

I. COUNTRY REFORM PROGRESS

Madagascar has received joint capacity development (CD) activities from the IMF's Fiscal Affairs Department (FAD) under the Global Public Finance Partnership (GPFP) project. Coordinated missions on tax and customs administrations reviewed each organizations' strategic plans and provided recommendations for improvement. These activities, closely coordinated with the IMF's Regional Technical Assistance Center for South Africa (AFS), the IMF Governance Diagnostic Assessment mission and with other technical partners, have enabled the authorities to better define their tax policy options and their administrative strategies, notably when it comes to digital transformation.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: Madagascar has benefited from a mission on potential reforms to improve revenues and fairness in the personal income tax (PIT) system. CD support has enabled the authorities to create databases on private and public sector wages and to construct models to assess the impacts of progressive income taxation. The capacity of the tax policy unit (TPU) was enhanced.

Previous Progress: Madagascar has received CD from the project in FY25 and FY24 on transfer pricing legislation and corporate income tax policy to combat base erosion and profit shifting. This was conducted jointly between FAD's tax policy and revenue administration divisions to benefit from synergies. The authorities are better able to identify transfer pricing risks from international companies, are better able to apply transfer pricing methods, and have an improved understanding of the application of tax treaties.

Next Steps: Follow-up work on progressive taxation and new work on taxing e-commerce should contribute to achieving the milestones of increasing revenues and improved distributional fairness.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: As a follow-up to previous engagement, two HQ-led missions have been conducted to assess customs capacities in data analytics and artificial intelligence (AI), provide training on AI technologies adapted to customs context and support the design of use cases leveraging on data to improve the performance. In January 2025, the strategic plan of the customs administration based on the IMF recommendations was issued and presented to the national stakeholders and international partners. Customs launched its dynamic risk analysis system based on AI. A quantitative assessment of the impact of AI is ongoing with the IMF team. An IMF-proposed structural program focused on change-management to support digitalization of the tax administration was agreed upon by the authorities.

Previous Progress: HQ missions on both tax (joint tax policy/tax administration mission) and customs administrations evaluated and supported each administration's strategic plan. Specific recommendations have been made to elevate data as a key enabler for a dynamic and automated risk analysis, include appeal procedures as a condition to improve compliance in customs and develop the monitoring of exemptions and special regimes to improve revenue collection. An evaluation of the current capacities of the tax

administration to address international tax risks was made, and a capacity building plan was proposed to the authorities.

Next Steps: More technical assistance will be provided within the framework of the GPFP as a follow-up to support the implementation of these activities in the coming strategic plan, notably on customs mobilization of data for internal audit, ex-post controls, change management and tax risk analysis.

III. LOGICAL FRAMEWORK

Country – Madagascar		
RM I: Objective – Improve Tax Policy Design – TPD		Rating - 1
Outcome	Rating	Narrative
Improved distributional fairness across taxpayers due to amended tax rates or base	1 Not Achieved	Increased top PIT rate has not yet been legislated.
Increased/decreased revenue quantity	1 Not Achieved	It is too early to determine if revenues have been affected by the CD on transfer pricing methods.
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 2
Outcome	Rating	Narrative
Improved structures (e.g., TPU) or capacity (e.g., models and tools) related to tax policy advice and analysis.	2 Partially Achieved	Improved understanding of transfer pricing methods at Ministry of Finance. PIT models are not yet developed. However, the capacity of the TPU has increased with new databases.
RM II: Objective - Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 1
Outcome	Rating	Narrative
Audit and other verification programs more effectively ensure accuracy of reporting	1 Not Achieved	No compliance risk management framework is in place. The large number of audits launched annually does not produce significant results in terms of revenue collection or taxpayer behavior change. Large risks posed by multinational enterprises in the mining sector as well as on international taxation are not addressed.

RM II: Objective - Improved customs administration functions (SDG 17.1) - CAD		Rating - 2
Outcome	Rating	Narrative
Foreign trade operators better comply with their reporting and payment obligations	1 Not Achieved	Efficient appeal procedures that would encourage better compliance are not in place. Operators complained about the inefficiency of the existing procedures that are not predictable and transparent, which encourages bad practices. The next 2025-29 strategic plan should include key activities to make appeal procedures efficient; specific CD on this matter is to be provided.
Customs control during the clearance process more effectively ensures accuracy of declarations	2 Partially Achieved	The risk analysis is still manual, not fully centralized and analysts do not receive feedback from customs offices on their alerts. The customs administration plans to develop a dynamic risk analysis system based on data science, with the support of donors. The mission recommended elevating data as a key topic and enabler for the next 2025-29 strategic plan and should provide additional technical assistance in this domain.
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws	2 Partially Achieved	A special unit in charge of free zones is in place, from early 2024. However, the management of exemptions and other special regimes are still under monitored, despite the fact exemptions represent an important share of revenue collected by customs. The mission recommended including key activities on this matter in the 2025-29 strategic plan.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I, RM II: Risk that external events create a more challenging environment to implement reforms.	Medium	Ensure sufficient flexibility in program execution across countries and allow for ability to adjust activities in the case of adverse events.
Political Support		
RM I, RM II: Lack of political support for reforms inhibits required actions or of	High	Ensure fiscal risk CD is focused on priority areas and engage regularly with ministers and

Description	Rating	Mitigation Measures
resources are needed for enhancements to fiscal risk management institutions and practices.		senior management to ensure government ownership of reforms.
Management and Technical Staff Support and Commitment		
RM I: Lack of leadership support for politically sensitive tax reforms.	Very High	Engage with senior management to coordinate the elimination of tax exemptions with pro-poor spending programs and public outreach.
RM II: Low commitment of management and staff in finance and other ministries to adopt and implement fiscal risk management practices.	High	Engage with senior management and technical staff proactively and explain the importance of strengthening fiscal risk management.
Resource Adequacy		
RM I, RM II: Insufficient technical capacity and human resources necessary to implement reforms are limited.	High	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited.
Other Risks		
RM I, RM II: Multiple donors are providing technical assistance on fiscal risk topics and gaps, or overlaps may arise as a result.	Low	Take an active role in engaging with other donors to ensure support is well coordinated.

V. PROJECT MANAGERS CONTACT INFORMATION

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