

EBS/06/160
Correction 2

January 11, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Madagascar—First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria**

The attached correction to EBS/06/106 (12/6/06) has been provided by the staff.

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 12, footnote 6, last line: for “the United Kindgom, the Fund”
read “the United Kingdom, the European Commision, the Fund”

Questions may be referred to Mr. Ames (ext. 34076), Mr. Ellyne (ext. 38376), and Mr. Josz (ext. 34021) in AFR.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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Text Table 1. Madagascar: Fiscal Indicators, 2006-07 (Percent of GDP) ¹			
	2006 ² (a)	2007 (b)	(b) - (a)
Total revenue and grants ³	17.2	16.5	-0.7
Tax revenue	10.7	11.2	0.5
Nontax revenue	0.7	0.2	-0.5
Grants ³	5.8	5.1	-0.6
Total expenditure	21.5	20.7	-0.8
Current expenditure	10.5	10.4	-0.2
Capital expenditure	11.0	10.3	-0.6
Overall balance (commitment basis, including grants) ³	-4.4	-4.2	0.2
Overall balance (cash basis, including grants) ³	-4.9	-4.4	0.5
Foreign financing ³	4.9	4.1	-0.8
Domestic financing ³	0.0	0.3	0.3
<i>Memorandum items:</i>			
Net external aid ⁴	10.6	9.4	-1.2
Priority PRSP spending	10.7	11.0	0.3
Sources: Ministry of Economy, Finance, and Budget; and Fund staff estimates and projections.			
¹ Aggregates may differ from the sum of components due to rounding.			
² Revised Program.			
³ Excluding MDRI capital transfers.			
⁴ Foreign grants and loans, less debt service.			

Revenue mobilization

16. **The program's revenue mobilization objective is based on reform of both tax policy and tax administration.** In 2007 the authorities will implement their new time-bound tax administration action plan (MEFP, ¶¶28-29) and continue with customs administration reform (MEFP, ¶¶30-31). They believe that the targeted increase in tax revenues is the maximum feasible from tax administrative measures. The authorities will also develop a comprehensive tax policy reform agenda to simplify and increase the efficiency of the tax and customs codes and to broaden the tax base with a view to moving away from special

regimes and incentives, while augmenting tax revenues by 0.5 percent of GDP annually (MEFP, ¶27).⁴ This reform is being designed in close collaboration with the Fund's Fiscal Affairs Department (FAD), the World Bank, and other donors and will be implemented under the 2008 Finance Law.

Expenditure priorities

17. **The spending priorities in the 2007 Finance Law are aligned with those of the MAP.** Thanks in part to the resources freed up by the MDRI, the share in total spending of priority spending (on health, education, infrastructure, justice, agricultural development, and environmental protection) will increase to 58 percent (11 percent of GDP) from 55 percent in the revised 2006 budget (10.7 percent of GDP). The 2007 Finance Law also allows for interest payments at market rates on government securitized debt owed to the central bank,⁵ transfers to support the rehabilitation of JIRAMA, regularization of arrears on VAT reimbursements, and full budgeting of the government's obligations on foreign-financed projects (MEFP, ¶25).

Public financial management

18. **Advancing the public financial management (PFM) agenda will be critical to improving budget preparation, execution, and control.** Drawing on the latest Public Expenditure and Financial Accountability (PEFA)⁶ assessment (Box 1) and FAD recommendations, the program incorporates measures to simplify budget classification, accelerate budget preparation, improve budget execution and monitoring, strictly enforce the quarterly expenditure commitment ceilings, and improve cash management (MEFP, ¶¶32-35).

⁴ The authorities were considering including investment tax incentives as part of a draft investment law, but decided to remove such incentives and instead launch the comprehensive tax policy reform with a view to safeguarding their revenue objectives under the program.

⁵ This amounts to the equivalent of 0.5 percentage points of GDP.

⁶ PEFA, which measures progress in PFM in low income countries, is jointly sponsored by France, Norway, Switzerland, the United Kingdom, [the European Commission](#), the Fund, NEPAD, and the World Bank.