%	30%	30%	32%
Excise Tax	16%	13%	13%	9%

Table 1b: Tax Composition in Billions of Malawi Kwacha				
	2019/20	2020/21	2021/22	2022/23
Taxes Payable by Individuals	335.00	325.00	306.00	400.00
Taxes Payable by Corporations & Enterprises	170.00	219.00	188.00	316.00
Taxes on Income, profits & capital gains	506.00	544.00	495.00	717.00
Taxes on goods and services	477.00	493.00	464.00	668.90
Taxes on international trade & transaction	84.00	89.90	83.10	145.60
Value Added Tax	294.00	342.00	316.70	492.80
Excise Tax	175.00	141.00	139.30	141.10
Tax Revenue	1070.00	1128.00	1044.00	1533.00

Table 1c: Tax Composition as percentage of GDP				
	2019/20	**2020/21**	**2021/22**	**2022/23**
Taxes Payable by Individuals	3.90	3.50	3.00	3.40
Taxes Payable by Corporations & Enterprises	2.00	2.40	1.80	3.00

[2] https://www.mra.mw/about/about-us

Taxes on Income, profits & capital gains	5.90	5.90	4.80	6.40
Taxes on goods and services	5.60	5.30	4.50	1.20
Taxes on international trade & transaction	1.00	1.00	0.80	1.20
Value Added Tax	3.50	3.70	3.10	4.00
Excise Tax	2.10	1.50	1.40	1.70
Tax Revenue	12.6	12.2	10.2	13.4

c. An overview of applicable taxes in selected sectors

At sectoral level, some tax rates differ across products and sectors depending on the government's incentives schemes. Below is an overview of taxes applicable to selected sectors and/or products.

i. Mining Sector

The mining sector in Malawi faces several taxes like all other sectors including payroll tax, royalties, resource rent tax, and corporate tax. Apart from the taxation act, the fiscal regime specific for mining companies is also set out in the Mines and Minerals Act (MMA) of 2019. For instance, a mining project is taxed a corporate tax of 30% if the company is incorporated in Malawi and 35% if it is a foreign company operating through a branch. The sector also faces other sector specific taxes like royalties, resource rent tax, and Fees. A minimum resource rent tax of 15 % on profits is also applicable if the rate of return exceeds 20 %. There is also a royalty rate of 5% payable on production of minerals. The government is also entitled to 10 % minimum equity participation as provided in the MMA. Every mining project has a mining development agreement with the government and the taxes and incentives may differ from one mining development agreement to another. Just like other sectors, there are also mining specific incentives in the sector:

a. 100 % mining expenditure allowance in the first year of tax assessment.
b. Duty waivers on specialized mining equipment.
c. Exploring mining companies can register for VAT and claim input VAT even though they are not making taxable supplies[3].

ii. Agriculture sector

In the agricultural sector, companies face the same taxes as in other sectors but there are some incentives for the sector. For instance, most agricultural equipment and machinery are imported duty free. Similarly, fertilizer and pesticides are also imported duty free. Priority sectors like agriculture also enjoy zero corporate income tax for a maximum of ten years and exemption of duty on importation of building materials and capital goods. Despite the existence of tax incentives, investors are not guaranteed to enjoy such incentives due to systemic challenges in tax administration processes. It is therefore important to have a better tax system devoid of subjective incentives.

iii. Energy Sector

The energy sector is taxed like any other sector, but the government introduced incentives in the sector as one way of attracting investors, mostly independent power producers (IPPs). Apart from the taxes paid by companies in the energy sector, the electricity tariff code is also key in attracting and retaining serious IPPs. The tariff developed by ESCOM is effected subject to approvals by Malawi

[3] Domestic Resource Mobilization, https://www.mra.mw/assets/upload/downloads/Domestic_Resource_Mobilization_Strategy.pdf

Energy Regulatory Authority (MERA).

Some of the tax incentives include:

a. Zero corporate income tax for a maximum of ten years.

b. Exemption of duty on importation of building materials and capital goods

c. Duty free importation (except VAT) of energy saver bulbs, energy lamps, generators, and other energy related materials.

d. Duty free importation (except VAT) of electricity generation equipment like fuses, insulators, and electricity supply meters.

There are also general incentives aimed at promoting exports. For instance, a registered exporter is entitled to a 25 % income tax allowance of the taxable income generated from the export proceeds.

All exports enjoy general incentives including;

i. 25% international transport allowance for non-traditional exports.

ii. 30% export allowance for processed non-traditional exports.

iii. 10% export allowance for unprocessed non-traditional exports.

iv. Exports are zero rated for VAT purposes, hence input VAT is claimable.

Additionally, for the priority industries (which according to the DRMS has agro-processing, and energy generation, distribution, and transmission), the companies enjoy incentives like reduced rate for corporate income tax of 0% for a maximum period of 10 years or 15% indefinitely. Duty waivers on building materials and capital equipment. Other incentives are duty waivers on consumable products for the sector and building materials & capital equipment. For the sectors under discussion, mining is not included as a priority industry hence moving forward the government may consider including mining considering the potential benefits (as alluded to by both senior government officials and private sector players) this industry may bring to the nation.

Across all sectors (including the four sectors of interest in this report), some of the provided government incentives are negotiated individually by the prospective companies though the process is not usually transparent, and companies usually face red tape. The DRMS noted that tax incentives in Malawi have largely failed to attract and sustain new investments due to among others poor coordination in the application of the incentives, overlapping of incentives, non-inclusiveness, poorly designed incentives which fail to address main issues affecting investments, and poor targeting (Ministry of Finance, DRMS 2021-2026).

iv. Manufacturing sector

Manufacturing sector is among the top key sectors in Malawi and plays a big role in socio-economic development of the country. In the past five years (including 2023), the sector has contributed around 11-12 percent of GDP but growth rates for the sector remain below 5 percent. The sector recorded the highest growth in 2019 of 7 percent before registering a recession of 0.7 percent in 2022. Recovery remains slow due to several factors including foreign exchange scarcity, energy shortfalls, unstable fuel supply, and rising cost of raw materials. Compared to the other sectors in this report, manufacturing ranks well as agriculture contributes 22-23 percent of GDP, energy 3 percent of GDP, and mining 0.7-0.8 percent of GDP. Suffice to say, the other sectors are growing at a higher rate than manufacturing. Average growth rates for the period 2022-2023 shows manufacturing is expected to grow by 1 percent, mining 6.5 percent. agriculture 2.3 percent, and energy 2.5 percent. From the study and engagements with stakeholders in the sector, tax issues form part of the challenges facing the sector. Despite several

incentives schemes, the sector keeps on struggling to produce enough for the local market and does not export enough. Success of the Government's calls for import substitution heavily relies on a vibrant local manufacturing sector which is able to produce quality products for exportation as well as local consumption.

The manufacturing sector faces a tax regime which is also applicable to all other sectors but there are special incentives for all manufacturers (including growers of tea, coffee, sugar, and cocoa). Some of the incentives for this sector are:

i. Pre- business expenses up to 18 months are allowable expenses.

ii. Industrial Rebate Scheme where Manufacturers under the scheme can import raw materials duty-free and excise free while VAT is payable but claimable.

iii. Tax holiday for up to 10 years for priority industries (Agro-processing).

iv. 100% capital and investment allowance on new and unused plant and machinery and industrial buildings.

v. 40% capital and investment allowance on used plant and machinery and industrial buildings.

The industrial rebate scheme is designed to boost the sector though its success is yet to be evaluated. Nevertheless, manufacturing entities which meet the conditions below qualify to be under the scheme:

(i) The manufacturing entity should be registered as an operator under the Industrial Rebate Scheme.

(ii) Plant and machinery must be in place at the manufacturing premises.

(iii) Different categories exist with different value addition thresholds ranging from minimum 5% to 35% percent. Determination of the value addition is based on assessment of production cost as detailed below:

- Manufacturers in essential industries i.e. Fertilizer Manufacturing, Medicaments and Pharmaceuticals and high tech industries the value addition threshold is minimum 5%
- Manufacturers strictly for local market the value addition threshold is minimum 10%
- Manufacturers for the export market the value addition threshold is minimum 35%

Interested and qualifying manufacturers are encouraged to contact MRA to go through the application process to join the scheme.

Despite these incentives, just like the other sectors (mining, energy, and agriculture), investors are not guaranteed access until they apply and follow the laid down process. Government bureaucracy frustrates serious investors. Complicated and lengthy incentives procedures breed corruption. Furthermore, frequent changes in the tax regime for the sector and other regulatory issues like land laws makes it difficult for the sector to flourish. Best practices require a good predictable and reliable tax regime, and regulatory environment for the manufacturing sector to perform.

Excessive bureaucracy with complicated and lengthy procedures as well as unclear rules are a gateway to corruption. Therefore, rules and regulations affecting the manufacturing sector would need to be reassessed in order to identify unnecessary, unnecessarily complex, and unclear rules.

d. Implications of the tax structure on investment and businesses in Malawi

The tax structure as discussed previously affects decisions to invest and generally, businesses operations. Of course, taxation alone is not the only investment factor. Other factors are equally

important and for Malawi, most businesses cite excessive red tape, unstable macro-economic environment, energy shortfalls, and frequent policy reversals as some of the deterrents to investments and business growth in Malawi. Through this study, stakeholders raised concerns with red tapes prevalent at the Malawi Revenue Authority, Ministry of Mining, Ministry of Energy, Ministry of Agriculture, Ministry of Industry & Trade, and Ministry of Finance when companies seek services from these institutions, virtually or physically —mostly physically when they visit the office premises. Companies have challenges accessing services despite processes being clearly spelt in the law, policies, or regulations. Common red taped processes include getting a tax clearance certificate, accessing tax incentives, claiming tax refund, signing of mining development agreements, and accessing permit documents, among others. In a stakeholder survey conducted, one of the companies said: "*.....delays to issue tax clearance certificate by MRA. As small businesses we are failing to get paid by government due to difficulties in acquiring tax clearance certificates. MRA officials are always looking for excuses to deny you the certificate*". Most exporters lament delays by responsible government offices when issuing export permit documents. This has led to companies losing out on their supplies as international customers have a global market to choose from. For companies in Malawi to be competitive on the international stage, such delays in getting export permits and certification should no longer exist. Apart from providing incentives to investors and businesses, the lack of proper communication and publicity makes it difficult for businesses and investors to have up to date information and avoid falling into the red tape trap. In the survey responses, another company said "...g*overnment offices are poor communicators at best with official communication going unanswered for months at a time*."

During the 2023/2024 Ministry of Finance & Economic Affairs budget consultations, industry players lamented that Malawi has a shorter tax loss carryover period of six years which makes it difficult for businesses with huge initial investment to recover. Though some companies are given a longer loss carry over period, the process of obtaining such an incentive is riddled in bureaucratic hurdles. For instance, macadamia companies are experiencing challenges with the 6-year loss carry forward considering that it takes more than 6 years for macadamia nut trees to reach maturity/harvesting stage hence a 10-year loss carry forward would be ideal. In addition to the loss carryover period, the period for input VAT claim is also pointed out as a concern. Currently, companies can claim input VAT within 6 months, but inefficiencies at MRA make it challenging for companies to get their refunds in time. In some cases, it takes over 2 years for a company to get a tax refund. This is frustrating to current and prospective investors. The implications may differ but players in the energy sector stressed that the input VAT in the sector makes the sector unattractive as it requires huge investments, yet MRA significantly delays in issuing refunds.

In the mining sector, the existence of resource rent tax and royalty is akin to double taxation. Large prospective mining investors take this with a pinch of salt as it is uncommon in the region. Import Duty exemptions and other tax incentives to companies in the energy sector, by virtue of being a priority industry sector, are only for companies with an investment capital of at least US$30 million and such an incentive is prohibitive small Independent Power Producers (IPPs) who can make a difference considering the energy gaps in the country but have limited capital investments.

e. Which tax structure is most appropriate and achievable?

The current tax regime distorts investments and business growth. The Government of Malawi should move more into consumption taxes (indirect taxes) like VAT and Excise so that companies can have relief and consequently increase investments. Over-reliance on corporate income tax (CIT), Pay As You Earn (PAYE), and Import duties is detrimental as it eats into the core income of companies. In a fair system, consumers should bear much of the taxation. It is good to note that, government through the DRMS is already emphasizing the need to push the tax system into a more indirect taxes dominant tax system. For instance; VAT can be increased, CIT lowered, PAYE lowered, and excise taxes increased. But to achieve the revenue targets as set in the DRMS, there is need to improve on enforcements, increase tax audits, reduce the red tape, and widen the tax net. As observed by Estevao (2019), poor countries like Malawi should cast the night wider by introducing more excise taxes, carbon related taxes, and property taxes on top of other common taxes like

VAT (Marcello Estavao, World Bank.2019). MRA should also endeavor to simplify tax laws for easier application and understanding in the process reducing culture of evasion and lowering opportunities for corruption. In addition, tax enforcement is another key aspect of a good tax system. The study noted good progress by MRA like introduction of block management system to increase tax compliance, but effective implementation remains critical. Malawi's VAT of 16.5 % is relatively low compared to other regional partners like Uganda 18%, Tanzania 18%, Rwanda 18% but better than South Africa 15%, Zambia 16%, and Zimbabwe 15%. To increase consumption taxes weight, raising the VAT to 17-18 % while lowering corporate tax rate or increasing the zero threshold under PAYE may prove effective. In the region, Zambia, Zimbabwe, Tanzania, and South Africa all have higher zero percent PAYE threshold than Malawi. For CIT, the regional comparison is a mixed bag as Malawi, Zambia, Tanzania, Uganda, and Rwanda have CIT of 30 % while Zimbabwe, Ghana, Botswana, South Africa have CIT of 25 % and South Africa CIT of 27 %. Digitization of the tax system should also be seriously considered. MRA's Msonkho online is a positive step, but most stakeholders interviewed complained that the system is slow, facing technical glitches, and does not digitize some tax processes. Government should also build trust on the usage of tax revenues so that taxpayers appreciate the importance of tax payments.

f. Current tariff lines for IPPs in Malawi and the region

An analysis into the current tariff line for IPPs is important as it helps to build a strong case for business-friendly tariff structure in the energy sector. IPPs sign Power Purchase Agreements (PPAs) with the government and getting the signed PPAs is difficult considering that disclosure is at discretion of the parties involved. According to Power Market Limited (before its dissolution in December 2022), IPPs can both be solicited or unsolicited though government prefers solicited IPPs. The energy sector was opened for more IPPs following the energy sector reforms which reached climax during the United States Government Millennium Challenge Corporation (MCC) Energy Compact in 2012 - 2018 and led to several initiatives aimed at attracting IPPs into the energy sector. Some of the initiatives included unbundling of Electricity Corporation of Malawi (ESCOM) into Power Market Limited (PML) to act as single buyer, ESCOM for transmission, systems, and distribution, and Electricity Generation Company (EGENCO) for generation. Since then, several IPPs have signed Power Purchase Agreements (PPAs) and Implementation Agreements (IAs) though JCM Power is the only IPP which has added solar power to the national grid. Through its two solar projects, JCM has added 60MW from its Salima plant and 20MW from its Golomoti plant. Serengeti energy with 21MW is the most likely IPP to add solar power into the grid in the first quarter of 2023. EGENCO remains the dominant player producing at least 90 % of the country's energy supply. With several players in the sector, ESCOM purchases power as single buyer (PML dissolved) from these IPPs and then distributes it to customers. To attract serious IPPs, tariffs play a huge part. Setting of tariff involves several players including Malawi Energy Regulatory Authority (MERA), ESCOM, Ministry of Energy, and Ministry of Finance, among others. According to available information, table below presents a summary of key energy generation companies & plants, and the corresponding average tariff.

Table 2: ESCOM's purchase of power from IPPs

Station or Company	**Price (MK/Kwh)**	**USD / Kwh**
Wovwe- EGENCO	18.61	0.0179
Tedzani- EGENCO	25.37	0.0245
Kapichira-EGENCO	29.37	0.0283

Nkula A-EGENCO	30.30	0.0292
Nkula B-EGENCO	47.74	0.0461
JCM Salima	87.48	0.08
JCM Golomoti	106.10	0.102
Mulanje Ceda Hydro	128.9	0.124

Source: Newspaper Article https://mwnation.com/escom-lied-on-power-prices/

From table 2 above, the government is striving to incentivize IPPs by offering them higher tariffs than EGENCO. Furthermore, according to ESCOM, international IPPs like JCM have cost reflective tariffs in USD to gauge against any local currency exchange rate losses. The Electricity Tariff Schedule, as approved by MERA provides for automatic transfer pricing based on movements of key variables like exchange rate movements. In practice, MERA does not adhere to the tariff schedule, due to several reasons, some of which are political considerations. Recent foreign exchange shortages have been a nuisance for Foreign Investors like JCM who are finding it difficult to repatriate profits or any other incomes to their shareholders abroad. Persistent forex challenges may disincentivize the already existing IPPs which consequently may discourage prospective IPPs. The 350MW Mpatamanga project, which may be fully operational in the next 4-5 years will likely enjoy good tariffs but may not exceed those enjoyed by fully private energy producers.

According to the World Bank, the price of power in Sub-Saharan Africa (SSA) is high by international standards and the average tariff in the region rose from $0.07 per kWh in 2001 to over $0.13. Tariff increases are common in countries with heavy reliance on diesel-based power generation systems as rates reach as high as $0.17 per Kwh. The increase may likely be a response to the rising cost of diesel as oil prices continue to rise over time. The World Bank report observed that the average tariff in most SSA countries fall significantly short of average operating costs, which is over $0.27 per kWh (Anton Eberhard et al, World Bank 2008).

Figure 2 below is an extract from International Renewable Energy Association (IRENA) 2022 market analysis for Africa. The graph gives a good picture of costs of generation across different types of technologies like thermal or biomass. Ghana and Egypt have higher tariffs compared to other countries in the graph, but high cost of production may imply that the tariffs may not be cost reflective. Solar and Wind attract better tariffs than hydro power. One potential reason may be that most hydropower is generated by state owned companies who may not charge their sister companies competitive tariffs. On the other hand, most IPPs are into solar and wind and are likely to charge cost reflective tariffs since these are private sector companies driven by profits and maximizing shareholder's interests.

Figure 2: Selected countries and their associated tariffs

Source: International Renewable Energy Agency 2022 Africa Market Report

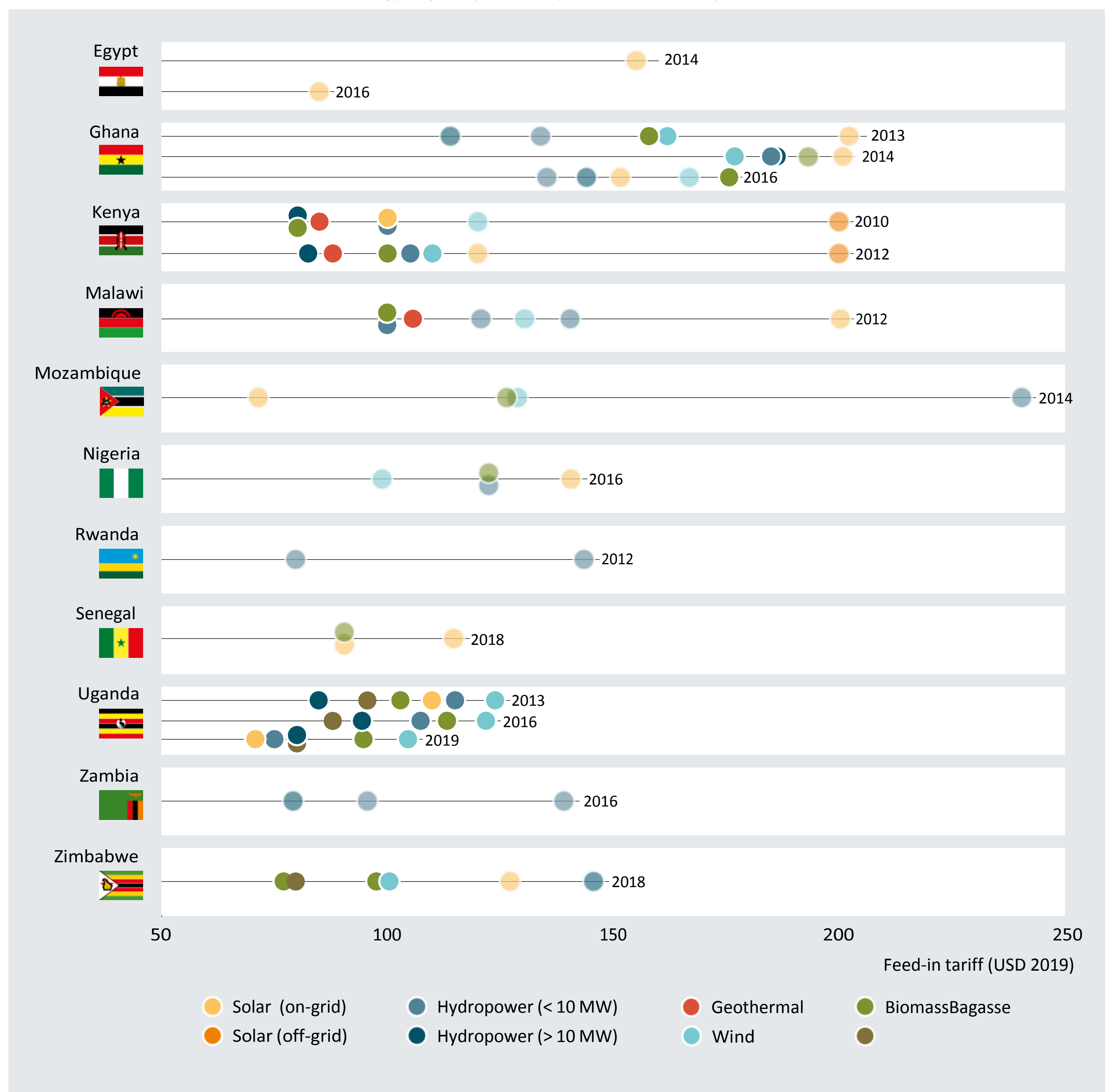


Table 3 below gives a closer look at two other countries (Ghana and Kenya). The tariff rates for Kenya and Ghana per technology category are better than for Malawi (Table 2). Just like for Malawi, Solar and Wind have much higher feed in tariffs compared to hydro. Nevertheless, the higher tariffs for Ghana and Kenya could reflect high cost of production and inefficiencies in the Feed in Tariffs formula which consequently may not attract IPPs compared to Malawi (Ana Pueyo et al, 2016).

Table 3: Kenya and Ghana Energy Pricing by Source

	Kenya	**Ghana**
Wind	$0.11 per Kwh	$0.15 per Kwh
Hydro	$0.08-0.105 per Kwh	$0.14 per Kwh
Biomass	$0.10 per Kwh	$0.15-0.17 per Kwh
Biogas	$0.10 per Kwh	-
Solar	$0.12 – 0.20 per Kwh	$0.17 per Kwh
Geothermal	$0.088 per Kwh	-

Source: Cost and Returns of Renewable Energy by Ana Pueyo et al.

The tariffs are also affected by the method of procurement for energy. Feed in Tariff programs tend to have higher tariffs than auction programs. For auctions, companies will submit bids and usually the lowest price wins the day. Feed in tariffs are quite expensive but are good in inducing investor confidence in the sector. Over the years, countries have experienced varying tariffs for the IPPs projects. For instance, in Mauritius, the 6 solar PV IPPs that reached financial close between 2018 and 2019, were all competitively procured in 2016 at a tariff of US$0.062/kWh. In 2018, Senegal awarded an IPP at a price of US$0.0427/kWh. In 2019, six projects were awarded in Zambia at prices ranging from US$0.0399 – 0.0480/kWh, while the Gad and Dicheto Solar PV plants in Ethiopia were awarded at a regional record-breaking price of US$0.025/kWh (University of Capetown, Energy Prospects in Sub Saharan Africa, 2020). JCM Power and Mulanje Cedar rank favorably when compared with these projects, suggesting that Malawi's tariffs for IPPs are competitive due to seemingly lower production cost.

To support IPPs, countries like Uganda, Mozambique, and Zambia have the Global Energy Transfer for Feed – in – Tariff (GET FiT) program which support small IPPs projects of up to 20MW. The program is funded by KfW, the German Development Bank, on behalf of the Germany government. The GET FiT program works as a public private partnership programme and leverages commercial investment in renewable energy projects. Anton et. al observed that the primary GET FiT mechanism is a grant-based premium payment aimed at closing the gap with the cost of electricity (LCOE) for eligible technologies, like small hydropower, biomass, bagasse, and solar PV. It has been instrumental in attracting renewable IPPs. The Zambia and Mozambique projects followed successful piloting in Uganda where over 160MW of renewable energy was installed. In Zambia, the GET FiT program offered tariff ranging US Dollar Cents 3.99/Kwh - 4.8/Kwh which is below what currently JCM, the only active IPP in Malawi, is getting from ESCOM, suggesting that Malawi has better tariffs. Despite the good news on GET FiT, reports suggest that South Africa abandoned the feed in tariff and adopted the auction scheme which offer low tariffs. Malawi, Ghana, Ethiopia, Mauritius, Namibia, Zambia, Uganda, and Mozambique have all adopted renewable energy auctions but but there is variation at degrees of implementation and balancing with feed in tariffs. Though feed in tariffs may seem costly, it would be ideal if countries with low energy production continue offering a mixture of feed in tariffs system and auction system IPPs. The higher tariff IPPs are attractive to investors while the auction system with its low-price bidder preference may attract poor quality IPPs.

g. How does Malawi compare with others?

Here, the study compares the tax structure and incentives for Malawi with some countries in Africa, mostly regional peers. In this section, the focus is on the three main sectors namely mining, energy, and agriculture.

i. *Mining Sector*

The study has revealed a common valid concern from large scale mining (or prospective mining) firms. The concern is the existence of Resource Rent Tax (RRT) in the Mining & Minerals Act (MMA). Table 4 below is an extract from the 2022 Ministry of Mining press release. As detailed in the table, among Malawi, Zambia, Tanzania, Namibia, Botswana, and South Africa only Malawi has (RRT) on top of other taxes like corporate tax, royalties and compulsory government free carry. Zimbabwe, though not in the table, also does not charge RRT. From the questionnaire results, companies argue that having an RRT of as high as 15 % on top of Royalty and other taxes acts as double taxation by the government of Malawi. Even for royalty, Malawi's rate of 5 % is quite high compared with well-established mining countries like Namibia, Botswana, and South Africa. A country which is keen on inviting serious and large investors in its infancy mining sector should have more favorable fiscal clauses than what is currently attainable in the MMA of 2019. Alternatively, Malawi can have various rates of royalties depending on the type of mineral being extracted. Zambia, Zimbabwe, Tanzania, South Africa, Nigeria, and Rwanda have different royalty rates. Malawi's royalty rate is standard regardless of size or type of mineral.

Table 4: Comparison of Mining Fiscal Regimes

	Malawi	Zambia	Tanzania	Namibia	Botswana	South Africa
Royalties	5%	5%	5%	2%	3%	0.5%
Resource Rent Tax	15% of profits for over 20 % rate of return	None	None	None	None	None
Government free carry	10%	None	16%	None	None (but can acquire 15%)	None

Source: Ministry of Mining Malawi

Apart from the above fiscal clauses which are also contained in the MMA of 2019, Malawi mining sector has incentives like 100 % expensing of expenditure in the first year, but this may not be adequate considering the nature of mining business which requires huge capital inflows. For example, in Botswana, mining companies carry losses indefinitely. For Corporate Income Tax (CIT), the Malawi government charges this tax though tax holiday may be given for a period. In Rwanda, mining companies are automatically given 0 % CIT (instead of the standard 30 %) if the company has set up its head office in Rwanda. Furthermore, a CIT of 15 % applies if the project exports processed minerals and 50 % of the mineral's turnover is produced in Rwanda. Despite the seemingly significant differences in the fiscal clauses across the region, mining stakeholders in Malawi cite red tape in government institutions as the most distracting obstacle for investors. It takes years to discuss and conclude a document like a mining development agreement which in other jurisdictions is done within a year.

The MMA vest the overall administration of the mining industry in the Mineral Resources Committee (MRC), which is composed of officials from Ministry of Mining; Local government; Treasury; Water; Environmental affairs; Geological survey; parks and wildlife; forestry and natural resources; Malawi Police Service; ministry of justice; and Malawi Revenue Authority. Among others the MRC roles

include: examining the qualification, experience and character of applicants for licenses and permissions; recommends grants, extensions of tenure, and the expansion of licenses; recommends the cancellation of licenses; determines complaints and appeals; Recommends to the Minister any measures necessary for the harmonization of mining activities; provides technical advice and guidance on the administration of the MMA; and carries out such other activities as are necessary for the performance of its functions under the MMA. The MRC has powers as according to the MMA, the Minister cannot grant any license or permit unless the Mineral Resources Committee has recommended the respective application. Apart from getting the license, one can only export minerals using a minerals export permit. Parliamentary approval of the mineral contracts is not stipulated in any laws of Malawi, but they have the mandate to deliberate on laws that govern the sector and approve them. Clearly missing in the MMA are timelines for each of the roles of MRC. Currently the government is in the process of setting up a mining regulatory authority which will create another layer for players in the sector. Most countries in the region have similar structures like MRC and mining commissions/authority but differs on composition, mandates, and timelines of making decisions. The MMA does not provide clear timelines for each step in the awarding or management of mining licenses. Such ambiguities create room for bribery and corruption for desperate investors. Worse still, the incentives are not guaranteed for every investor, so investors must negotiate with the government on a set of incentives to benefit from. This also creates unnecessary red tape and layers of approvals which is a breeding ground for corruption.

ii. Agricultural Sector

Just like Malawi, several of Malawi's neighboring countries and regional partners, provide various incentives and tax structures to promote trade and investment for the agricultural sector. In Zambia, agro-processing companies enjoy a CIT of 10 % against a standard rate of 30 %. In Nigeria, businesses wholly engaged in agricultural industrialization and trade are excluded from CIT (CIT is 20 % for medium businesses and 30 % for large entities). In Ghana, despite having a CIT of 25 %, a rate of 1 % applies to agricultural sector businesses for the first 5-10 years depending on type of agri-business. In Rwanda, companies enjoy 50 % reduction in CIT if it exports 50 % of the turnover of products produced in the country. Other countries with favorable CIT for the agricultural sector include Botswana which has a CIT of 5 % (standard CIT is 22 %) for the first 5 years then 10 % for the rest of the years. To boost trade and investment capacity for companies in agro-processing, Nigeria has an agricultural credit guarantee scheme fund which offers up to 75 % guarantee for all loans granted by commercial banks and offers interest drawback programs. Malawi provides a tax holiday of up to 10 years for priority industries of which agro-processing is one of the industries. The industrial rebate scheme is also another incentive targeting sectors like agriculture in Malawi. Under the industrial rebate scheme, companies can import raw materials duty-free and excise free while VAT is payable but companies can claim refunds. Agro-processing as a priority sector in Malawi can enjoy either a reduced CIT of 15 % indefinitely or a tax holiday of 10 years. Advanced countries like Norway do exempt commercial greenhouses from paying electrical power taxes. Norway also exempts agriculture companies from paying some taxes charged on fuel like road user tax. Despite not providing a reduced CIT, Malawi offers a considerate tax holiday period though enjoying such benefit is not guaranteed for all due to unnecessary government bureaucracy.

iii. Energy Sector

The Energy Sector in Malawi is among the priority sectors hence enjoys a tax holiday for up to 10 years or reduced corporate tax rate of 15 % indefinitely. The current standard CIT for Malawi is 30 %. Import duty exemptions are for investments of more than US$30 million. Being a small economy and a small energy sector, an investment of US$30 million is above average, as a result small investors are disadvantaged. In Tanzania, a far much bigger economy, companies are awarded incentives and investor certificates for investments of more than US$20 million in the energy sector and with such a certificate, they enjoy various incentives including pay & refund scheme for excise duty paid on fuel

purchased by certified companies. In Madagascar, the CIT is reduced equivalent to 50 % of the investment while in Rwanda a 7 year tax holiday for investment producing more than 25 MW and with at least US$50million capital. Zimbabwe gives a CIT tax holiday for the first 5 years then taxed at 15 % thereafter (the standard CIT is 25 %).

3. A REVIEW OF TAX REFORMS TARGETED FOR INDUSTRIES IN MALAWI 2012-2021

In this section, the study reviews some of the tax reforms that were targeted towards particular economic objectives such as job creation, improving market access, export promotion and promotion of small-scale and medium businesses. In each section, the study presents the objective of the measure, the description, and the year in which the measure was announced. All the measures are extracted from Budget Statements from the year 2019 to 2021, which are publicly available through Malawi's Ministry of Finance website.

a. Tax reforms targeted at job creation and labor force participation

The study examines some measures aimed at creating jobs, increasing disposable income of low-income earners, and encouraging labor force participation.

Table 5: Tax reforms for the job market

Tax Reform Objective	Tax Measure description	Year Minister announced measure
To increase the disposable income of low- income earners through Pay As You Earn (PAYE).	Increased the tax-free bracket to MK45,000 from MK35,000 per month.	2019/2020
To encourage employers to recruit people with disabilities, to enable them to increasingly participate in the labor market for their improved welfare.	Introduced a 50 % deductible allowance for all employers recruiting people with disabilities.	2019/2020
To increase the disposable income of low- income earners through Pay As You Earn (PAYE).	Increased the tax-free band from K45,000 to K100,000.	2020/2021

Most of the measures increased disposable income through adjusting upwards the tax-free band for PAYE. The study did not find specific measures aimed at female-labor force participation. However, it was encouraging to observe measures that promoted participation of people with disabilities in the labour force.

b. Tax reforms to enhance export competitiveness

The study focuses on tax reforms that are geared towards improving export competitiveness such as enhancing tracking of exports, improving quality of packaging and promoting value addition of non-traditional exports. In the fiscal year 2019/20, the government increased the Export Allowance available

for non- traditional processed exports to 30 % from 25 %. The objective of the reform was to promote value addition for exports of non- traditional processed products.

c. Tax reforms to increase market access

When referring to international trade, the term "market access" describes a company's ability to trade its goods and services in a foreign market. The ability is increased through imposition of import tariffs and quotas to restrict imports and promote domestic firm competition on the foreign market (World Trade Organization, 2013). In the case of a foreign firm, market access into the domestic market may be encouraged by removing duties that discourage consumers from importing foreign products or services.

Table 6: Tax Reforms for market access

Tax Reform Objective	Tax Measure description	Year Minister announced measure
To encourage growth of local industries, save foreign exchange, and promote industrialization	Introduced a surcharge on some imported goods that have local substitutes such as; vegetables, fruits, sugar, cooking oil, and cement (a comprehensive list was published in the Gazette).	2019/2020
To encourage soap manufacturers in Malawi to produce soap cheaply.	Removed the 10 % import duty on soap noodles, which is the key ingredient in soap manufacturing.	2021/2022
To make local products more competitive.	Reduced excise tax on opaque beer from 30 % to 10 % and excise tax on malt beer, from 60 % to 40 %.	2021/2022
To allow the book printing companies to be competitive with imported books and textbooks.	Zero-rated printed books and textbooks. Removal of import VAT on raw materials for use in printing and publishing books.	2021/2022
To boost pharmaceutical industry.	Removed import VAT on raw materials for use in manufacturing of Medicaments, Pharmaceuticals and Medical Apparatus.	2021/2022
To enable the local fish breeders improve local production and become competitive.	Zero-rated from VAT, fish feed and machinery specifically for producing fish feed.	2021/2022

The study included the mining sector in this section because it is one of the major potential exporting sectors through mineral exports. Apart from the reform in the mining sector, which enabled VAT, all other measures in Table 6 concern import duties.

d. Tax reforms to boost profitability and growth of small and medium exchange businesses

In Table 7, is a discussion of measures targeting small and medium exchange businesses through

permitting VAT claims, import duty waivers, excise tax and a duty-free week offered once per annum.

Table 7: Tax Reforms for small and medium businesses

Tax Reform Objective	Tax Measure description	Year Minister announced measure
To lessen the tax burden on smallholder farmers and increase their disposable income	Removed Withholding Tax on tobacco sales for the first 1,200 kilograms or 10 bales of tobacco sold through the auction floors.	2019/2020
To promote small and medium-exchange businesses.	Introduced a duty-free week per year for imports not exceeding US$3,000.	2021/2022
To support growth of small businesses,	Increased the COMESA Simplified Trade Regime threshold from US$2,000 to US$3,000. Subsequently, small businesses are now able to import qualifying items valued up to US$3,000 without paying import duty.	2021/2022

Within this section, some of the measures included a 3 % withholding tax on all imports which was introduced in 2013/2014. Because of administrative challenges, the tax was not implemented and was therefore re-introduced in the fiscal year 2021/22. The measure does not apply to small traders who have a Withholding Tax Exemption Certificate, hence, in some way, it reduces the cost of compliance for the small traders since they don't have to file income tax returns and make claims on the withholding tax.

The section has provided a review of some of the tax reforms that were geared towards creating jobs, promoting export competitiveness, increasing market access, and supporting small and medium enterprise businesses. The reforms range widely from income- tax bracket adjustments, import-tax waivers, VAT-claims, withholding taxes, and variations of the tax rates, among others.

4. INVESTMENT CLIMATE OVERVIEW

Malawi is good for business. That is what every investor hears from senior government officials, though the last edition of the World Bank Doing Business report (2020 report) ranks Malawi on 109 out of 190 countries on ease of doing business. Based on UNCTADStat data, Malawi has experienced irregular foreign direct investment (FDI) flows. In 2018, FDI reached its highest point of $959.4 million, decreased slightly in 2019, and drastically declined to $98 million in 2020 (a decrease of 88%) due to the impact of the COVID-19 pandemic.

In the 2020 World Bank Doing Business report, Malawi ranks in the bottom 60 on 5 sub-categories namely starting a business, electricity access, enforcement of contracts, resolving insolvency, and of course, paying taxes. The economy continues to experience volatile growth amidst domestic and external shocks. In 2020, the economy grew by 0.9 % then rebounded to 2.2 % in 2021 then down again to 1.7 % in 2022 and a slight improvement of 2.7 % is expected for 2023. A weaker currency, rising food and fuel prices, and general increase in prices of basic goods has pushed inflation well above 25% in the second half of 2022. Consequently, the Central Bank raised the policy rate from 12% in March 2022 to 18% in October 2022 and maintained the rate at 18% during its first monetary policy committee meeting of 2023. Consequently, the cost of access to finance from the local financial system is high. Rising public debt and widening fiscal deficit continue to restrain economic growth amidst rising population growth. Unstable local currency and foreign exchange reserves availability affects investors and may also delay movement of funds like repatriation of profits or making international payments. These factors continue to affect the competitiveness of Malawi's economy to existing and would-be investors. The stock market, with 16 listed companies, is still a work in progress as market activity and value remain small.

Widening fiscal deficit and expenditure pressures push the government to rely mostly on taxes and usually the large taxpayers to foot the national budget. Large investments are usually the target though there are incentives to lower tax burden. Excessive red tape and corruption affect investors from timely accessing the tax incentives. Despite the challenges, the government of Malawi has several institutions in place which focus on attracting investors. One such institution is the Malawi Investment and Trade Center (MITC) which assists investors and businesses by providing local knowledge and guidance on regulations, processes, and procedures for investors. To support industries, the government also has an Industrial Rebate scheme, Export Processing Zones program, and is working on establishing Special Economic Zones. These initiatives aim at attracting investors, promoting local industries, increasing exports, and industrialization.

The Reserve Bank of Malawi provides a favorable environment for movement of funds but requires prior registration of loans or investment funds if the investor may need to import forex, full repatriation of profits, dividends, investment capital, and interest and principal payments for international loans. Established businesses cite the tax system and administration as one of the impediments to investment. For instance, tax refunds administration remains an issue of concern for many investors as the process is slow. The DRMS also noted the concern: 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 pay the tax refund in time. But acknowledgement of the problem is not enough. There is a need for the government to match the acknowledgement by making meaningful improvements in administration of tax refunds. Furthermore, tax incentives are subject to approval by government ministries & agencies which result in excessive red tape and corruption. Below is an overview of the investment climate in the four sectors covered in this study.

a. Investment Climate in the Mining Sector

Malawi government believes the mining sector is a perfect competitor and/or alternative for the agriculture sector. As of end 2022, the mining sector contributes less than 1 % of GDP (same for the previous ten years) but the government continues to push for meaningful mining investments with potential of increasing mining sector contribution to 25 % of GDP within the next decade. To achieve such ambitions, the sector requires a conducive investment environment which is attractive to existing and prospective investors. Among others, the government continues to make mining data easily accessible through a more efficient licensing cadastral system and geological survey department. Investors can get maps and other mining data from the geological survey. Getting accurate and reliable data is a very important step in ensuring that investors have confidence in the mining sector. Furthermore, the government repealed and enacted the Mines and Minerals Act in 2019 to strike a balance between investors, government, and citizens' interests in mining projects. The Mines and Minerals Act also sets out the minimum fiscal regime for the mining sector, incentives, and licensing requirements and procedures. Nevertheless, several stakeholders question some of the fiscal clauses in the MMA and urge the government to consider a meaningful consultative review process.

Government is also on track in implementation of Extractive Industry Transparency Initiative (EITI) candidacy obligations which among others require reforms and policies to improve the mining sector. To improve efficiency and enforce adherence to regulations in the sector, government plans to establish a mining authority and a mining company. The Mining Authority will be responsible for all mining licensing processes while ensuring adherence to set regulations and laws. The mining company will hold government equity interests in the mining sector and carry out other value addition services. Government mining companies are common in southern Africa. For instance, the Tanzania government has the Tanzania State Mining Corporation, South Africa has African Exploration Mining and Finance Corporation, while Kenya has National Mining Corporation. Despite government efforts, serious infrastructure deficits, red tape, conflicting laws, energy shortfalls, and poor transportation remain obstacles to existing and potential investors. Large mining projects require reliable and sufficient energy supply, reliable road and rail network, on top of other infrastructure needs. Such prerequisites are currently a challenge for large scale mining investors.

b. Investment Climate in the Energy Sector

Electricity is a major subsector of the energy sector that requires investment attention. Malawi has the lowest electrification rate in the SADC region, at about 12.4 % (Rocky Mountain Institute, 2019). At present, the Electricity Generation Company Ltd (EGENCO - national supplier of 90 % of electricity, has an installed capacity of 441.95 Megawatts (MW). In total ESCOM has installed capacity (combination of all energy generators including EGENCO) of 528MW but the predicted demand is more than 618 MW.

According to the Malawi Integrated Energy Plan (2022), very significant investments in the energy sector are required in both grid and off grid electrification technologies to achieve universal access to electricity. Alone, off-grid solutions will play a significant role in the electrification expansion plan by servicing approximately 26% of the market. To boost the capacity of alternative sources of off-grid energy, the government of Malawi exempted import duty and excise tax on spare parts for production and distribution of energy. Similarly, imported solar panels and inverters are free of import duty and Value-Added Tax (VAT). In addition to the tax incentives, other investment incentives that are favorable for the energy sector players to increase their production in the sector were also negotiated with IPPs. In October 2021, JMC Power commissioned the first solar-powered plant which feeds 60 MW to the national grid. The company commissioned another 20MW solar plant with battery storage in June 2022. Serengeti energy is also scheduled to commission 21 MW solar power by end March 2023.

However, several Independent Power Producers are yet to hit the ground running. More is needed to promote favorable investment climate in the energy sector. The energy tariffs are among issues that energy sector investors consider. As of February 2023, Malawi Energy Regulatory Authority (MERA) is waiting for re-submission by ESCOM of a draft tariff proposal for the period 2022 – 2026. Despite developing the national energy policy which was approved by cabinet in 2018 and launched in November 2019, the Japan International Cooperation Agency (JICA, 2022) notes in its position paper that some natural challenges have emerged that have hampered the efforts of the investment in the sector. These include climate change and environmental degradation. Hence, now more than ever, the government of Malawi is urged to focus on a long-term power generation plan comprising a mix of energy sources to weather against natural disasters (JICA, 2022).

c. Investment Climate in the Agriculture Sector

Malawi is primarily an agro-based economy with agriculture contributing about 37% to the GDP and providing over 64% in total workforce. According to the IFAD, over one third of the households in Malawi earn their livelihood from farming. The main export products are tobacco, tea, sugar, apparel and clothing, cotton, nuts, pulses, sawn & plied wood, natural rubber, coffee, spices, hides & skins and wooden furniture. In 2021, Malawi exported unmanufactured tobacco worth US$ 557 million which represents 58% of all exported products in 2021. Exports of tea worth US$ 67 million were also exported representing 7% of the total value of exported products. Furthermore, soya worth US$ 77 million and dried legumes worth US$ 47 million were also exported in the same period.

Unfortunately, most of the products are exported as raw materials and as such they fetch low value upon exportation. In the past few years' agriculture value addition as a percentage of GDP has been on steady decline. For instance, according to the World Bank Development Indicators, Malawi's value addition in agriculture and forestry, and fishing as a percentage of GDP in 2002 was at 39% and in 2021 at 23% (World Bank, 2022). To reverse this declining and worrisome trend, there is a need for more investment in the agriculture sector. Malawi embodies huge potential in agricultural production but unfortunately, the sector operates below its capacity. This is mainly because of overreliance on rain only to produce crops and as such, Malawi is often in food shortage at both national and household levels.

In recent national development strategy, agriculture value addition is at the heart of Government policies. For instance, pillar 1 of the Malawi 2063, agriculture productivity and commercialization, whose objective is to have an optimally productive and commercialized agriculture sector, is a key priority in the strategic document. Furthermore, the enactment of the Control of Goods Act provides confidence to investors in agriculture sector that they will not experience adhoc export bans, and other impediments (Lands Act, 2022). This demonstrates the political and strategic priority placed in agriculture value addition. However, there are structural challenges which deter investment in the sector some of which are weaker government capacity, unreliable energy, regulatory barriers, and difficulty navigating the tax and customs authorities (Isaac & Logan, 2021).

Nevertheless, there are several technical and financial commitments and investments in the sector which are aimed at boosting agriculture productivity, value addition, climate change adaptation, resilience activities and nutrition security. For instance, the World Bank and African Development Bank invested in the Shire Valley Transformation Program which involves the development of irrigation facilities for 43,370 hectares in Nsanje and Chikwawa at the value of about US$ 234.6 million. World Bank is currently implementing a US$ 95 million Agriculture Commercialization Project whose primary purpose is to boost commercialization of agriculture value chain. The European Union is also implementing a project whose objective is to support agriculture extension services through Farmer Field Schools, agricultural research, access to finance in Chitipa, Karonga, Mzimba, NKhatabay, Kasungu, Nkhotakota, Salima, Chiradzulu, Thyolo and Mulanje districts.

d. Investment climate in the Manufacturing Sector

The manufacturing sector in Malawi faces similar challenges as its peers in the region, including limited access to finance, inadequate infrastructure, and a shortage of skilled labor. However, in terms of tax incentives, Malawi has taken some steps to promote investment in the manufacturing sector. The country offers tax holidays of up to 10 years for companies investing in certain priority sectors, including manufacturing. Additionally, the government provides accelerated depreciation for capital investments in certain industries, which can reduce the tax burden for manufacturing companies.

In comparison, Zambia offers a range of tax incentives for manufacturing companies, including a 5-year tax holiday for companies investing in certain priority sectors and a reduced corporate tax rate of 20% for the first five years of operation. The country also offers a 100% investment deduction for capital investments made in the first year of operation.

Mozambique offers tax exemptions for companies investing in the country's priority sectors, including manufacturing. Additionally, the government provides accelerated depreciation for capital investments and a reduced tax rate of 20% for companies operating in certain priority sectors.

In Zimbabwe, the government offers a range of tax incentives for manufacturing companies, including a reduced corporate tax rate of 15% for the first five years of operation and accelerated depreciation for capital investments. The country also provides tax holidays of up to 10 years for companies investing in certain

priority sectors.

Tanzania offers a range of tax incentives for manufacturing companies, including a reduced corporate tax rate of 20% for companies operating in certain priority sectors and accelerated depreciation for capital investments. The country also offers a 5-year tax holiday for companies investing in certain priority sectors.

Overall, while Malawi offers some tax incentives for manufacturing companies, its peers in the region offer a wider range of incentives, including longer tax holidays and reduced corporate tax rates. Tinkering the corporate tax rates is not always a viable avenue of attracting investment, instead to attract more investment in the manufacturing sector in the region, Malawi may need to consider expanding its tax incentives program to make it more competitive with other countries in the region and streamlining the available incentives across the sectors to avoid overlaps.

5. TAX AND TARIFF COMPARABILITY ANALYSIS: LESSONS FROM SADC AND COMESA

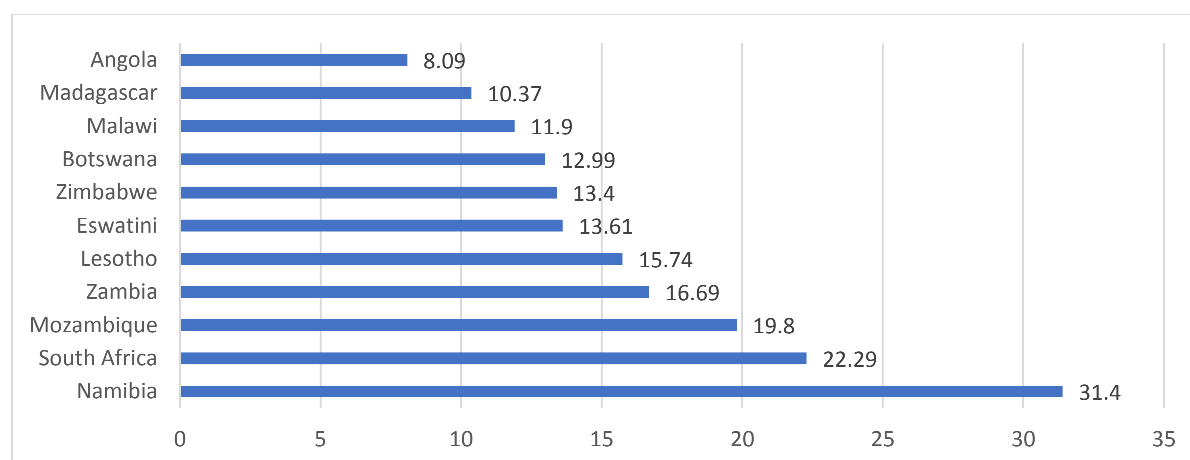
There are benefits in belonging to regional economic communities and they include: increased trade, increase in investment, better cooperation and increased bargaining power. Malawi belongs to both the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The subsequent section analyses the tax and tariff comparability in relation to Malawi.

a. Comparison of Malawi's tax regimes with its peers from the SADC and COMESA region

i. Tax to GDP ratio

First, the Malawi tax regime can be compared with its peers by analyzing the tax to GDP ratio which measures the extent to which a country collects from its output through taxes. According to the Ministry of Finance, tax revenue to GDP ratio in 2019/20 fiscal year was 12,6%. Figure 3 illustrates how Malawi compared to its peers in the SADC region in 2021.

Figure 3: Tax to GDP ratio in SADC region (%) in 2021



Source: ATAF's African Tax Outlook (ATO), 2021

As can be observed, Malawi's tax to GDP ratio in 2021 was 11,9% above only Madagascar and Angola but below the rest of the countries in the SADC region. This signifies that the tax burden on the Malawi economy is less compared to other tax systems and that revenue performance is below the average performance in the SADC. However, in the survey with companies as well as in the 2022/23 budget consultation meetings, the general indication is that taxes in Malawi are high and prohibitive. This contrast indicates the need for tax reforms to make the tax regime more progressive to increase its capability to efficiently mobilise revenue while not hurting the companies.

ii. Foreign Direct Investment (FDI) and Corporate Income Tax (CIT)

Second, several empirical studies conclude that corporate income tax (CIT) rates are inversely proportional to investment and have a significant impact on the general investment climate (Mudenda, 2015; Djankov, Ganser, McLiesh, Ramalho, Shleifer, 2010). Most tax regimes in the region try to use CIT to attract investment into their jurisdictions. Malawi illustrates a paradoxical picture as foreign direct investment has been on a downward trend since 2014. For instance, net FDI as a percentage of GDP was 9.88% in 2011 and declined to 0.37% in 2020 despite the CIT rate in Malawi being 30% for locally incorporated companies and 35% for foreign companies and those operating as branches (World Bank, 2022). Figure 4 below illustrates the relationship between FDI and CIT rates for selected SADC and COMESA countries using data from World Bank's WDI and KPMG.

Figure 4: Relationship between FDI and CIT in some SADC and COMESA members

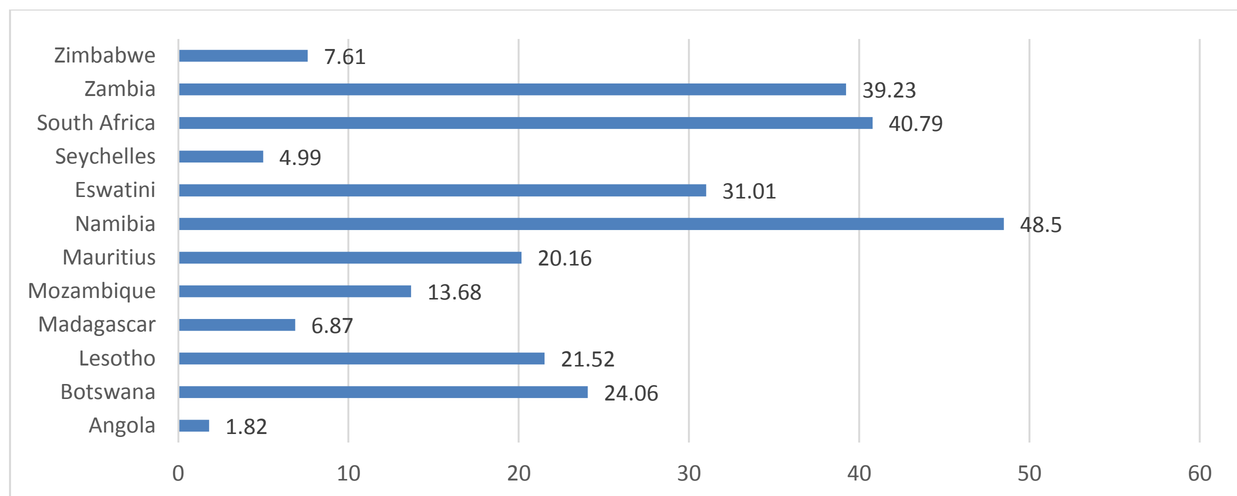
Source: World Bank's World Development Indicators; KPMG

As can be observed in the figure, only Uganda exhibits positive correlation between the lagged share of CIT revenue in total revenue and net foreign direct investment while Namibia and Malawi show zero correlation and the rest of the countries show no significant relationship between CIT and FDI. This implies that CIT does not necessarily deter or attract FDI and it is essential for the Malawi tax regime to rely on other instruments to promote investment other than using CIT. Instead, economic stability and predictability, good infrastructure, favourable regulatory environment and growth potential should be prioritized to attract FDI.

iii. Tax refunds

Thirdly, tax refunds are one of the key aspects that affect production, job creation and investment in the region A taxpayer may sometimes pay more than their tax liability and they have to claim a tax refund. Tax refunds have a crucial impact on the cash flow of firms and hence the investment climate in a country. One important example of the refunds are value added tax (VAT) refunds which are paid out when the input tax paid on supplies exceeds the output tax in a given period of time. VAT refunds are to be paid promptly to firms to avoid distorting their cash flows. The problem of VAT refunds is common in Africa and most tax administrations grapple with this problem. Figure 5 shows the percentage share of refunds to total VAT in selected countries in Africa.

Figure 5: Percentage share of VAT refunds to total VAT



Source: *ATAF ATO Databank, 2022*

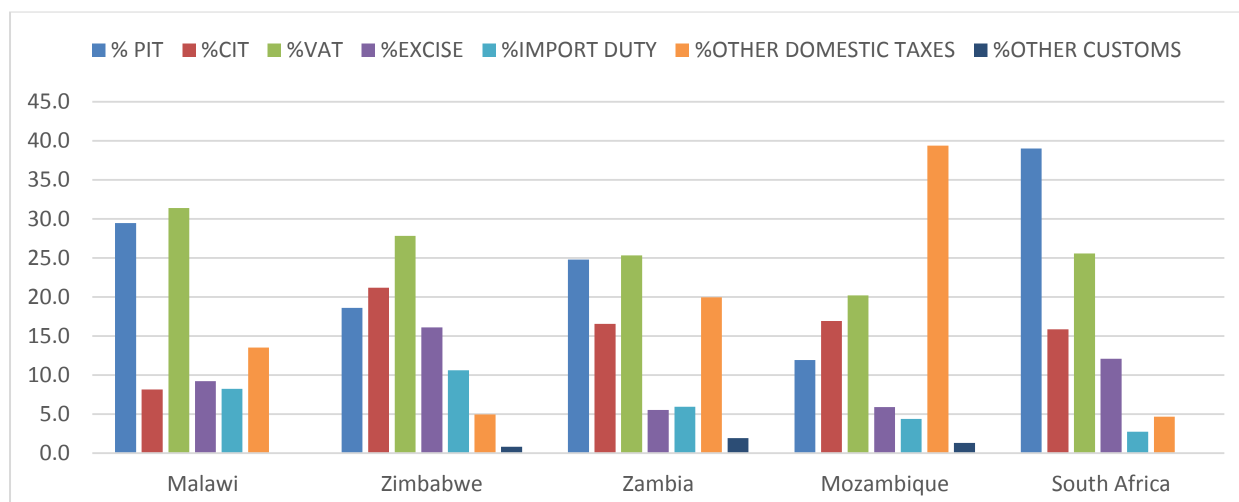
While the statistics for VAT refunds in Malawi are not available, figure 5 illustrates that the problem is widespread across the region. In the case of Malawi, during the surveys and interviews, discussed in section 6, some companies expressed dissatisfaction with the delays in processing VAT refunds and the tax regime in general. They lamented that the problem of VAT refunds is affecting operations and growth of companies in various ways, including negatively impacting cashflow and limiting expansion opportunities. Some companies in the survey indicated that they are owed refunds dating as far back as 2009 while others since 2018 yet section 33 (I) of the Malawi VAT Act stipulates that the refund shall be paid within thirty days of the receipt of the application. These inefficiencies in VAT refunds management is problematic because it negatively affects the cashflow of firms thereby becoming a cost to the business and this ultimately affects production, job creation, and overall investment (Siwela, 2021; Pessoa et al. 2021). Some companies also indicated that the process of VAT refunds is not transparent enough and is marred with too much red tape thereby giving room for corruption. One company further indicated that it is doubtful if the refunds are also made on first come first save basis.

There have been several efforts by the Government and MRA to address the problem of VAT refunds. Firstly, the allocation of funds to reduce the accumulated tax refunds was increased from 1.5% to 3% of total revenue collection. This did not significantly reduce the refunds and was inadequate because there was already a huge backlog of tax refunds.

iv. Tax composition

According to Desai, Foley & Hines (2004) tax composition has a significant impact on the revenue stability and composition of investment. In Africa, the most important tax heads are VAT, personal income tax and corporate income tax. Figure 4 below depicts the tax composition for selected countries in the SADC and COMESA regions.

Figure 6: Percentage tax composition in selected SADC countries



Source: ATAF ATO Databank

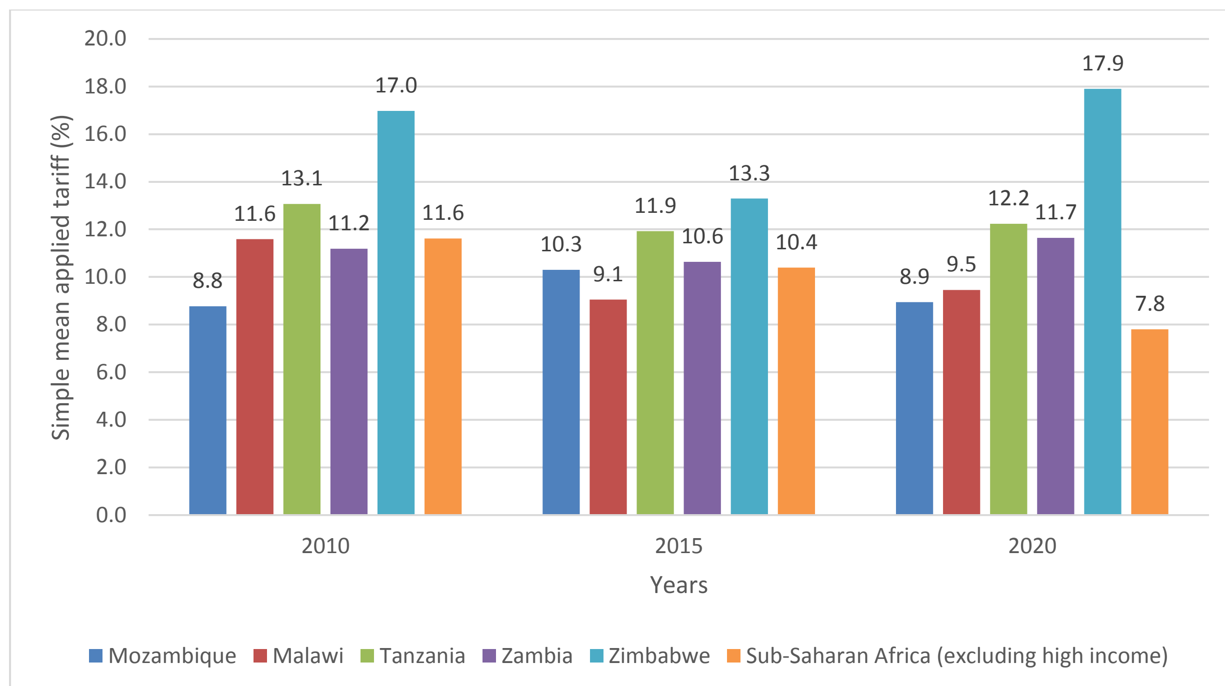
As can be observed, in Malawi VAT remains one of the most important taxes followed by personal income tax. Despite the influx of regional agreements, import duties and excise taxes remain critical to the Malawi tax regime. This tax structure may have impact on the productivity of firms in Malawi in that indirect taxes may have a higher compliance cost thereby increasing the cost of production and reducing the competitiveness of firms. Nevertheless, with improved compliance enforcement and efficient tax refund system, consumption taxes like VAT are more favorable than direct taxes.

b. Comparison of Malawi's tariff structure with its peers from the SADC and COMESA region

Regional integration is the main avenue to trade success for Malawi but this is limited by inadequate product diversification and excessively untapped potential in sectors such as agro-processing (ITC, 2018). In the SADC region alone, Malawi is estimated to embody about 39% of the untapped export potential. The dawn of the AfCFTA provides more opportunity for growth in exports. For instance, between 2015 to 2019, about 32% of Malawi's total trade was intra-African signifying the significant potential of regional integration. Malawi has done significant progress in the AfCFTA regulations, for instance, it already ratified the AfCFTA agreement, and formulated a national strategy on the tariff phase down to 90%. This is in addition to the other initiatives which include the signing of the protocol on free movement of persons and the single African Air Transport Market. It is essential for companies to take advantage of this increased market access by diversifying the exports to increase competitiveness and penetrate the regional markets.

The study undertook a tariff comparability study to establish how Malawi's tariff structure differs from its peers and how this affects profitability of firms, market access, job creation, and export competitiveness. To achieve this, the study used simple mean applied tariff which measures the tariff protection of a country. It is the "unweighted average of effectively applied rates for all products subject to tariffs calculated for all traded goods". (World Bank, 2022). This is preferred to the applied weighted mean tariff rate which is the "average of effectively applied rates weighted by the product import shares corresponding to each partner country" (World Bank, 2022). The former is preferred to the latter because the latter is skewed downwards. The higher the tariff, the greater the protection afforded to the country's import-competing industries. Figure 7 below illustrates the simple mean applied tariff rate for all products for selected countries in the SADC and COMESA regions.

Figure 7: Simple mean applied tariff rate for all products for some countries in the SADC region

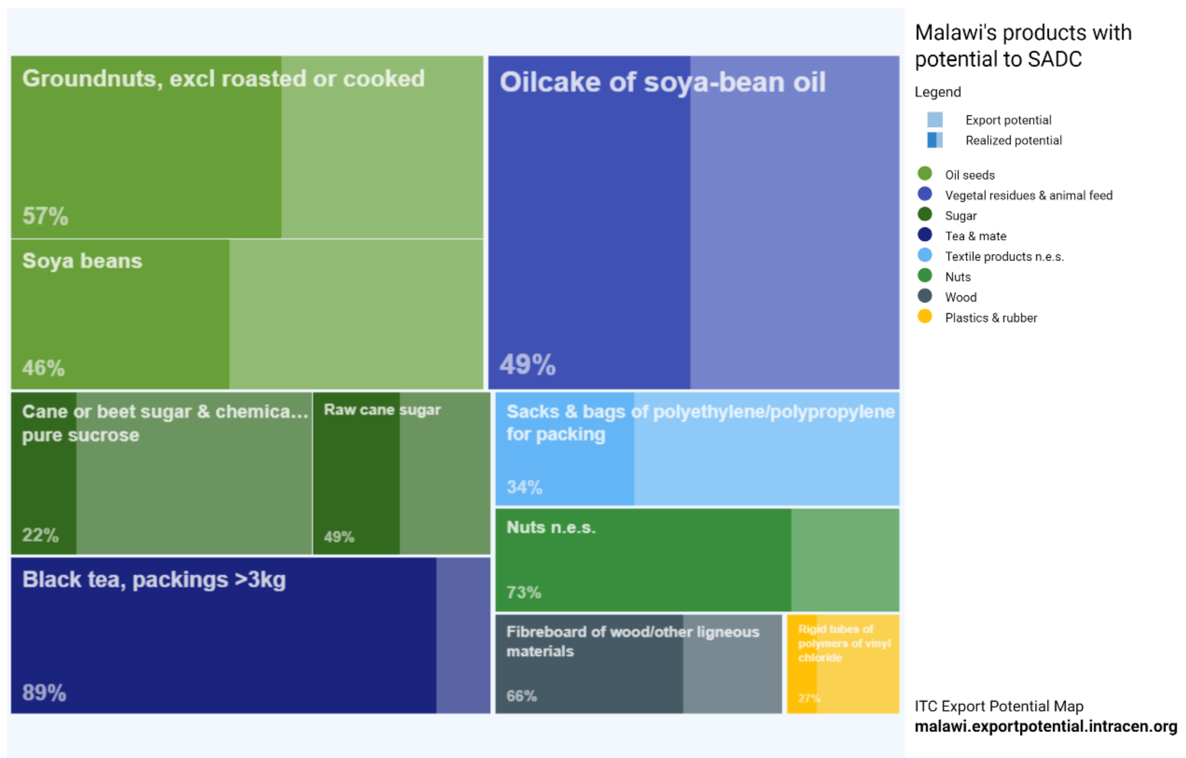


Source: *World Bank's World Development Indicators & WTO tariff and imports country summary*

It can be observed in the figure that in 2020, Malawi's simple mean applied tariff is 9.5% which is lower than its neighbouring countries Zambia (11.7%) and Tanzania (12.2%) implying that in this year, Malawi did not offer greater protection to the country's import-competing industries.

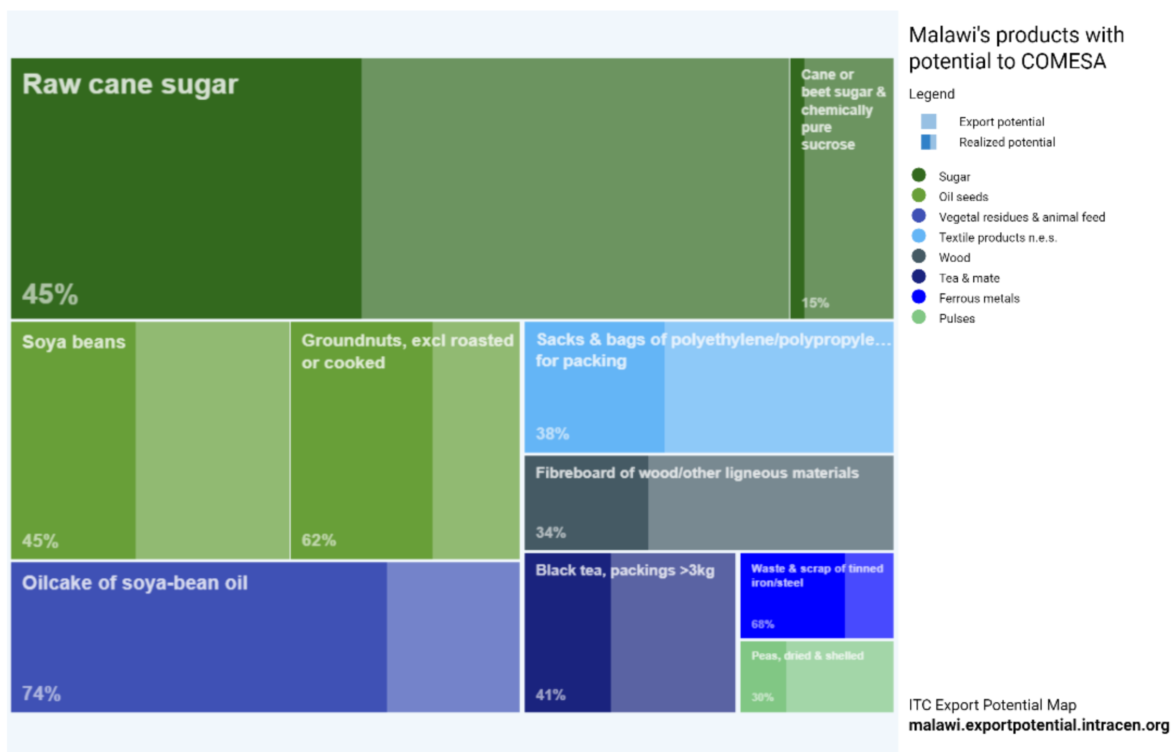
While protectionism is important to protect infant industry, its importance will continue to dwindle with deeper integration which will be accelerated by the AfCFTA. Therefore, much as it is essential for Malawian companies to be sensitised on the products with export potential, their markets and products with export diversification potential and opportunities for value chain development. Figure 8 a-b illustrates the realised and unrealised potential of top 10 exports to the SADC and COMESA region.

Figure 8a-b: Realised and unrealised export potential of Malawi products to the SADC



Source: ITC Export Potential Map

Figure 8 a-b: Realised and unrealised export potential of Malawi products to the COMESA



Source: ITC Export Potential Map

Under the SADC region, Figure 8 a-b, Malawi can realise USD 9.3 million (43%) from exporting

groundnuts which also has opportunity for value chain development of groundnut oil, margarine, vegetables preserved by vinegar, or edible mixtures of fats. Secondly, soya beans could rake in USD 9.7 million in export revenue and could be used to make soya bean oil, margarine, and vinegar. Thirdly, there is an 88% unrealised potential in cane or beet sugar and chemically pure sucrose. Malawi could also add value to this product by producing chewing gum, sugar confectionary, or cereals in worked grains. Lastly, black tea, packings embody USD 2.1 million worth of export potential in the SADC region and can also be used to make tea or mate extracts.

As can be observed in figure 8 a-b, in COMESA, Malawi has only fulfilled 57% of export potential for groundnuts, the unrealised potential is worth USD 21 million and the opportunities for value chain development include production of rum, chewing gum, sugar confectionary as well as prepared foods from cereal flakes. Secondly, Malawi has only utilised 45% of its potential in soya beans and USD 6.9 million worth of value could be earned if the potential is maximised. Products which could be made from the soya beans include soya bean oil, margarine, and vinegar. Regarding groundnuts, Malawi absorbed only 62% of the export potential and the unrealised potential worth USD 3.9 million and opportunities for value chain development include groundnut oil, margarine, and edible mixtures of fat.

All in all, most of the products with export potential in SADC and COMESA are in the agricultural sector which attract little to no tariffs. Therefore, a focus on these high value agro-products can boost Malawi's export earnings and these high value products also embody the opportunity for a high value development and as such it can eventually boost job creation and production.

6. STUDY METHODOLOGY

The study took four main approaches namely: desk review, case studies, econometric methods and qualitative interviews with key stakeholders. The case studies applied in the short- term to assess the implication of tax reforms over a period which is less than a year. The case studies cover national (local), regional, and global cases where applicable, keeping the context applicable to Malawi. The case studies also compare the tax regime in the 3 sectors of interest to Malawi's peers. For a longer term, beyond 1-year, econometric methods are applied. This also include descriptive analysis and simulations of potential impact. The findings from the two approaches complemented with qualitative explanations from discussions with key informants and government agencies & ministries to constitute a robust study with mixed-methods.

a. Case Studies

Referring to key tax reforms and tariff structures for the three sectors (thus mining, energy, and agriculture) with manufacturing regarded as cutting accross, the study analyzed the prevailing tax and tariff structure and then compares with what is attainable in neighboring countries and other comparators. The study also looked at recent reforms (using the budget statements) and how they affected some specific products or companies. This impact of tax reforms in the short-term, focused on cases in the targeted sectors: mining for export, high-value agro-products with export potential, and the energy sector. For the energy sector, focus was also on the energy pricing to compare the applicable charges and Malawi's peers. These case studies form a very important foundation for the policy recommendations and advocacy by MCCCI.

b. Econometric Approach

i. Analytical Framework

In evaluating the impact of a tax reform on industries in Malawi, the study resorts to the theory of the second-best as formulated by Lipsey & Lancaster (1956) and as specified by Rodrik (2008). The paper is cognizant of the distortions prevalent in developing economies like Malawi, that make it hardly possible to achieve the Pareto-Optimum state, when a tax is imposed on industries. Since a tax, τ_i on

activity i is a wedge between the social valuation and private valuation of activity i. Given different economic sectors j = (Agriculture for export, Mining, and Energy), the study seeks to understand how to maximize social utility, $\frac{du}{d\tau_i} = 0$, by changing one distortion, in the presence of other distortions resulting in a second-best solution. In market equilibrium, $\frac{du}{d\tau_i} = \tau_i \frac{\partial X_i}{\partial \tau_i} + \sum_{j \neq i} \tau_j \frac{\partial X_i}{\partial \tau_i}$. The implication of the result is that there will be a change in production in economic sectors subject to the degree at which a change in the distortion of activity i results in different private value in other sectors (such as j. Then given distortions in these sectors, the change will affect the social utility by the size of the distortion, τ_j. Thus, simply put, an intervention in market i can affect activity j because of the direct relationship between the two markets, and indirect general-equilibrium effects such as demand-side and supply-side factors. The study uses this reasoning to guide the formulation of the econometric model in the subsequent section.

ii. Econometric Model

To measure the long-term impact of tax structure on key economic industries, an econometric approach was used. In this approach analysis was carried out, using time series data, the impact of tax revenue on the growth of the following sectors: energy, agricultural, and mining.

Adopting a complete econometric methodology would require that each measure of growth for each sector becomes the dependent variable in a model where tax revenue is among the independent variables influencing a particular indicator for each industry.

The study adopts a model, as used by (Wielen, 2019), where the Auto Regressive Distributed Lag (ARDL) approach to cointegration analysis is used to measure the long-term impact of tax revenue on key sector performance. Therefore, the study develops three models to examine the impact of tax revenue on broad sectors of the economy namely mining, agriculture, and energy, and manufacturing was regarded as cutting across these sectors. However, there are two variations of the measure of the tax revenue variable: Taxes on income and profits and total tax revenue for comparison purposes.

The full model, description of the variables, diagnostic tests, and detailed empirical results are all presented in the Appendix.

c. **Qualitative Approach**

To understand the subtle elements of the impact of tax reforms on industries in Malawi, the study employs qualitative methods.

i. Study Setting

The study was carried out in each of the these key sectors: mining for export, high-value exportable and manufactured agro-products, and the energy sector. Questionnaires, and key informant interviews with key players from these sectors were administered to gain some insight into the perception of the impact of the tax reform on the economic activities in these sectors.

ii. Study design and Sampling

The study employs a non-probability purposive sampling techniques in selecting the companies that were targeted to be interviewed. The researchers purposely chose companies that have both benefited and not benefited from some of the tax reforms or incentives granted in the sectors within which they operate. More information and views were solicited from government agencies and ministries like Export Development Fund, MITC, and Ministry of Finance, among others.

In both the selection of interviewees and the actual interview process, more attention was paid to how power dynamics between the interviewers and respondents could play a role in shaping responses to the study. For most companies, an online questionnaire was sent to allow them to

consolidate responses across key stakeholders within their companies.

7. RESULTS AND DISCUSSION

In this results and discussion section, the study presents findings from an econometric analysis and a survey conducted to understand the impact of the tax regime on the performance of different economic sectors in Malawi. The survey was conducted to gather information on the perception of the tax regime and its impact on business operations in Malawi.

a. Findings from Econometric Analysis

The study finds that total tax revenue, however, has a negative and significant effect on mining sector performance. More specifically, a percentage increase in total tax revenue leads to a drop in total natural resource rents by 0.288 %. In model 2 with taxes on incomes and profits as one of the main explanatory variables, the study also finds that a percentage increase in taxes on incomes and profits, on average leads to a decrease in total natural resource rents by 0.43 %. This finding appears to be in line with economic theory. Typically, resource rents are defined as excess of the total project lifetime value emanating from the exploitation of natural resources above the total costs incurred in their exploitation (Land, 2008). It is therefore, intuitive to suggest that increased taxation, particularly, on incomes and profits may reduce the rents extracted from natural resource exploitation.

However, the tax variables in both the agriculture sector and energy sector models appear to have no significant impact on agricultural raw material exports and access to electricity respectively. This finding may point to the following intuitive observations. In Malawi, there is only one national supplier in the electricity sector, and that provides the monopoly with a higher negotiating power in as far as taxes are concerned. In addition, almost all the equipment used in the generation of electricity is tax exempt. The high informality of the agriculture sector in Malawi renders it less susceptible to a negative tax impact. Regarding the largest export product Tobacco, farmers are only taxed at a withholding rate of 1%, which is a final tax and is also negligible.

The detailed results are included in Appendix 2A.

b. Findings from Surveys

i. Survey Responses-Industry

A survey of companies operating in Malawi was conducted to gather information on their economic sector, core business, exports, trade agreements, and tax regime. The survey also probed challenges facing businesses in Malawi in relation to tax administration, red tapes, and other government-mandated fees or charges that negatively impact business growth and investment. Although over 100 companies were contacted, only a total of 11 companies responded to the survey. The purpose of the survey was to obtain first-hand information from industry players on their perception of the tax regime and general business environment in Malawi to inform policymakers on how best to make the tax and business environment more conducive to industry productivity.

(a) Economic Sectors and Core Businesses

The ten companies surveyed in Malawi operate in a diverse range of economic sectors, including mining, publishing, energy, agribusiness, manufacturing, and coffee production. One of the energy sector companies is an independent power producer that operates a hydro power plant and began commercial operations in 2022. "*The company operates in the energy sector, its main business is electricity generation and it started its operations in January 2017*." Another energy sector company, distributes and sells solar products. In the agribusiness sector, one company sells farm inputs such as fertilizer and hardware items. " *...our company does not export any commodities as most of the items that are sold by the company are*

manufactured and consumed locally." One company is a coffee cooperative that has been producing coffee since the 1930s and was registered as a secondary level cooperative in 2007.

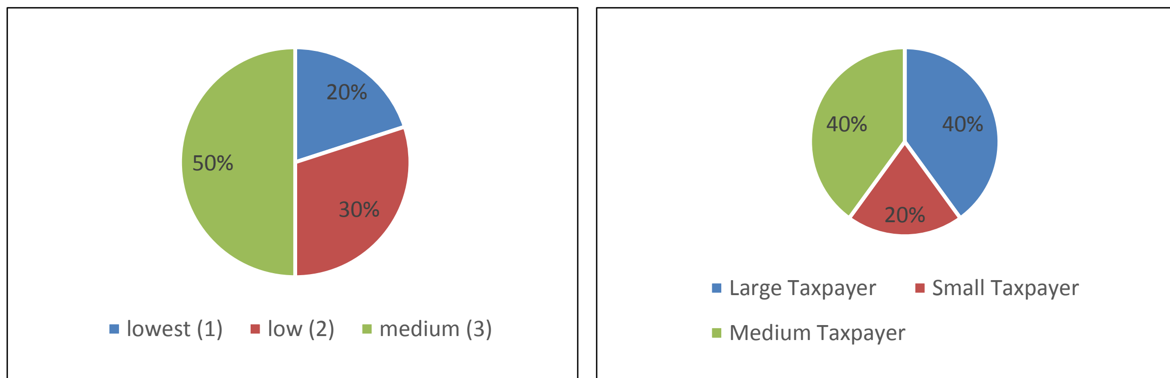
(b) Exports and Trade Agreements

Only one company in the agro-processing sector, was engaged in exports. "*our company has over 2500 registered rural smallholder farmers, 29% women and 27% youth. The organization is into export of green beans*." No other companies reported any exports, and no challenges were reported in trading. None of the companies reported participating in any trade agreements in which Malawi is a member.

(c) Perception of the tax regime and impact on business operations

The majority of companies rated the Malawi tax regime between 2 to 3 on a scale of 1 to 5, with 1 being the lowest and 5 being the highest. The companies reported paying various taxes to the Malawi Revenue Authority (MRA), including Value Added Tax (VAT), Pay As You Earn (PAYE), Withholding Tax (WHT), Corporate Tax, Provisional Tax, and Import duties. "VAT, PAYE, WHT" were the top three taxes in terms of value, as ranked by the companies. Most of the companies were classified as medium taxpayers by the MRA, with a few classified as large or small taxpayers.

Figure 9: Respondents Rating of tax regime Figure 10: Taxpayer classification of Respondents



The respondents explained how the tax structure has affected their company operations. The current tax structure in Malawi has affected the operations and growth of the companies in various ways, including negatively impacting cashflow and limiting expansion opportunities. The Msonkho Online has not been very user friendly enough to facilitate payment of taxes, and the high input VAT and PAYE have made investment and wages expensive. One company observed that *"The tax regime is generally acceptable apart from RRT…Msonkho online is a mess and makes paying taxes a nightmare*". The import duty has made the companies' products more expensive for consumers, leading to decreased sales. The companies have also been negatively impacted by the high percentage of revenue spent on taxes instead of being invested in the company. The tax structure does not take into account the diversity of tax requirements, leading to losses for the companies, especially in regard to non-resident taxes and VAT on imported services. The increase in custom duties has also had a major impact on the companies' finances, resulting in a loss in 2022 due to high costs of direct expenses.

(d) Lobbying for Tax Reform

One company expressed concern over the Resource Rental Tax (RRT), which they considered unfair, due to the higher rate of 15% on after-tax profits for local companies compared to the 8.5% rate for foreign companies. They also claimed it comes on top of other taxes already. "*RRT is double taxation, since Royalty is already paid*." In addition, "*the rental tax rate should be reduced from 20% to 10 %*". Another company expressed frustration over the 20% Withholding Tax. "*Withholding Tax. It is harsh to be deducting 20 % from our small business and also demand that we pay other taxes. It is killing our businesses*." Other companies also felt that at 30 %, the standard corporate tax is very high, and proposed that it could be reduced to less than 25 %. Another proposal was to reduce the Pay as You Earn (PAYE) tax rates or introduce

a higher tax-free band to increase the level of disposable income for low-income employees. The MCCCI could also lobby for government to extend the period during which input VAT can be claimed, considering the length of time it takes to complete projects. "*A power plant takes more than a year to complete but we can only claim receipts from within 6 months of the first output and unfortunately the first 6 months carry the largest amount of purchases. The delay in the first output is also compounded by the bureaucratic red tape*." On Non-Resident Tax, the respondents proposed to address the aggressive approach of the Malawi Revenue Authority (MRA) towards companies when investigating transfer pricing, which may deter potential foreign investors.

(e) Tax Administration Issues: Refunds

Out of the 11 companies surveyed, two companies reported that they were owed tax refunds by MRA (Malawi Revenue Authority), one company reported withholding tax (WHT) refunds since 2009, while the other company has not yet applied for any tax refunds. One company stated that they have WHT that they will apply for a refund in the near future, while another company reported that they have Value Added Tax (VAT) refunds outstanding since 2018.

(f) Other Tax Administration Issues

The companies reported various tax administration issues, including messy tax assessments, lack of automation, and user-unfriendly Msonkho online system. One company stated, "*Tax assessment is a mess and one has to contact MRA repeatedly to finalize assessments. Automation would be welcome, but Msonkho online is far from user-friendly*." One company also suggested that the reporting period of Msonkho online statements should be customizable to produce statements on monthly basis.

The companies also raised concerns about the high withholding tax deductions for small businesses in the service industry, lack of clarity on new business tax regimes, lack of support for new companies in registration, declaration and tax payment, and combative approach by MRA officers during tax audits. One company stated, "*The tax audit shouldn't be scaring the taxpayers in the way they are calculated, the officers should bear the business processes in mind as mostly MRA officers always take a combative police and thief approach when conducting them*."

(g) Red Tapes in Government Offices

The companies reported various red tapes in government offices that affect their business growth. These challenges include contradictory regulations and inspections, slow approval processes, poor communication by government offices, and the existence of multiple acts that apply to businesses in different industries. One company in the mining industry stated, "*Multiple Acts apply to mining. Implementation is at times contradictory. Regulations are partly impossible to comply with. Inspections are done haphazardly, and one inspection team contradicts another*." Another company reported difficulty in acquiring tax clearance certificates from the Malawi Revenue Authority (MRA), which has resulted in difficulties in getting paid by the government. The lack of direction and guidance from government offices, as well as poor communication, has also been cited as a challenge. Some companies have reported that vendors use the same business licenses for different purposes, affecting the industry's revenues. One company reported delays or refusal in granting tax waivers on projects. The approval processes within government bureaucracy have also been reported to delay projects, as documents must be reviewed by multiple departments. To expedite the approval process, it was suggested that all relevant departments should have at least one desk officer at one point.

(h) Government-Mandated Fees or Charges

The companies reported various government-mandated fees or charges that negatively impact their business growth, including royalty, import duty, generation water charges, inspection fees by Malawi Bureau of Standards, city rates by City councils, ground rates by Ministry of lands, and business license fees. One company stated, "*Yes, import duty. There are exceptions for investments in the energy sector over $30m of course, so small investors like ourselves ($6m) we are unfairly penalized despite our product being as important*." The companies also reported that delays in payment of these fees and charges can lead to

closure of businesses, and higher penalties to have them reopened.

(i) Impediments to Investment, Business Growth, and Exports in Malawi

The companies reported several key impediments to investment, business growth, and exports in Malawi. The top three challenges reported were corruptions on all levels, new discriminatory Land Acts. One company stated, "*Corruptions on all levels is mushrooming. The new Land Acts, which discriminate non-black Malawians and disadvantage foreigners. Foreign Exchange rules*." Other companies reported challenges included high inflation, shortages of electricity and fuel, high taxation, expensive export costs, high tax rates, influx of imported goods that could easily be manufactured in Malawi, externalization of foreign exchange, unstable energy supply, scarcity of foreign exchange in commercial banks, high import charges, high cost of raw materials, poor road infrastructure, high taxes charged on importation, substandard products from local manufacturers, and poor power generation-electricity.

(j) Awareness of accessible tax incentives

Most companies reported that they were not fully aware of the tax incentives available to them, with some stating that their company was too small to have a corporate structure to follow up on such matters. However, taxes were seen as a smaller problem in comparison to the various licenses and regulations and the non-responsiveness of the government, which were identified as major obstacles to business development.

The four out of the eleven companies that were aware of tax incentives listed the following as the main incentives enjoyed by their businesses: Tax refunds, VAT, Initial allowance, investment allowance, annual allowance, duty waivers on imported electricity generation equipment, solar products and agricultural equipment, and allowance for capital expenditure for fuel storage facilities, freight of fuel tankers, and filling station construction.

In addition, solar sector players recognized the efforts of the Government of Malawi in removing taxes on imported solar products, thereby making their products more affordable for end-users. The removal of taxes has been a significant step towards reducing the cost of solar products and increasing their accessibility to low-income households in Malawi.

(k) Desired Tax Incentives

The companies listed the following tax incentives as ones they would like the Malawi Chamber of Commerce and Industry to lobby for: New investment tax relief, US$ import tax relief, removal of taxes on Jute Bags for raw coffee and packaging materials, a reduction in the rates on PAYE, revised downward corporation fringe benefits tax rates, a tax regime that is clear, simple, and supportive of foreign entrepreneurs, and a tax administration department that looks at the challenges and threats businesses face and works to mitigate their impact.

(l) Additional Comments on the Tax Regime

One company emphasized that Malawi has the potential to expand its businesses, but this requires laws and a tax administration that are not intimidating to existing and potential investors. The company stated that the tax authority should have a department that looks at the challenges and threats businesses face in tax administration and works to mitigate their impact. Another company suggested that the tax rates for the Corporation Fringe Benefits Tax should be revised downwards to reduce the impact on companies. The company also highlighted the need for clear, simple instructions for foreign entrepreneurs trying to establish business practices in Malawi. A third company suggested that the 30% charge on PAYE should be reduced to 25% to increase the take-home pay of employees and help sustain some of their core expenses in the current challenging economic environment.

One company called for the removal of taxes on Jute Bags for raw coffee and packaging materials and duty waiver on imported generation equipment to reduce the costs of these products and increase the competitiveness of businesses. Another company sought allowances for capital expenditure on fuel storage facilities, freight of fuel tankers, and filling station construction to help businesses in the fuel industry.

Overall, the companies expressed the need for a tax regime that is fair, simple, and supportive of business growth and expansion in Malawi.

ii. Survey Responses-Government

This section provides a summary of responses from key government stakeholders that were interviewed. The policy formulation, implementation, and evaluation processes in the government of Malawi are conducted with significant involvement from the private sector. The Ministry of Finance & Economic Affairs is the most represented government stakeholder in this survey, with responses to all questions. The Export Development Fund (EDF) responded to some of the questions in the study. The findings from their responses are as follows:

(a) Policy Formulation Process

i. Representation of the private sector: Both the Ministry of Finance and Export Development Fund (EDF) consider the policy formulation process to be highly representative of the targeted private sector players.
ii. Initiatives to involve private sector: The Ministry of Finance has implemented several initiatives to involve the private sector in the policy formulation process. These include visits to selected private companies, consultation meetings in all the three regions, and requests for suggestions in the annual Budget formulation from institutions such as the Malawi Confederation of Chambers of Commerce and Industry (MCCCI), and the Institute of Chartered Accountants in Malawi (ICAM).
iii. Challenges faced: The main challenge faced by policymakers in the involvement of private sector players is balancing the needs of the private sector with those of the government, and obtaining views from some organizations during consultation meetings: "*the private sector almost always want to waive taxes on various commodities such that when their views are not accommodated, they perceive it as though the government is not listening".* Another challenge is inadequate interest and input into the budget formulation process by some private-sector players despite being given an opportunity to contribute.
iv. Overcoming delays and frictions: The Ministry of Finance overcomes delays and frictions within the government by ensuring adequate follow-ups and improved coordination.

(b) Policy Implementation

i. Incentives to increase compliance: Institutions such as the Malawi Revenue Authority (MRA), the Malawi Bureau of Standards (MBS), and the Ministry of Industry and Trade (MoIT) have put various measures in place to increase compliance by firms and smoothen implementation of industry, trade, and tax policies.
ii. Overcoming delays and frictions: To overcome delays and frictions in the implementation process, the Ministry of Finance enhances coordination and conducts frequent consultations.

(c) Policy Evaluation

i. *Development of Key Performance Indicators (KPIs):* Both the Ministry of Finance and EDF do not develop KPIs or targets for policies at the formulation stage.
ii. *Evaluation process:* Despite not having KPIs, the Ministry of Finance stated that "*once a policy has been implemented, it is evaluated the following year, and any changes or adjustments to the policy are made accordingly*".

c. Conclusion on empirical results and surveys

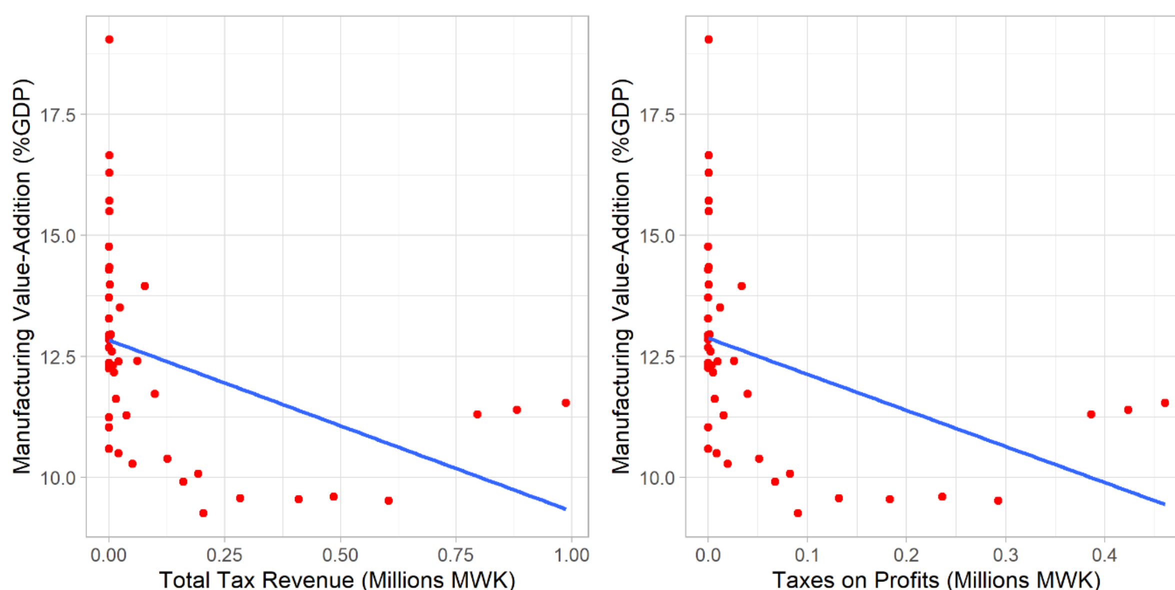
The econometric analysis found a negative and significant impact of tax revenue on the mining sector performance, while taxes in the agriculture and energy sector had no significant effect. The survey of

businesses in Malawi highlights the various challenges faced by companies regarding tax administration, red tapes, and other government-mandated fees and charges. The survey also revealed the limited knowledge that companies have of tax incentives available at their disposal. The results reveal the need for simplification of regulations and approval processes, improvement in the tax administration system, sensitization on tax incentives and tax laws, and reduced fees or charges that negatively impact business growth and investment. To attract investment and promote a favorable business environment, the government should prioritize addressing these challenges. The findings from this survey show that the Ministry of Finance is actively involved in ensuring the representation of the private sector in the policy formulation process and ensuring the smooth implementation of policies. The policy evaluation process is carried out once a year, and any changes are made accordingly. These processes are critical in ensuring the effectiveness and efficiency of government policies.

8. A SPECIAL FEATURE: THE MANUFACTURING SECTOR

Throughout the study, a special sector came up in the discussions with key stakeholders, the manufacturing sector. In this section, the study provides a special feature of the sector, focusing on the key issues that pertain to the tax regime and the sector. First, the study established the relationship between the tax regime and the value added from the manufacturing sector.

Figure 9: The tax regime and the manufacturing sector



Source: World Bank Databank & Government of Malawi-MoFE&A

Figure 10 shows a negative association between the value-added from the Manufacturing sector and the tax revenue, both gross and tax on companies. From the surveys we conducted, players in the manufacturing sector in Malawi identified several challenges that affect their businesses. Firstly, high tax rates make it difficult to compete with cheaper imported goods, particularly when there is an influx of goods that can easily be manufactured in Malawi. This has led to concerns about unfair competition and market domination by foreign companies. Secondly, the cost buying forex for importing raw materials is a significant burden for manufacturers, as it raises the cost of exporting subsequent finished products to international markets. Finally, players in the industry have highlighted the need for the government to remove import duties on packaging materials such as jute bags, as this would reduce the cost of producing and packaging goods in Malawi.

9. POLICY RECOMMENDATIONS

The government of Malawi has an opportunity to promote growth and development in the agriculture, mining, energy sectors, as well as the tax regime and business environment in general. To achieve this, the government must implement targeted policies and initiatives aimed at improving the investment climate in these sectors. In this section, there are proposed policy recommendations to enhance the agro-processing industry, improve the mining sector, revamp the energy sector, improve the tax regime and improve the business environment in Malawi. These recommendations, drawn from the analysis in this report, aim to support the government in creating a tax regime and conducive environment that encourage investment, boosts economic growth, and improves the standard of living of the ordinary Malawian.

a. Boost the agro-processing Industry

To enhance the growth of the agro-processing industry, the government of Malawi should encourage investment and development in the sector. This can be achieved by providing tax incentives, streamlining the permitting process and facilitating access to finance. Additionally, the government should also provide technical assistance to help small and medium-sized enterprises to develop and upgrade their production processes. The study noted the various incentives to the sector but players in the industry lamented the uncertainty in enjoying the incentives. Companies are subjected to excessive bureaucratic delays and subjectivity when in need of incentives. Furthermore, companies in the agriculture sector like those in macadamia business would benefit from an extended loss carry over period (above the 6 years currently provided) due to the nature of the macadamia plants. The government should consider providing different loss carry over periods to sectors subject to the nature of the sector's core business.

As we saw earlier in the study, Malawi has unrealized potential in the agro-processing sector that if tapped could bring a significant boost to the economy. For example, groundnuts have the potential to generate USD 9.3 million (43%) from exporting them in the SADC region. However, in COMESA, Malawi has only fulfilled 57% of its groundnut export potential, leaving USD 21 million unrealized. Similarly, Malawi could earn USD 9.7 million from soya beans, but has only utilized 45% of its potential in COMESA, leaving USD 6.9 million unrealized. In addition, there is 88% unrealized potential in cane or beet sugar and chemically pure sucrose in the SADC region, and black tea packings have USD 2.1 million worth of export potential in the SADC region.

So, if the government of Malawi invests in these agricultural products with unrealized potential, it could lead to significant economic growth. For instance, value chain development of groundnuts and soya beans can create opportunities for the production of various products such as oils, margarine, and vinegar, which can increase export earnings. Additionally, the production of sugar confectionery and cereals in worked grains from cane or beet sugar could generate more revenue. Moreover, investing in the black tea industry can lead to the creation of tea or mate extracts, boosting export potential. Therefore, the government could prioritize investing in these high-value agro-products or provide incentives, and subsidies for investors in this sector to boost Malawi's export earnings, create employment opportunities, and promote overall economic development.

b. Improving the Mining Sector

The mining sector in Malawi presents a significant growth opportunity, and the government should work towards improving the investment climate in the sector. To achieve this, the government should review and reduce the existing red tape involved in obtaining mining licenses and permits. Additionally, the government should also ensure that the fiscal regime for mining companies aligns with the Mines and Minerals Act of 2019 and where necessary amendments to the MMA should be done to ensure that MMA responds to realities, best practices, and standards across the southern Africa region.

Government designated some industries as priority industries and consequently such industries benefit from generous tax incentives. Despite much talk on mining by senior government officials, mining is not

included as a priority industry hence moving forward the government may consider including mining considering the potential benefits this industry may bring to the nation. Government documents show that mining has potential of contributing 10-25 % of GDP in the next decade. It is therefore proper to accord the sector a priority industry status.

The government should consider amending the MMA of 2019 to address resource rent tax (RRT) and royalty concerns. Most of the regional peers do not have RRT and royalty charged on mining projects. Large prospective mining investors have raised this RRT concern, and the government should take these concerns seriously. Malawi's royalty rate of 5 % is within peers Zambia, Zimbabwe, Tanzania, and Botswana whose mineral royalty rates in these countries range from 5% to 10%. However, given the level of economic progression compared to these peer countries, and to attract mining companies, Malawi should consider lowering the royalty rates or alternatively, Malawi can have various rates of royalties depending on the type and value of mineral being extracted. Other countries have lower bands of rates such as South Africa (minimum 0.5%), Nigeria (minimum 3%), Tanzania (minimum 1%), and Rwanda (minimum 4%).

Malawi mining sector has incentives like 100 % expensing of expenditure in the first year, but this may not be adequate considering the nature of mining business which requires huge capital inflows in the early years. To that effect, the government can introduce exception rules to the expenditure expensing in the mining and allow companies to have 100 % expensing for more than 1 year.

c. Revamping the Energy Sector

The energy sector in Malawi presents significant investment opportunities, and the government should focus on revamping the sector to attract investment. The government should encourage investment in renewable energy sources such as solar and wind and offer competitive tariffs to the IPPs through the power purchase agreements and implementation agreements. To reduce the reliance on diesel-based power generation and lower the average cost of electricity, the government should continue provision of tax incentives and streamline the permitting process. The government should also ensure a transparent and straightforward process for companies to negotiate tax incentives and reduce the bureaucratic processes involved in applying for tax incentives.

The energy sector requires huge investments in the first years but delays by MRA to refund input VAT makes the sector unattractive. To that effect, the government should prioritize the energy sector when clearing tax refunds.

The IPPs on the national grid are currently enjoying better and more competitive tariffs. The government should continue offering competitive tariffs to the IPPs and ensure that the tariffs hover above the regional average. Furthermore, the government prefers auction/solicited IPPs, unsolicited IPPs may be attractive to serious IPPs who of course are likely expensive and demand higher tariffs. Considering that Malawi is still very energy deficient, government should balance the IPPs basket by encouraging both solicited and unsolicited IPPs and provide foreign currency indexing and above average tariffs. Offering IPPs on low price bidder preference may likely attract poor quality IPPs. Like the GET FiT program in Uganda, the Malawian government could consider offering performance-based grants to IPPs of private renewable energy projects with a capacity of 1-20 MW.

Government through Malawi Energy Regulatory Authority should also ensure strict adherence to electricity tariff schedules and other policies to bring confidence to players in the industry like IPPs.

Import Duty exemptions in the energy sector are for investments of at least US$30 million but for the Malawi energy sector, such an incentive is prohibiting small Independent Power Producers (IPPs) who can make a difference considering the energy gaps in the country. The government should therefore lower the threshold for import duty exemptions in the energy sector. Economies with better access to energy like

Tanzania have much similar but lower thresholds than Malawi. Alternatively, like Zambia, Malawi could establish investment thresholds that qualify investors for fiscal and non-fiscal incentives. Investors that invest not less than a certain amount in renewable energy projects could qualify for fiscal incentives such as accelerated depreciation on capital equipment and duty-free import of equipment and machinery. They could also be entitled to non-fiscal incentives such as investment guarantees and protection against expropriation, free facilitation of immigration permits, secondary licenses, land acquisition, and utilities.

d. Reducing cost of Business for the Manufacturing Sector

The manufacturing sector in Malawi is facing several challenges that are affecting their businesses. To address these challenges, the study suggests some recommendations. First, the government should review the tax rates on the manufacturing sector to make it easier for them to compete with cheaper imported goods. This would help to level the playing field and prevent foreign companies from dominating the market. Second, manufacturers expressed challenges obtaining forex for importing raw materials, and the government can implement some changes in policy. Currently, the Reserve Bank of Malawi (RBM) requires exporters to sell a minimum of 30 percent of their export proceeds to authorized dealer banks (ADBs) while retaining 70 percent of the proceeds in their foreign currency denominated accounts (FCDAs). While this policy was introduced to ensure foreign exchange availability in the country, the World Bank suggested that it should be phased out once the macro-economic situation improves. To achieve this, the government could consider policy options recommended by the World Bank, such as greater exchange rate flexibility, developing the foreign exchange interbank market, and strengthening the RBM's reserve management. Third, the government should remove import duties on packaging materials such as jute bags. This would reduce the cost of producing and packaging goods in Malawi, making it easier for manufacturers to compete in the global market.

e. Realizing more value from the Manufacturing sector

The manufacturing sector is a crucial component of Malawi's economy, and to enhance its contribution, the government should prioritize improving the investment climate in the sector. Firstly, the government should establish a fund or make arrangements with commercial banks to provide funds at low-interest rates to manufacturers who commit to producing for exportation. This would help to mitigate the high cost of funds in Malawi, which is a significant burden for manufacturers. With minimum interest lending rates hovering around 20-24 percent, coupled with rising costs of production variables like fuel and forex, manufacturers face serious challenges to compete with imports and expand production for exports. Secondly, the incentives offered to the manufacturing sector should be clear, widely communicated, and effectively implemented. The government should also consider prioritizing key industries when allocating energy and forex to address the sector's persistent shortages. Additionally, reducing some production costs such as maximum demand tariff charges and unjustifiable price controls on some goods and services like maize, wheat, cotton, and soya, which are key raw materials in the manufacturing sector, could significantly improve the sector's competitiveness.

Thirdly, the government should remove the need for manufacturers' authorization upfront as a requirement for public procurement until the point of contracting. This would enhance the competitiveness of local manufacturers and increase their chances of winning procurement bids. Fourthly, the government should address the misalignment of the Malawi Kwacha against other foreign currencies to reduce the forex shortage that affects the sector. Industries are forced to get forex at premiums to keep their business afloat amidst the forex crisis. In addition, the government should consider reducing or abolishing the fringe benefit tax (currently at 30 percent) as it unnecessarily increases the company's expenditures.

Moreover, the Malawi Revenue Authority (MRA) should address tax audit concerns through round-table discussions and beefing up its audit units' capacity. Companies feel that MRA uses audits to scare companies

and solicit bribes. Furthermore, taxpayers should be audited more frequently than the current situation where it can take more than 5 years for a company to get audited, and delayed audits and consequent compounded penalties are fertile ground for corruption. Lastly, manufacturing companies under bond should not pay duties and other import taxes when importing dutiable goods under bond.

As Malawi and other countries continue to engage and foster free trade areas, the government should support the manufacturing sector to make it more vibrant, competitive, and ready to supply the African market. A weaker manufacturing sector means continuous overreliance on imports, which comes with significant risks like global supply chain disruptions and exchange rate volatility. Therefore, by implementing these policy recommendations, the government can create a tax regime and conducive business environment that will support the growth and development of the manufacturing sector and enhance its contribution to Malawi's economic growth.

f. Reforming the Tax Regime

The government of Malawi should focus on improving the tax system to promote growth in the agriculture, mining, and energy sectors, while avoiding stifling revenue collection for investment and trade. The government should be commended for removing the 3 % withholding tax on tobacco farmers in the 2022/23 Budget Statement and implementing a 1 % final tax on gross tobacco sales. This will significantly ease the burden on tobacco farmers and improve livelihoods of farmers in the tobacco sector through increased disposable income. However, the government should continue to review the current tax and tariff structures, their impact on business performance, investment, and exports, and evaluate existing tax incentives for their effectiveness in attracting and retaining investments. The government should also strengthen the capacity of the Malawi Revenue Authority (MRA) to effectively administer tax laws and revenue collection and encourage public-private sector dialogues to advocate for evidence-based tax policies that promote trade and investment in Malawi.

Specifically, the Malawi Government through MRA should consider reforming the tax refund management process. The Government should consider increasing the retention of for VAT refunds beyond 3% of total revenue to clear the backlog of refunds. MRA can also capitalize on the current rolling out of the Msonkho Online and automate the VAT refund application and disbursement process. This would not only make it transparent and instill confidence in the companies, but it would reduce red tapes and cut the opportunity for corruption. Furthermore, the Government should consider reviewing the tax policies which lead to the accumulation of tax refunds such as orienting the VAT system to zero rating exports only.

The government, as detailed in the domestic revenue mobilization strategy (DRMS), should move with speed to effect more consumption taxes and reduce direct taxes dependance. Quick measures include, increasing the zero tax PAYE threshold from the current MK100,000 . Malawi's regional peers like Zambia, Tanzania, South Africa, and Zimbabwe all have higher zero tax PAYE threshold than Malawi. The government is commended for removing the 40 percent bracket and leaving the highest rate at 35 percent in the 2023/24 budget but that only benefits high-income earners. There is need to consider the lower bracket as well. The increment in zero PAYE threshold should be compensated for by, among other things, an increase in the VAT standard rate by 0.5 percentage points from the current 16.5 % to 17%. As noted in the report, Malawi is among the few countries with low VAT in the region.

Despite the existence of tax incentives, investors are not guaranteed to enjoy such incentives due to systematic challenges in tax administration processes. The government should be more transparent and limit requirements for companies to make special applications for a company to enjoy incentives in its designated sector. Current practices where companies in the same sector tend to enjoy different incentives should be stopped as it breeds bribery and corruption and exposes companies to unnecessary red tape. For instance, Malawi has a shorter tax loss carryover period of six years which makes it difficult for businesses with huge initial investment to recover. Though some companies are given a longer loss carry over period, the process of obtaining such an incentive is riddled in bureaucratic hurdles. Introducing exceptions to the

loss carryover period will greatly benefit companies which by nature of their business requires more than 6 years to meaningfully start reaping off benefits of their investments.

In general, government agencies should improve communication and publicity of various incentives and processes to benefit from such incentives. Government should also provide timelines through service charters and legislations on the timelines for approval/not approval decisions on permits, incentives, etc. Proper communication, timelines, and publicity will make it easy for businesses and investors to have up to date information and avoid falling into the red tape trap. Where government agencies fail to adhere to its own timelines and service charters, then Office of President and Cabinet, Parliament, and/or Judiciary should intervene.

g. Improving the Business Environment

To foster a competitive and minimally regulated business environment in Malawi, the government should simplify the processes involved in obtaining licenses, permits, and tax incentives. The government should also encourage entrepreneurship and industrial development, expand the base for entrepreneurship, and reduce the dependency on direct taxes while increasing indirect taxes. The government should also ensure that tax laws are up to date and well-aligned with the economic activities of the country and periodically review tariffs in comparison to other countries in the region. Additionally, the government should encourage competition in the power generation sector to bring down the average cost of electricity and attract investment into the country.

Furthermore, the study has also highlighted the inadequacy of Corporate Income Tax (CIT) in attracting investment. This was observed in most of Malawi’s peers which exhibited a negative relationship between Foreign Direct Investment (FDI) and CIT. This implies that tax policies to attract FDI should not focus on lowering the CIT per se but instead it should focus on stabilizing the economy and increasing overall competitiveness. In recent years, Malawi has been hit with electricity, fuel, and forex challenges which have significantly affected companies. The government should come up with deliberate policies or plans to prioritize key/priority sectors, and top exporters in accessing forex and electricity. Investors have wide options for their investments across the region so Malawi should ensure that issues like forex availability and access to electricity should not divert potential investors to other neighboring countries.

Finally, the government should ensure that laws developed by different agencies speak to each other and do not conflict. There are several incidences where strategies/policies or regulations aimed at promoting a particular sector or issue end up degrading another equally important sector.

Government agencies and ministries like MRA, Ministry of Mining, Ministry of Agriculture, and Ministry of Finance should also ensure strict and fair adherence to its own policies, laws and regulations. Investors and prospective investors should be assured that they will get whatever is provided in the law or policy according to their respective sectors of interest. Similarly, frequent policy reversals and changes should be minimized as it brings uncertainty to investors.

h. Time-Frame For Recommendations On The Four Sectors: Mining, Agriculture, Energy, Manufacturing

In this section, the recommendations are segmented by suggested implementation period, to guide prioritization.

Implementation Period	Recommendation	Sector	Responsible Agencies
Short-term	Streamline permitting process, provide	Agriculture	Ministry of Agriculture

	technical assistance, and extend loss carry over period for the agro-processing industry		and Ministry of Industry and Trade
Short-term	Review and reduce red tape in obtaining mining licenses and permits, and align fiscal regime with the Mines and Minerals Act of 2019	Mining	Ministry of Mining and Ministry of Finance
Short-term	Provide tax incentives and subsidies for investors in the agro-processing industry	Agriculture	Ministry of Agriculture and Ministry of Industry and Trade
Short-term	Review tax rates on manufacturing sector to level playing field	Manufacturing	Ministry of Industry and Trade
Short-term	Implement changes to forex policy for importing raw materials	Manufacturing	Reserve Bank of Malawi, Ministry of Finance
Short-term	Remove import duties on packaging materials	Manufacturing	Malawi Revenue Authority, Ministry of Finance
Medium-term	Consider amending the Mines and Minerals Act of 2019 to address resource rent tax and royalty concerns, and designate mining as a priority industry	Mining	Ministry of Mining and Ministry of Finance
Medium-term	Introduce exception rules to the expenditure expensing in the mining industry	Mining	Ministry of Mining and Ministry of Finance
Long-term	Encourage investment in the energy sector and consider diversifying the sources of energy	Energy	Ministry of Energy and Ministry of Finance
Long-term	Develop renewable energy projects and improve access to electricity in rural areas	Energy	Ministry of Energy and Ministry of Finance
Short-term	Establish a fund or make arrangements with commercial banks to provide funds at low-interest rates to manufacturers who commit to producing for exportation	Manufacturing	Ministry of Industry and Trade, Commercial Banks
Short-term	Ensure that incentives offered to the manufacturing sector are clear, widely communicated, and effectively implemented. Prioritize key industries when allocating energy and forex	Manufacturing	Ministry of Industry and Trade, Ministry of Energy, Ministry of Finance
Short-term	Reduce some production costs such as maximum demand tariff charges and unjustifiable price controls on key raw materials in the manufacturing sector	Manufacturing	Ministry of Industry and Trade, Ministry of Agriculture

Short-term	Remove the need for manufacturers' authorization upfront as a requirement for public procurement until the point of contracting	Manufacturing	Public Procurement and Disposal of Assets Authority (PPDA)
Short-term	Address the misalignment of the Malawi Kwacha against other foreign currencies and reduce the forex shortage affecting the sector	Manufacturing	Reserve Bank of Malawi, Ministry of Finance
Short-term	Reduce or abolish the fringe benefit tax	Manufacturing	Malawi Revenue Authority (MRA), Ministry of Finance
Short-term	Review tax rates on the manufacturing sector to level the playing field	Manufacturing	Ministry of Industry and Trade, Ministry of Finance
Short-term	Remove import duties on packaging materials	Manufacturing	Malawi Revenue Authority, Ministry of Finance
Short-term to Medium-term	Hold round-table discussions with taxpayers, or conduct sensitization, on tax audit concerns and beef up audit units' capacity to prevent corruption	Manufacturing	Malawi Revenue Authority, Ministry of Finance

i. Time-Frame For Recommendations On The Tax Regime

In this section, recommendations on tax regime are segmented by implementation period.

Implementation Period	**Recommendation**	**Sector**	**Responsible Agencies**
Short-term	Streamline tax collection and improve tax compliance	All	Malawi Revenue Authority
Short-term	Provide tax incentives for investments in priority sectors such as agriculture, mining, and energy	All	Malawi Investment and Trade Centre
Short-term	Simplify tax procedures and reduce tax rates to promote small and medium-sized enterprise growth	All	Ministry of Finance
Short-term	Strengthen tax administration capacity to improve revenue collection	All	Malawi Revenue Authority
Medium-term	Introduce a progressive personal income tax system to improve income distribution	All	Ministry of Finance
Medium-term	Reform the corporate tax system to make it more transparent and predictable	All	Ministry of Finance

Medium-term	Reduce tax exemptions and broaden the tax base to increase revenue collection	All	Ministry of Finance
Long-term	Consider implementing a value-added tax system to further broaden the tax base	All	Ministry of Finance
Long-term	Implement measures to combat tax evasion and illicit financial flows	All	Malawi Revenue Authority, Financial Intelligence Authority
Long-term	Review and update tax policies to encourage investment in the business environment	All	Ministry of Finance and Ministry of Industry and Trade

j. Conclusion

In conclusion, the recommendations outlined aim to drive economic growth and development in Malawi by improving the investment climate in the agriculture, mining, energy, and business sectors. By streamlining the processes involved in obtaining licenses, permits, and tax incentives, providing technical assistance, and reviewing the existing tax regime, the government of Malawi can create a more attractive investment environment for businesses. The government should also encourage investment in renewable energy sources and revamp the energy sector to reduce the reliance on diesel-based power generation. The government's efforts to simplify the business environment, promote entrepreneurship, and increase the competitiveness of the economy will ultimately result in increased investment and economic growth in Malawi.

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10. APPENDIX

APPENDIX 1A: SUMMARY OF INCENTIVES IN ENERGY SECTORS

1. Uganda

a) Tax incentives

- Specialized equipment for development and generation of solar and wind energy, including accessories and deep cycle batteries which use and/ or store power are exempted from all taxes.
- Water treatment effluent plant are also exempted from all taxes
- Hydro and solar renewable technologies for electricity generation are VAT exempt.
- Equipment used in the construction of renewable energy generation plants is exempted from import duty
- Plastic bag bio gas digesters and Penstock pipes for use in hydro power projects are exempted from 18% VAT and Import duty is 0 %

b) General Incentives

- Electricity Regulatory Authority, in partnership with the Government of Uganda and Kreditanstalt für Wiederaufbau, created the Global Energy Transfer for Feed-in-Tariff (GET FiT) Program in 2012 to increase energy production in Uganda and prevent potential power shortages prior to the completion of large hydroelectric projects. The GET FiT Program's goal is to accelerate the development of private renewable energy projects with a capacity of 1-20 MW, adding up to 170 MW/830 GWh per year. The program provides a performance-based grant in the form of a premium payment as an additional financial support to the selected projects. The premium ranges from 0.5-2.0 cents per kWh and it is paid to the developers in addition to the tariffs established by ERA.
- ERA has developed **Standardized Power Purchase Agreements (PPAs)**, **Implementation Agreements (IAs)** and model licenses in consultation with development partners, lenders and power project developers. This has resulted into the reduction in advisory service costs and the time required to negotiate the first initializing of a standardized PPA by a developer and **UETCL** (from six months to one week).

1. Zambia

The Energy Sector is a priority sector, so the Zambia Development Act provides for investment thresholds that have to be met to qualify for fiscal and non-fiscal incentives.

- Investors that invest not less than US$500,000 in a Multi Facility Economic Zone, and Industrial Park, a Priority Sector, or in a rural area are entitled to the following fiscal incentives:
  - Accelerated depreciation on capital equipment
  - Duty free import of equipment and machinery

In addition to fiscal incentives, the above category of investors is entitled to the following non-fiscal incentives;

  - Investment guarantees and protection against expropriation;
  - Free facilitation of immigration permits, secondary licenses, land acquisition and utilities.

Zambia also has a Global Energy Transfer for Feed-in-Tariff (GET FiT) Program. The program is the Government of the Republic of Zambia’s Programme to facilitate private sector investment in small- and medium-scale Renewable Energy Independent Power Projects (IPPs) in Zambia.[4]

2. Nigeria

All areas of investment in this sector are considered to be pioneer product or industry as such, investors get;

  - A tax holiday period of three years commencing on the production day with a possible extension up to a maximum of an additional two years.

[4] https://getfit-zambia.org/about-get-fit

- Dividends paid out of pioneer profits shall be tax-exempt when distributed to the Company’s shareholders.
- Capital expenditure on qualifying assets incurred during the tax relief period is treated as having been incurred on the first day following the tax relief period.
- The loss incurred during the tax relief period is also deemed to be incurred on the first day following the expiration of the tax relief period and can be carried forward to offset profits after the tax –exempt period.

Incentives centred around renewable energy, some of which include:

- Customs duty exemptions for two years on the importation of equipment and materials used in renewable energy projects;
- Five-year tax holidays for manufacturers from date of commencement of manufacturing;
- Five-year tax holidays on dividend incomes from investments in domestic renewable energy sources;

3. Zimbabwe

Renewable energy projects are accorded a National Project Status (NPS), and the Incentives available under this regime include:

- Duty rebates on importation of raw materials;
- Tax holiday and an exemption from non-residents tax on fees payable in respect of any services relating to the project;
- Income tax holiday for the first five years then income is taxed at 15% thereafter rather than at 25% (general CIT rate)
- Leeway to motivate for and negotiate additional fiscal incentives with the Commissioner of Domestic Taxes at the Zimbabwe Revenue Authority (ZIMRA) as well as non-fiscal incentives with the various line ministries.
- Duty Free imports on solar panels, solar equipment, electric motors, energy savers and lithium-ion batteries; and net-metering.

4. Tanzania

The government of Tanzania offers incentives to investors in renewable energy through the Tanzania Investment Centre (TIC), Export Processing Zones (EPZs) and other fiscal laws.

The TIC offers investors a certificate of incentives and strategic investor status for a project worth not less than US$20 million, and the investment enjoys additional fiscal and non-fiscal incentives.

Other incentives are:

- Access to services related to permits, licences and approvals in the TIC one-stop facilitation centre;
- Recognition of private property and protection against any non-commercial risks. Tanzania is an active member of the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes;
- 10 per cent import duty for semi-processed or semi-finished goods;
- 25 per cent duty for final goods;
- solar energy system parts are exempted from East African Community customs and excise duties;
- VAT exemptions (standard rate is 18% in mainland Tanzania and 15% in Zanzibar) on the supply of solar panels, modules, solar charger controllers, solar inverters, solar lights, vacuum tube solar collectors and solar batteries;
- The introduction of a pay and refund scheme for excise duty paid on fuel purchased by eligible companies participating in renewable energy projects; and
- VAT deferment granted on project capital goods such as plant and machinery.

Through the Rural Energy Fund, the government has put in place a funding mechanism and procedures for the provision of grants and subsidies to developers of rural energy projects.

Photovoltaics and solar energy system parts are exempt from VAT, customs and excise duties.

5. **South Africa**

The South African government established the Renewable Energy Independent Power Producer Procurement Program (REIPPPP) as a means to promote the use of renewable energy. The program features a large-scale tendering process which allows for multiple private sector companies to be awarded contracts, thereby encouraging private sector participation. Additionally, the government offers guarantees to Independent Power Producers (IPPs) that support the purchase of power from their renewable energy projects by Eskom. The South Africa Income Tax Act provides for a number of fiscal incentives that are advanced to the renewable energy sector. These include allowances for

- Energy efficiency savings (Section 12L);
- Capital allowance for machinery used in the production of renewable energy (Section 12B);
- Exemption of certified emission reductions (Section 12K);
- Allowance for industrial policy projects (Section 12I); and
- A host of tax incentives for the proposed special economic zone SEZs (Section 12R).

6. **Madagascar**

The Madagascar Tax Code of 2015 provides for the following tax incentives of renewable energy;

- Reduction in corporate income tax[5] equivalent to 50% of the investment;
- Exempt of VAT on equipment used in the production of renewable energy. The equipment includes wind power generators, hydropower generators, solar water heaters and solar PV panels; and
- Investment in equipment can be depreciated at an accelerated rate of 30% of net value, with exception of building.

7. **Rwanda**

The Rwanda Investment Code provides for a seven-year tax holiday for investment for energy projects producing at least 25 MW. The investment should be of at least 50 million USD and the investor should contribute at least 30% of this investment in the form of equity in these sectors. The Minister for Finance and planning provides a list of clean energy equipment exempted from VAT.

8. **Kenya**

The Kenya Finance Act, 2021 amends the First Schedule of the Value Added Tax Act to exempt taxing of solar and wind energy specialized equipment. This was after a VAT of 14% was imposed on solar equipment in 2020, which made solar products unaffordable and discouraged the realisation of universal electrification. The new law puts back the country on track the road to attaining green energy.

APPENDIX 1B: SUMMARY OF KEY TAX STRUCTURE FEATURES AND TAX INCENTIVES IN AGRICULTURAL SECTORS

Country	Taxes
Zambia	The standard CIT rate is 30% but farming and agro processing income is taxed at 10%. VAT standard rate is 16% and there’s no preferential VAT rate to the sector.
Zimbabwe	The standard rate for Income Tax and VAT rates are 24% and 15%, respectively. There are no CIT and VAT specific rates for the agricultural sector.

[5] A corporate entity having an annual turnover of less than MGA 200 million is subject to CIT at a rate of 5% of 70% of turnover, with a minimum tax of MGA 16,000 to MGA 150,000 depending on the activities.
A corporate entity registered in Madagascar and having an annual turnover exceeding MGA 200 million is subject to CIT at a rate of 20%.

Tanzania	There are no agriculture specific tax rates for the agricultural sector. The CIT standard rate is 30% and VAT is at 18% Withholding tax: 2% on payments made by resident corporations in respect of agricultural, livestock and fishery products supplied by resident persons
Uganda	Presumptive taxes for small farmers based on turnover Individual income tax based on progressive brackets Corporate income from agriculture is taxed at the standard rate of 30% and VAT and rent taxes are charged at standard rates of 18% and 12%, respectively.
Nigeria	Businesses wholly engaged in agricultural industry or trade are excluded from the minimum corporate income tax, which is 20% for medium-sized businesses and 30% for large businesses. Agricultural production, processing or other agro-allied projects is exempted from 7.5% VAT
Ghana	The general corporate income tax (CIT) rate is 25% but a special rate of 1% is applied on businesses in the agricultural sector for the first 5-10 years depending on the agricultural business. (described in the tax incentives section)
Botswana	Companies: Current tax rate for residents and non-residents is 25% Withholding tax rate: 15% on commercial royalties and management fees payable to non-residents. 15% on interest payable to both resident and non-residents 15% on dividends payable to both residents and non-residents 10% on entertainment fees payable to non-residents
Rwanda	The standard CIT rate is 30% but investors in the sector get a 50% reduction in corporate income tax, if you are a registered investor exporting 50% of the turnover of products produced in Rwanda. VAT standard rate is 18% and there's no preferential VAT rate to the sector
Norway	There are no special tax rules for agriculture companies. The standard CIT rate is 22% and is at VAT 25%
New Zealand.	Farmers pay GST: 15% company tax of 28 per cent If they use a trust structure, any profit is subject to 33 per cent tax.

Tax incentives

1. **Zambia**
    - Guaranteed VAT input tax claim for four years prior to commencement of production for businesses in the agricultural sector that make taxable supplies.
    - Zero-rating of taxable agricultural products and supplies.
    - Increased number of zero-rated agricultural equipment and accessories
    - VAT deferment on importation of some agricultural equipment and machinery.
    - Zero-rating of the principal amount on finance leases for purchasing agricultural equipment and accessories listed in the Value Added Tax Zero-Rating Order.
    - Farm improvement allowance at 100% on fencing, appropriate to farming and farm dwelling occupied by farm workers whose original cost is not in excess ofK20,000.

- Farm works allowance at 100% for the full cost of stumping and clearing, works for prevention of soil erosion, boreholes, wells, aerial and geophysical surveys and water conservation.
- Dividends paid out of farming profit are exempt from tax for the first five years the distributing company commences farming.
- Development allowance is given for any person who incurs expenditure on the growing of tea, coffee, or banana plant or citrus trees or other similar plants or trees. An allowance of 10% of such expenditure shall be deducted in ascertaining the gains or profits of that business.
- Increased capital allowance rate to 100% from 50% for implements, plant and machinery used in farming and agro – processing.

2. Zimbabwe

- Farming inputs and equipment are subject to VAT at 0%. Most inputs such as animal feed, animal remedy, fertiliser, plants, seeds and pesticides and equipment or machinery used for agricultural purposes are zero-rated.
- Special deductions: Farmers enjoy special deductions in respect expenditure incurred by them on soil erosion prevention, water conservation works, clearing of land, sinking of boreholes and wells, aerial and geophysical surveys and fencing
- Suspension of Duty: Companies in the agriculture sector are able to import capital equipment duty free.

3. **Tanzania**

- 100% capital allowance in agriculture. Investors in agriculture enjoy 100% capital allowance on expenditure incurred on plant and machinery, including windmills, electric generators and distribution equipment used solely in Agriculture.

4. **Uganda**

- VAT Exemption on agricultural supplies: animal feeds and premixes, crop extension services, irrigation works and sprinklers, supply of agriculture insurance
- International trade taxes exemptions of various agricultural related imports including, plant and machinery, fertilizers and other agricultural equipment
- Income tax exemptions by agro-processors. Investor must use plant and machinery that has not previously been used in Uganda, apply for and be issued with a certificate of exemption from URA and must be tax compliant.

5. Ghana

- Sector/business specific tax holidays
  - First 5 years with CIT of 1% then 25% (the standard CIT rate) after for the Agro processing business conducted wholly in the country, Cocoa-by product business wholly in the country and Cash crops or livestock (excluding cattle)
  - First 10 years with CIT of 1% then 25% after for Tree crop farming and Cattle farming
- Agro-processing businesses which use local agricultural raw materials as their main inputs after the expiration of the initial Five (5) year tax holiday would continue to enjoy reduced corporate tax rates according to location in which their manufacturing plants are situated as follows:
  - Accra: 20%
  - Tema: 20%
  - Other Regional Capitals (except Northern, Upper East and Upper West Regional Capitals): 15%
  - Outside regional capitals: 10%
  - Northern, Upper East and Upper West Region (including their capitals: 5%
- An expense is deductible if it is wholly, exclusively and necessarily incurred by the person in the production of the business or investment income for the year.
  - A deduction shall be disallowed for an expense that is of a capital nature.
  - An expense that is of a capital nature includes an expense that secures a benefit that lasts for more than twelve (12) months.
- VAT exemption on Machinery, apparatus, appliances and parts designed for the use in agriculture

6. Nigeria

- All agricultural and agro-industrial machines and equipment enjoy zero % (0%) duty.
- Companies in the agro-allied business do not have their capital allowance restricted. It is granted in full i.e. 100%.
- Agribusiness is tax free. The payments of minimum tax by companies that make small or no profits at all do not apply to agro-allied business.
- Agro-allied plant and equipment enjoy enhanced capital allowances of up to 50%.
- Processing of agricultural produce is a pioneer industry; consequently, there is 100% tax-free period for 5 years or projects into processing of agricultural produce.
- Tax relief for Research & Development: Agro-allied industries that attained minimum levels of local materials sourcing & utilization enjoy tax credit.
- Up to 75% guarantee for all loans granted by commercial banks for agricultural production and processing under the Agricultural Credit Guarantee Scheme Fund (ACGSF) administered by the Central Bank of Nigeria.
- Interest Drawback Program Fund: 60% repayment of interest paid by those who borrow from banks under the ACGS, for the purpose of cassava production and processing provided such borrowers repay their loans on schedule.
- Expatriate quota and resident permits in respect of expatriate personnel engaged by agro-allied companies.
- Corporate tax incentives rebate of 12% shall be enjoyed by Bakers on attainment of 40% cassava blend within a period of 18 months.
- Personal remittance quota for expatriate personnel, free from any tax imposed by any enactment for the transfer of external currency out of Nigeria.
- The Nigerian Investment Promotion Commission Act allows 100% ownership of companies by foreigners, while the Foreign Exchange Miscellaneous Act, guarantees 100% Repatriation of Capital, Profit, & Dividends through authorized means.
- Tax-free agricultural loans with a moratorium period of over 18 months and repayment period of not more than seven years;
- Zero-tariff rates on the importation of agro chemicals.
- Profits made from the export of agricultural produce are tax exempt, provided that the proceeds from such export are used exclusively for the purchase of raw materials, machinery or equipment.
- There is also a ten % tax deductible for agro-based companies that export sixty % of their produce. Agro-based companies also enjoy a tax holiday for an initial period of five years renewable for a maximum of three years, subject to the company's performance.

7. Botswana

Incentives are given to qualifying agricultural activities under special economic zones;

- Corporates are taxed only 5% for the first five years; after this, they are taxed 10%, which is below the 22% standard CIT rate.
- Value added tax (VAT) at the rate a rate of 0% on purchases of raw materials for use in manufacturing of goods for export
- There are no foreign exchange controls in Botswana – hence free repatriation of profits, dividends and capital
- Waiver on transfer duty on land and property
- Duty-free imports of specialist plant and machinery for manufacturing purposes customs duties on imported raw materials

8. Rwanda

- Duty-free importation of all inputs
- Tax exemption for agriculture equipment
- 50% reduction in corporate income tax, if you are a registered investor exporting 50% of the turnover of products produced in Rwanda
- 7-year tax holiday for export-oriented registered investment projects

9. Norway

- Farmers benefit from a special tax deduction on income from agriculture, with deductions depending on their income level and a maximum tax savings of approximately NOK 42 000 (approximately USD 4 580).
- Subsidies provided for investment in farm buildings in less favoured areas are not deducted from the book value of the capital assets giving farmers depreciating tax advantages.
- Farmers are not required to pay municipal property taxes for buildings used in the agricultural business, and on gains from land transfers to family members.
- Diesel used in agricultural machinery and in machines used for construction is exempt from the road user tax included in the price of diesel.
- Commercial greenhouses are exempt from paying electrical power taxes.
- Taxes are charged on fuel used for agricultural machinery on the basis of CO_2 emissions and there are fees for the sale of pesticides. These are part of the different measures, including direct payments, Norway has implemented to improve the environmental impact of agricultural activities.

10. New Zealand

- Farm enhancement expenses that can be deducted from income tax include: the removal of weeds or plants and animal pests; repairing flood or erosion damage on land; removing scrub; building fences; and re-grassing and fertilising pasture
- Farmers have access to an income equalisation scheme to smooth income over time. Funds must usually be held for a minimum of 12 months and cannot be held for more than five years. Funds receive a pre-tax interest rate of 3% per annum after 12 months. Foresters and fisheries can also use the same scheme. In the event of adverse climatic conditions, farmers may be allowed to make late deposits or early withdrawals of their funds from the income equalisation scheme.
- Deductions can be made for farm losses when certain improvements are destroyed or irreparably damaged.
- Livestock or materials donated because of an adverse event may be treated as zero-value rated.
- Payments or donations from charities are not taxable or liable for GST.
- Tax treatment of insurance payments depends on what the payment is compensating, for example insurance for loss of capital assets is non-taxable, but income-replacement insurance may be taxed.
- Interest on money borrowed to keep the farm going may be deductible.
- Eligibility for independent earner tax credit.
- New Zealand’s Inland Revenue Department has a number of tax relief assistance measures for farmers experiencing adverse climatic events and natural disasters. These include late re-estimates of provisional tax, extensions of time for filing, instalment arrangements, and a reduction of penalties.

APPENDIX 1C: SUMMARY OF KEY TAX STRUCTURE FEATURES AND TAX INCENTIVES IN MINING SECTORS

Country	CIT	Mineral Royalties		Other taxes
Zambia	30	Mineral	5.5 per cent when the norm price is less than US$4,500 per tonne; 6.5 per cent when the norm price is US$4,500 per tonne or more but less than US$6,000 per tonne	Import duties (at a rate of up to 25 per cent) VAT (at 16 per cent)
		Copper	7.5 per cent when the norm price is US$6,000 per tonne or more but less than US$7,500 per tonne; 8.5 per cent when the norm price is US$7,500 per tonne or more but less than US$9,000 per tonne; and 10 per cent when the norm price is US$9,000 per tonne or more	
		Cobalt and vanadium	8 per cent of the norm value[6]	
		Base metals (other than copper, cobalt and vanadium)	5 per cent of the norm value	
		Precious metals	6 per cent of the norm value	
		Gemstones	6 per cent of the gross value	
		Energy minerals	5 per cent of the gross value	
		Industrial	5 per cent of the	

[6] Norm value is defined by the Mines Act as:
the monthly average London Metal Exchange cash price per tonne of the metal or recoverable metal sold;
the monthly average Metal Bulletin cash price per tonne of metal or recoverable metal sold to the extent that it is not quoted on the London Metal exchange; or the monthly average cash price per tonne at any exchange market approved by the Commissioner-General (the Commissioner General) of the Zambia Revenue Authority (ZRA) of metal sold or recoverable metal sold to the extent that it is not sold on the London Metal Exchange or Metal Bulletin.
The gross value is defined as the realised price for a sale (free on board) at the point of export from Zambia or point of delivery within Zambia

		minerals	gross value	
Zimbabwe	Income of a holder of special mining lease: 15% Income of a company or trust derived from mining operations: 24%	Gold and Platinum group metals Diamonds	5% 10%	
Tanzania	30%	gemstones, diamonds and metallic minerals Gems	6% of gross value 1% of gross value	Import duty: 0% *Transfer taxes and capital gains (transfer of licence): 30%*
South Africa	Special rates of normal tax, based on a standard formula, are prescribed for companies mining for gold. Companies mining for other minerals are subject to the same rate of normal tax that applies to ordinary companies. 28%	Refined mineral resources Unrefined mineral resources: minimum of	minimum of 0.5 per cent to a maximum of 5 per cent 0.5 per cent to a maximum of 7 per cent.	
Nigeria	30% (a reduced rate of 20% applies to companies with turnover of between 25 million Nigerian naira and 100 million naira, while companies with turnover of less than 25 million naira are exempt from corporate tax)	Ranging from 3 to 5 per cent of the market value of the mineral		VAT of 7.5 per cent Education tax of 2%
Ghana	35% (general CIT at 25%)	5% of the total revenue earned from mining operations and is calculated for each year of assessment		Annual ground rent US$18.57/acre, which is equivalent to US$4,590.99/km2.
Botswana	Mining profits, other than profits from diamond mining, are taxed according to the following formula: Annual tax rate = 70 minus (1,500/x), where x is taxable income as a percentage of gross income. CIT rate range: 22%-55%. Diamond mining: CIT 15%	10% on gross market value		Withholding tax on dividends 15%.
Rwanda	The standard CIT rate of 30% but a 0% corporate income tax rate applies if a mining company relocates its headquarter to Rwanda	Base metals and other mineral substances of that kind; Precious metals of gold category and	4% of the norm value 6% of the norm value	

		other precious metals of that kind; and Precious metals of diamond category and other precious stones of that kind.	6% of the gross value	
Norway	27% ordinary petroleum tax and 51% additional special tax			Carbon dioxide tax: NOK 0.98 per litre of petroleum or per scm of gas Nitrogen Oxide tax: NOK 17.33 per kg waste of nitrogen oxide
New Zealand	The corporate tax standard rate of 28% is applicable	Sale of petroleum Accounting profit or petroleum production	5% of net revenues 20%	resource rent tax has been set at a tax rate of 25 per cent after positive cash flows exceed costs by 20 per cent non-resident withholding taxes: (dividends 30%, interests and royalties 15%) VAT: 15%

Mining Tax incentives

1. Zambia
    - Guaranteed input tax claim for ten years on pre-production expenditure for exploration companies in the mining sector.
    - Interest on which a deduction is not allowed (in excess of threshold) may be treated as incurred during the next charge year and carried forward for a period of ten years.
    - Tax losses shall be deducted from 50% of the income of the person from the mining operation provided that the losses shall not be carried forward beyond 10 subsequent charge years after the charge year in which the loss is incurred;
    - Any mining company holding a mining license carrying on the mining of base metals is taxed at 30%.
    - Dividends paid by a mining company holding a mining license and carrying on mining operations is taxed at 0%.
    - 20% mining deduction on capital expenditure on buildings, rail way lines, equipment, shaft sinking or any similar works.
    - Allowable deduction of actual costs incurred by way of restoration and rehabilitation works or amounts paid into the Environmental Protection Fund pursuant to Section 86 of the Mines and Minerals Development Act 2015.
    - Mineral Royalty deductible for Corporate Income Tax assessment purposes.
    - Capital allowances at 50% of the cost of implements, plant or machinery used exclusively for mineral processing.

- Zero rating of capital equipment and machinery listed in the Second Schedule of the Zero-rating Order when supplied to a holder of a large-scale mining licence.

2. **Zimbabwe**
   - All capital expenditure on exploration, development, and operating incurred wholly and exclusively for mining operations is allowed in full.
   - There is no restriction on carryover of tax losses; these can be carried forward for an indefinite period.
   - Taxable income of a holder of special mining lease is taxed at a special rate of 15%
3. **Tanzania**
   - 100% of the expenditure incurred for the year (both capital and revenue expenditure) is deducted when calculating taxable income.
   - Depreciation allowance at an annual rate of 20 per cent for five years
4. **South Africa**
   - Mining companies are entitled to upfront deductions on qualifying capital expenditure and partial deductions on employee-related and transport-specific infrastructure. These deductions are ring-fenced to taxable mining income in relation to a specific mine.
   - Gold mining companies are taxed in terms of a formula that considers the profitability of the company and provides relief in cases where margins are below 5 per cent. Gold mining companies are entitled to additional capital expenditure allowances on top of the capital expenditure allowances applicable to non-gold mining companies. The same ring fences applicable to non-gold mining companies are also applicable to gold mining companies.
5. **Nigeria**
   - Companies engaged in mining operations are entitled to a tax holiday for the first three years of operation, which may be extended for another two years;
   - A capital allowance of 95 per cent of qualifying capital expenditure incurred on exploration, development and processing; carry forward losses;
   - Annual indexation of the unclaimed balance of capital expenditure by 5 per cent (for mines that commence production within five years of enactment of the Nigerian Minerals and Mining Act 2007 (Chapter N162 Laws of the Federal Republic of Nigeria (LFN) 2004);
   - Exemption from customs and import duties on approved plants and machinery, equipment and accessories imported specifically and exclusively for mining operations
6. **Ghana**
   - Reduced customs import duties in respect of plant, machinery, equipment and accessories imported specifically and exclusively for mineral operations (items named in the Mining List);
   - Transferability of capital;
   - Transferability of dividends, or deferment of stamp duty;
   - Immigration quotas in respect of the approved number of expatriate personnel;
   - Personal remittance quotas for expatriate personnel free from any tax imposed by any enactment for the transfer of external currency out of Ghana; and
   - Alternative dispute resolution provisions.
7. **Botswana**
   - Mining companies qualify for a mining capital allowance calculated in accordance with 100% of the mining capital expenditure made in the year in which such expenditure was incurred.
   - Mining enterprises may carry forward their losses indefinitely.
8. **Rwanda**
   - 0% corporate income tax rate if a mining company relocates its headquarter to Rwanda;
   - Corporate income tax holiday for up to seven years for an investment of at least $50 million;
   - 15% preferential corporate income tax rate for projects exporting processed minerals where up to 50% of the turnover of minerals is produced in Rwanda;
   - An investment allowance of 50% or accelerated depreciation of 50%;
   - A capital gains tax exemption and free repatriation of capital and assets;

- Tax-free imports of heavy machinery used in mining activities; and
- A value-added tax exemption on mining equipment.

9. **Norway**
   - Licensees may claim an annual refund of the tax (78%) of exploration costs incurred insofar as these costs do not exceed losses
   - A cash refund of the value (78%) of any unused losses to the point when a company abandons its upstream activities on the Norwegian continental shelf

10. **New Zealand**
    - When you buy an asset for the purpose of exploration, the amount claimed as a deduction is added back as income. The deduction can be claimed over the life of the mine as if it were developmental expenditure.
    - When mining operations end and there is a net income loss from mining, the loss can be converted into a tax credit, which is refundable. The tax credit cannot exceed the total amount of tax paid on income from the same mine.

APPENDIX 2A: ECONOMETRIC METHODOLOGY AND DETAILED RESULTS

To measure the long-term impact of tax structure on key economic industries, the study also applies an econometric approach. In this approach the study uses time series data to determine the impact of tax revenue on the growth of the following sectors: the energy sector, the agricultural sector and the mining sector.

Adopting a complete econometric methodology would require that each measure of growth for each sector becomes the dependent variable in a model where tax revenue is among the independent variables influencing a particular indicator for each industry.

Model

The study adopts a model, as used by (Wielen, 2019), where the Auto Regressive Distributive Lag (ARDL) approach to cointegration analysis is used to measure the long term impact of tax revenue on key sector performance. Therefore, three models were developed to examine the impact of tax revenue on broad sectors of the economy (Mining, Agriculture, and Energy). The manufacturing sector cuts across all these other sectors hence it was not included as a stand-alone model. However, there are two variations of the measure of the tax revenue variable: Taxes on income and profits and total tax revenue for comparison purposes. The models are expressed as follows:

The Mining Industry

$$\Delta \ln TNRR_t = \beta_0 + \sum_{i=1}^{K} \beta_{1i} \Delta \ln TNRR_{t-1} + \sum_{i=1}^{K} \beta_{2i} \Delta x_{i,t-1} + \varepsilon_t$$

The Agriculture Industry

$$\Delta \ln AGRIC_t = \alpha_0 + \sum_{i=1}^{K} \alpha_{1i} \Delta \ln AGRIC_{t-1} + \sum_{i=1}^{K} \alpha_{2i} \Delta x_{i,t-1} + \mu_t$$

The Energy Industry

$$\Delta \ln ATE_t = \theta_0 + \sum_{i=1}^{K} \theta_{1i} \Delta \ln ATE_{t-1} + \sum_{i=1}^{K} \theta_{2i} \Delta x_{i,t-1} + \omega_t$$

In this case, $lnTNRR_t$ represents the log form of total natural resource rents as a percentage of GDP as a measure of output for the mining industry; $lnAGRIC_t$ represents the log form of agricultural raw materials exports (as a percentage of merchandise exports) which measures the output of the agriculture industry; and finally, $lnATE_t$ represents the log form of access to electricity (as a percentage of the population) as a measure of the output of the energy sector. $x_{i,t-1}$ represents a vector of explanatory variables including: total tax revenue ($lnTTR_t$), taxes on income and profits ($lnTYP_t$), money supply ($lnM2_t$), the gross domestic product ($lnGDP_t$), foreign direct investment net inflows ($lnFDI_t$), and inflation ($lnCPI_t$) all expressed in their log forms. Finally, ε_t, μ_t, and ω_t represent the error terms.

Table 2A1 below presents the description of the variables and a brief discussion of their relationship.

Table 2A1: Description of Variables

Variables	**Variable Description**	**A Priori**	**Explanation**
lnTNRR	The natural log of total natural resource rents expressed as a percentage of GDP.	Dependent Variable	
lnAGRIC	The natural log of agricultural raw material exports expressed as a percentage of merchandise exports.	Dependent Variable	
lnATE	The natural log of the measure of access to electricity as a percentage of the total population.	Dependent Variable	
lnTYP	The natural log of taxes on income and profits.	A negative relationship is expected	Higher taxes can discourage the rate of investment. Additionally, high taxes have the potential to dampen productivity by reducing labor supply growth and the development of venture capital for high-tech industries such as mining and energy.
lnTTR	The natural log of total tax revenue.	A negative relationship is expected	Taxes are expected to reduce excess rents and profits from the key economic sectors and decrease their respective levels of performance.
lnM2	The natural log of money supply	A positive relationship is expected	It is expected that expansionary monetary

	measured as broad money.		policy would reduce interest rates and, therefore, encourage significant capital market investments, leading to the growth of the economic sectors of interest.
lnFDI	The natural log of foreign direct investment net inflows.	A positive relationship is expected	Foreign direct investment inflows enhance competitive business contribution to international trade integration and improvement of industry development, ultimately leading to industries' growth.
lnGDP	The natural log of the gross domestic product.	A positive relationship is expected	Economic growth is expected to spur technological progress and improve the productivity of the mining, agriculture, and energy sectors.
lnCPI	The natural log of the consumer price index used as a measure of inflation.	A negative relationship is expected	Rising inflation hampers the growth of critical industries by raising the cost of raw materials. Specifically, regarding access to electricity, energy prices may hinder the industry's growth.

Data

The econometric approach seeks to investigate the impact of tax revenue on sector performance between 1970 and 2021. The study uses the annual economic report data from the Ministry of Finance for total tax revenue, and taxes on income and profits data. However, the data is only available up to 2008 such that data for the remainder of the years is sourced from the World Bank database. Similarly, data on the rest of the variables was sourced from Malawi World Bank Country Data.

Additionally, to ensure robustness and reliability of the results, the annual data was interpolated to quarterly data to keep the observations above the required threshold of 30 data points for robust econometric analysis of time-series data. This was done using cubic spline method in EViews 12. Therefore, the final observations span between 1970q1 and 2021q4.

Unit Root Tests

The study conducted unit root tests to check for stationarity in the series and to justify the use of the ARDL approach to measure the long term impact of tax revenue on key sectors of the economy. The Augmented Dicky-Fuller and Phillips-Perron tests are used to test for stationarity.

Diagonistic Tests

To ensure that the model is well-specified, the study conducts diagonistic tests, particularly, tests for heteroscedasticity, autocorrelation and CUSUM tests.

Empirical Results

To determine whether a long-run equilibrium relationship exists between the dependent and independent variables, the bounds test for cointegration was used. The results provide F-statistics ranging from 3.146 to 4.335, for the six models. The critical values are 3.35, 3.79 and 4.68 at 10%, 5%, and 1% levels of significance respectively. The general decision rule of the bounds test is to reject the null hypothesis (no levels relationship) when the F-statistic exceeds the critical values (Pesaran, Shin, & Smith, 2001). Therefore, for the first model, the existence of a long-run relationship is inconclusive because the F-statistic exceeds the critical values at 10% and 5% levels of significance but not at 1%. However, it can conclusively be stated that the second model shows that there is no relationship between total natural resource rents and its determinants, in levels. The rest of the models also exhibit inconclusive results due to similar reasons as cited in the case of the first model.

Table 2A2 below presents the results of the ARDL estimation results. First, the short-run coefficients of the determinants of sector performance including tax revenue are discussed, and thereafter a analysis on the long run coefficients follows.

As outlined earlier, the sector-specific models are further split into two models due to the variations of the tax revenue variable as shown in the Table 2A2 below. With regard to the mining sector, the results below indicate that in the short run, lagged total natural resource rents, money supply foreign direct investment, the gross domestic product and inflation have both positive and significant effects on the mining sector performance. Total tax revenue, however, has a negative and significant effect on mining sector performance.

Table 2A2: ARDL Estimation Results

	(1) D.lnTNRR	(2) D.lnTNRR	(3) D.lnAGRIC	(4) D.lnAGRIC	(5) D.lnATE	(6) D.lnATE
ADJ						
L.lnTNRR	**-0.121*** (-4.66)**	**-0.104*** (-4.13)**				
L.lnAGRIC			**-0.0495*** (-1.66)**	**-0.0534 (-1.71)**		
L.lnATE					**-0.178*** (-4.74)**	**-0.177*** (-4.74)**
LR						
lnTYP	**-0.0994 (-0.34)**		**1.109 (0.57)**		**-0.00723 (-0.03)**	
lnTTR		**-0.257 (-0.73)**		**0.220 (0.13)**		**-0.0657 (-0.32)**
lnM2	**0.437 (1.70)**	**0.494 (1.65)**	**-1.766 (-0.97)**	**-1.176 (-0.88)**	**0.0880 (0.58)**	**0.120 (0.78)**
lnFDI	**-0.0955 (-1.69)**	**-0.0919 (-1.49)**	**0.840 (1.30)**	**0.694 (1.27)**	**-0.0408 (-0.97)**	**-0.0412 (-0.98)**

lnGDP	**-0.685* (-2.30)**	**-0.608 (-1.85)**	**1.648 (1.04)**	**2.101 (1.20)**	**-0.106 (-0.58)**	**-0.0967 (-0.52)**
lnCPI	**0.661* (2.54)**	**0.686* (2.43)**	**-2.754 (-1.18)**	**-2.665 (-1.35)**	**0.555* (2.01)**	**0.582* (2.41)**
SR						
LD.lnTNRR	**0.733*** (11.23)**	**0.733*** (10.39)**				
LD.lnAGRIC			**0.667*** (8.63)**	**0.603*** (7.52)**		
LD.lnATE					**0.608*** (7.38)**	**0.605*** (7.35)**
D.lnTYP			**1.585** (3.34)**			
LD.lnTYP			**-0.954* (-2.05)**			
D.lnTTR		**-0.567*** (-4.13)**		**0.776** (3.28)**		
LD.lnTTR		**0.451** (3.15)**				
D.lnM2	**0.528** (2.71)**	**0.696*** (3.74)**				
LD.lnM2	**-0.561** (-2.86)**	**-0.703*** (-3.78)**				
D.lnFDI	**0.0285** (2.76)**	**0.0275** (2.80)**			**0.0472** (3.09)**	**0.0474** (3.15)**
D.lnGDP	**-0.777*** (-5.12)**	**-0.816*** (-5.76)**	**0.975** (2.94)**	**0.876** (2.80)**		
LD.lnGDP	**0.448** (2.91)**	**0.450** (3.07)**				
D.lnCPI	**0.713* (2.59)**	**0.780** (3.04)**				
_cons	**1.360* (2.23)**	**1.204* (2.15)**	**-1.784 (-1.68)**	**-2.017 (-1.97)**	**0.229 (0.39)**	**0.278 (0.50)**
N	**113**	**113**	**97**	**97**	**86**	**86**

t statistics in parentheses

*** p<0.05, ** p<0.01, *** p<0.001**

In the agriculture sector models, the lagged agricultural raw material exports, total tax revenue, taxes on profits and income, and the gross domestic product register a positive effect on the performance of the agriculture sector and are statistically significant. Finally, in the energy sector models, only the lagged values of access to electricity and foreign direct investment net inflows have both positive and significant effects on the energy sector performance.

However, since the short run coefficients represent the dynamic adjustment of the variables of interest into the long run, the study ismore interested in the long run effects. It is on this basis, that the study proceeds to discuss the long term impact of the independent variables on key sector performance. The

results in Table 2A2 indicate that in all the models, none of the variables have a significant impact on sector performance except the gross domestic product in model 1, inflation in both mining sector model variations (model 1 & 2), and inflation in both the energy sector model variations (models 5 & 6). The results suggest that a percentage increase in GDP leads to a decline in total natural resource rents by 0.685 %. Additionally, an increase in inflation by 1 % leads to an increase in total natural resource rents by 0.661 and 0.686 in models 1 and 2 respectively. In models 5 and 6 a percentage increase in inflation leads to an increase in the access to electricity by 0.555 and 0.582 % respectively.

The study also runs a simple Ordinary Least Squares (OLS) regression model with similar specifications as previously outlined in the modelling section. The results of the OLS estimation are presented in Table 2A3.

In model 1, total tax revenue and the gross domestic product are found to have a negative and statistically significant effect on total natural resource rents whereas money supply and inflation are found to have a positive and statistically significant effect on total natural resource rents. More specifically, a percentage increase in total tax revenue leads to a drop in total natural resource rents by 0.288 %. In model 2 taxes on incomes and profits also present similar effects on total natural resource rents where a percentage increase in taxes on incomes and profits leads to a decrease in total natural resource rents by 0.43 %.

Table 2A3: OLS Regression Results

	(1) lnTNRR	(2) lnTNRR	(3) lnAGRIC	(4) lnAGRIC	(5) lnATE	(6) lnATE
lnTYP		**-0.430*** (-3.52)**		**-0.351 (-1.61)**		**-0.0598 (-0.70)**
lnTTR	**-0.288* (-2.17)**		**0.502 (1.88)**		**0.0599 (0.69)**	
lnM2	**6.565*** (6.29)**	**0.640*** (7.68)**	**-0.415* (-2.10)**	**0.0369 (0.24)**	**-0.0236 -0.24)**	**-0.00285 (-0.14)**
lnFDI	**0.0113 (0.58)**	**0.0128 (0.70)**	**0.0585 (1.16)**	**0.0631 (1.20)**	**-0.00368 (-0.17)**	**0.00469 (0.05)**
lnGDP	**-1.019*** (9.63)**	**-0.951*** (-9.58)**	**-0.146 (-0.64)**	**0.239 (1.20)**	**0.0102 (0.11)**	**0.320** (3.14)**
lnCPI	**0.982*** (10.93)**	**0.990*** (12.78)**	**0.220 (1.21)**	**0.237 (1.42)**	**0.367*** (3.91)**	**0.127 (1.79)**
_cons	**18.04*** (12.62)**	**17.42*** (14.20)**	**0.882 (0.29)**	**-0.122 (-0.05)**	**-0.766 (-0.56)**	**-1.087 (-0.80)**
N	**129**	**129**	**112**	**112**	**94**	**94**

t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001

This finding appears to be in line with economic theory. Typically, resource rents are defined as excess of the total project lifetime value emanating from the exploitation of natural resources above the total costs incurred in their exploitation (Land, 2008). It is therefore, intuitive to suggest that increased taxation, particularly, on incomes and profits may reduce the rents extracted from natural resource exploitation.

However, the tax variables in both the agriculture sector and energy sector models appear to have no significant impact on agricultural raw material exports and access to electricity respectively. This finding may point to the following intuitive observations. In Malawi, there is only one national supplier in the electricity sector, and that provides the monopoly with a higher negotiating power in as far as taxes are

concerned. In addition, almost all the equipment used in the generation of electricity is tax exempt. The high informality of the agriculture sector in Malawi renders it less susceptible to a negative tax impact. Regarding the largest export product Tobacco, prior to the fiscal year 2022/23, farmers were only taxed at a withholding rate of 3 %, which is negligible, and can be claimed given proper documentation. However, given the high informality of the sector, it was usually regarded as a final tax. Nonetheless, money supply is found to be statistically significant and to negatively impact agricultural raw material exports in model 3. The study further finds that inflation and GDP to have a positive and significant effect on access to electricity in models 5 and 6 respectively.

Table 2A6: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
lnTNRR	201	2.023	.275	1.379	2.908
lnAGRIC	179	.902	.618	-.818	2.037
lnATE	113	1.815	.587	.441	2.891
lnTTR	197	22.214	3.32	17.186	27.699
lnTYP	173	21.992	3.081	17.379	26.952
lnM2	185	22.057	2.999	17.669	27.522
lnFDI	184	19.951	3.851	12.206	26.261
lnGDP	205	24.277	3.399	19.304	29.953
lnCPI	161	2.884	2.185	-.752	6.119

Table 2A5: Unit Root Test Results

	Unit root test in levels		**Unit root test in first differences**		**Order of**
Variable	**ADF**	**P-P**	**ADF**	**P-P**	**Integration**
lnTNRR	-0.967	-2.259	-6.269***	-6.381***	I(1)
lnAGRIC	-1.142	-2.165	-5.491***	-5.702***	I(1)
lnATE	-0.222	-0.655	-5.31***	-5.144***	I(1)
lnTYP	1.131	0.492	-4.26***	-4.282***	I(1)
lnTTR	1.218	0.573	-5.114***	-5.31***	I(1)
lnM2	4.296	2.498	-5.313***	-5.406***	I(1)
lnFDI	-1.684	-1.767	-10.934***	-10.868***	I(1)
lnGDP	2.05	1.103	-5.77***	-5.803***	I(1)
lnCPI	-2.006	-1.13	-3.604***	-3.647***	I(1)

APPENDIX 3A. Detailed Discussion on Top Tax Types Structures in Malawi

Income Taxes

Income taxation in Malawi follows the source-based principle thus the tax is levied on income which has been generated (or deemed to have been generated) in Malawi. For companies, the applicable income tax is Corporate Tax which is a standard 30 % on net profit while for individuals the applicable income tax is the pay as you earn (PAYE). For branches of foreign registered companies operating in Malawi, the applicable corporate tax rate is 35%. Other taxable income includes capital gains, interests, dividends, foreign exchange gains, and pension funds. Losses are either taxable income or tax deductible respectively. Dividends are taxed at 10 % while pension funds income at 15 % and capital gains are subjected to normal corporate tax rate. Another form of income tax is presumptive tax (previously turnover tax) which is an advance income tax payment for small and medium businesses whose annual turnover is below MK12.5 million but above MK4 million. The applicable presumptive tax differs depending on the income segment.

PAYE is collected from income earned by individuals monthly or per annum between four income tax brackets. For monthly income, the bracket are: The first MK100, 000 - tax of 0%; next MK230,000 is taxed at 25%; then the next MK2, 670,000 is at 30%; next MK3, 000, 000 is at 35%; and finally, the excess of MK6,000, 000 is at 40%. Per annum, the rates are the same but only adjust the monthly income by multiplying 12. For instance, the 0% is now applicable for the first MK1,200,000 of annual income. It should be noted that individuals earning income from business are subjected to income tax with the first MK1,200,000 of annual income at 0 % and any excess is charged at 30 % like corporate tax. Thus, the four brackets only apply to income from remuneration (employment).

Withholding Tax involves withholding a percentage of payments and the amount withheld can be offset with other tax obligations after a complete tax assessment. It can be described as an advance payment of the tax obligations and is made by a registered taxpayer who is making the payment for services and goods provided by another entity (both registered and non-registered taxpayers). The rate of withholding tax differs across types of payments/services. For instance, a withholding tax of 10 % is applicable on payments for carriage and haulage while a withholding tax of 4 % is applicable on payments to contractors in the construction sector and 20 % applicable on payment of consultancy fees.

Fringe Benefits Tax is currently 30 % of the fringe benefits provided by any employer except the government. Examples of fringe benefits may include school fees paid by employer on behalf of employee and concessionary loans from employer to employee.

.Non-Resident tax is another type of income tax which is imposed on income remitted to persons residing outside Malawi but the income is generated/deemed to be generated in Malawi. The tax is charged at a standard rate of 15 % of gross income except for mining projects where the rate is 10 %.

Value Added Tax

Value Added Tax (VAT) is an indirect tax and consumption tax charged on “value added” on goods and services at a standard rate of 16.5 %. Other goods and services are subjected to 0 % VAT also called Zero Rated while others are exempted from VAT. Zero rated goods attract a VAT rate of 0 % while exempt goods and supplies are not charged VAT. Consequently, taxpayers can claim input VAT refund for the zero-rated goods and services while input VAT paid for goods and services under standard rate/taxable VAT and exempted VAT list is not refundable. Examples of taxable supplies in the current VAT act include newspapers and ordinary bread while zero rated supplies include machinery and exempt supplies include solar equipment, cooking oil, and liquefied gas. MRA divides VAT into domestic VAT and Import VAT. Domestic VAT is applied on goods and services that are being produced in the country (domestically) while Import VAT is for goods from other countries like imported second hand cars and imported services.

Excise Tax

In Malawi, Excise Tax is divided into import excise and domestic excise. The tax is charged at different rates according to classifications in the customs and excise act. Import excise is charged on some specified imported goods like imported used cars, alcohol, cigarettes while domestic excise is levied on some specified local manufactured goods and services like plastics, malt beer, betting, gambling, and mobile phone airtime. The rationale of excise tax ranges from encouraging climate friendly products, dealing with negative externalities, and discouraging some “immorality” like alcohol abuse. So, the tax is imposed to make the goods expensive and, in the process, reduce consumption/production of luxury goods, economic bads, and other not-so-desirable services such as betting, which may be addictive and erodes the disposable income of poor households.

Import Duty

Import duty is one of the international trade taxes which is imposed on all imported goods and services unless exempted like laboratory equipment. The duty may also be imposed on exports. The rates differ depending on government categorization which considers country of origin, and trade agreements.