



DIGITAL MALAWI PROGRAM PHASE I: DIGITAL FOUNDATIONS PROJECT

CREDIT NUMBER : **60500MW**

PROJECT NUMBER : **P160533**

TERMS OF REFERENCE FOR CONSULTANCY SERVICES (FIRM) FOR A STUDY ON THE EFFECTS OF TAXATION ON THE DEVELOPMENT OF THE MALAWI DIGITAL ECONOMY

1. BACKGROUND

Information and Communication Technology (ICT) is now globally recognized as an essential tool for promoting competitiveness, job creation, sustainable development, and overall poverty reduction. A combination of widespread access to broadband and a robust ICT services ecosystem can offer a powerful platform for reducing poverty, improving human development and increasing government transparency and efficiency. ICTs have the potential to transform business and government - driving entrepreneurship, innovation and economic growth and breaking down barriers of distance and cost in the delivery of services. It is in recognition of this that the Government of Malawi is implementing a new project in the realm of ICT – the Digital Malawi Project.

2. DIGITAL MALAWI PROJECT

The overall aim of the Digital Malawi project is to extend and improve access to critical ICT infrastructure for the public and private sectors; improve ICT governance; improve access to government services; and facilitate provision of e-services, thereby enhancing public service delivery.

The proposed project has been divided into four components, namely; digital ecosystems, digital connectivity (infrastructure), digital platforms and services (e-Government) and project management.

The overarching aim of the Digital Malawi Project is to digitize public services while at the same time promoting the development of a resilient digital economy in the country. Through the digital ecosystem component, various players of the digital economy will be directly impacted by the project through interventions aimed at creating a cadre of skilled professionals at all levels who will champion the digitalization agenda, and a usership among the citizenry who will embrace digital technology services to access or to provide market services in the economy.

3. TAXATION AND THE MALAWI DIGITAL ECONOMY

The growth of the Malawi economy, and even the digital economy, is impacted by the level of taxes, levies and fees imposed on capital infrastructure and services in the various telecommunications and ICT sub sectors. While the primary policy goal of taxation is to provide a fair, efficient, and predictable way of financing government expenditures and delivery of public services, taxation has been known to impact on the behavior of firms and consumers in the various sectors and markets. This means that along the digital ecosystem value chain, taxes impose various supply side effects on investment along the value chain, and therefore on the final delivery of service in the digital economy. On the demand side, consumers of digital goods and services can bear the effects of a range of taxes which ultimately impact their total cost of technology adoption, ownership and use. Therefore, sector-specific taxes and fees taxes influence the size, nature and performance of the digital economy in the country.

4. OBJECTIVE

The objective of the assignment is to assess the effects of sector-specific taxation and parafiscal fees in the digital sector and propose areas of improvement to align these policies with the goal of boosting the digital economy.

5. TASKS FOR THE ASSIGNMENT

The tasks of the consultancy assignment are:

- a) Define the principles on setting different taxes and parafiscal fees which are adequate for a digital economy.
- b) To identify a comprehensive list of taxes and parafiscal fees (contributions and regulatory fees) impacting the telecommunications sector in Malawi including corporate taxes, import duties of equipment and devices, excise and VAT surcharges on consumer services and goods, regulatory fees such as one-off

and recurring license fees, one-off and recurring spectrum fees (in absolute terms and in cost per MHz per population), universal service contributions, among others.

- c) To analyse the current regulatory, taxation and fiscal environment in Malawi with specific focus on the proportionality, effectiveness, transparency and distortive market effects of each specific tax and the impact of taxes and parafiscal fees on the growth of the digital economy including key subsectors in the value chain such as telecommunications, payments and e-commerce, clearly distinguishing which taxes are broad-based (i.e. applicable to the wider economy) and which are sector specific.
- d) To conduct a comparative analysis of the taxes, duties, levies and regulatory fees between Malawi and its regional peer economies and international practice as it relates to the level, complexity and predictability of taxes and fees and their effects on the growth of the digital sector. Provide recommendations on benchmark countries best suited for such comparative analysis and why.
- e) To provide high-level estimates based on other impact studies on the role that ICT/digital services sector can contribute to the growth of the Malawi economy including implications for revenue collection, value added, jobs and productivity
- f) To quantify and analyze the tax and fees contribution of the ICT/digital services sector to the Malawi economy including distinction between on-off fees (e.g. from spectrum auctions) and recurring taxes and fees (e.g. universal service funds contribution) and the effect of the contribution on sectoral performance and prospects. Based on available statistics and information, the consultant will estimate partial or general equilibrium effects of different rates of taxation.
- g) Differentiate any short run costs of lowering the taxes on the sector versus the long run benefits of stimulating economic growth and the general tax revenues that would come out of that.
- h) To provide pass through analysis to show how taxes adjustment scenarios impact the following enablers: (i) Infrastructure; (ii) Affordability; (iii) Consumer readiness and (iv) Content and services.
- i) To make recommendations on tax reforms and principles to set parafiscal fees to ensure the growth of the digital economy based on examples from other countries To conduct a high-level analysis of the economic impacts of the proposed tax reforms on the ICT/digital services sector and the Malawi economy as a whole, including on tax collections, value added, investment, affordability and access, among others, including a distinction between direct fiscal impact (e.g. by reducing taxes) versus indirect impact (e.g. through overall economic growth).

6. METHOD OF ASSIGNMENT

The study shall involve an analysis of available literature, laws and regulations which govern various sectors of the economy, with a specific focus on the digital ecosystem. The study shall analyze and profile the applicable government taxes and fees from existing laws and regulations.

The study shall involve interviews, either through key informant interviews or a questionnaire, with key stakeholders in the digital economy (such as MACRA, MoICT, MITC, MoITT, MRA, CFTC, RBM), operators in the sector, and other relevant stakeholders.

The study involves quantitative and qualitative analysis of the appropriateness of sector-specific taxes and parafiscal fees and their effects on the sector and the economy based on available data.

7. DELIVERABLES

The expected deliverable of the assignment are as follows: -

- a) An Inception Report detailing the Consultant's understanding of the TORs and proposed method of assignment including activity timelines
- b) An Analytical Paper on the Current Taxation Situation in the digital ecosystem of the country
- c) Recommendations on taxation reforms for the enhancement of the adoption of digital technologies and their expected impacts.

8. EXPECTED DURATION AND LEVEL OF EFFORT

The indicative effort and timelines are presented below:

	Activity	Effort Days	Delivery Timeline
1	An Inception Report with a Desk review of legislation, literature and reports	20	Within two (2) weeks after effective date
2	Interviews with key stakeholders and analysis of legislation, literature and reports	30	Within six (6) weeks after effective date
2	A Draft Report with Recommendations	45	Within ten (10) weeks after effective date
3	Validation Meeting	15	One Week after Circulation of Draft Report

4	Final Report with Recommendations	40	Within fifteen (15) weeks after effective date
Total Effort Days		150	

9. DURATION OF SERVICES

The assignment is expected to be conducted over a period of fifteen weeks.

10. CONSULTANT'S QUALIFICATIONS

To be qualified, the firm must demonstrate to have capacity to execute the detailed tasks. At a minimum, the proposed team for the assignment must possess the following qualifications: -

(a) Team Leader (70 effort days)

1. An advanced degree in economics, public finance, public policy, taxation or other relevant disciplines. Those in possession of a PhD in economics, public finance or public policy shall have an added advantage
2. High level skills and demonstratable experience in analysis of complex tax technical issues, and interpretation and application of domestic tax laws. Those with experience in the telecommunications or digital sector will have an added advantage.
3. At least five years of relevant experience in evidence-based policy analysis roles. The consultant shall possess good interpersonal skills and high social and emotional intelligence
4. Demonstrable experience of having conducted two (2) similar assignments to government agencies, regulators or private firms such as ICT operators or other firms.
5. Ability to demonstrate having conducted research and/or consultancies in public finance, taxation, or taxation law
6. Excellent writing and communications skills in English language

(b) Taxation Expert (40 effort days)

- 1 An advanced degree in business, accounting, finance, taxation or taxation law.
- 2 Knowledge of tax laws and legislation applicable to the Malawi ICT sector.
- 3 At least 2 years proven experience as a Tax Accountant, Tax Analyst, or similar.
- 4 Strong knowledge of tax accounting laws and procedures.
- 5 The Taxation Expert shall possess good interpersonal skills and high social and emotional intelligence.
- 6 Excellent writing and communications skills in English language.

(c) Research Associate/Econometrician (40 effort days)

1. An advanced degree in econometrics, economics, statistics, or data analysis.
2. High level skills and demonstratable experience in analysis of complex tax technical issues, and interpretation and application of domestic tax laws.
3. At least two years of relevant experience in evidence-based policy analysis roles. Ability to demonstrate having conducted research and/or consultancies in public finance, taxation, or taxation law
4. The Research Associate shall possess good interpersonal skills and high social and emotional intelligence
5. Excellent writing and communications skills in English language.

11. CLIENT RESPONSIBILITIES

The Client shall have responsibility for providing necessary support to the consultant by:

- a) Facilitating access to other Government offices, private and public enterprises for interview and discussions
- b) Providing the consultant with required local documentation such as legislation, regulations, reports and list of relevant stakeholders.
- c) Preparing/extending invitations and follow up with stakeholders for participating in the validation workshops etc.
- d) Coordinating and providing location/venue for the validation workshops and other meetings.

12. CONSULTANT'S RESPONSIBILITY

All information, data and information obtained from the client shall be properly reviewed and analyzed by the consultant. All such information, data and reports shall be treated as confidential. The consultant shall make their own arrangements for document reproduction, printing and reproduction of all reports during the assignment.