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News Brief No. 02/98
FOR IMMEDIATE RELEASE
September 20, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

**IMF Completes Review Under Lesotho's PRGF Arrangement and
Approves US\$4.6 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Lesotho's performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. The Board also granted waivers of two performance criteria. As a result, Lesotho will be able to draw up to SDR 3.5 million (about US\$4.6 million) under the arrangement immediately.

Lesotho's three-year PRGF arrangement was approved on March 9, 2001 (see Press Release No. 01/8) for SDR 24.5 million (about US\$32 million). So far, Lesotho has drawn SDR 10.5 million (about US\$14 million).

The PRGF is the IMF's most concessional facility for low income countries. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Board's discussion on Lesotho, Shigemitsu Sugisaki, Deputy Managing Director and Acting chair, stated:

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"The Lesotho authorities remain committed to the economic program supported by the PRGF. They have worked hard to keep the program on track despite difficulties posed by the regional food shortage and delays in receiving foreign aid and transfers. Economic growth in 2001/02 has outperformed expectations under the program, and the peaceful elections in May 2002 should boost confidence in the economy and its future growth.

"Two performance criteria related to the ceiling on domestic financing and fiscal expenditure monitoring were not observed. Since the nonobservance of both these performance criteria was largely beyond the government's control and corrective actions have been initiated, the Executive Board granted waivers for the noncompliance.

"The government declared a state of famine in April 2002 and has put in place a food relief plan, which has been incorporated into the program. Donors have committed some support, but the plan will cost the government an estimated 1 percent of GDP in 2002/03. The government has adequate resources to meet this level of emergency food spending, as long as expenditure in other areas remains under control. Nevertheless, additional financing could prove necessary, with augmentation of IMF support to Lesotho, as well as donor financing, being possibilities that could be considered in that regard.

"Strengthening financial management remains a priority for the authorities. The government's plans in this area cover short-term measures to bolster spending control and tracking, and also longer-term restructuring of the Treasury department. High priority measures for the near-term include clearing the backlog of unaudited government public accounts and recruiting for a new Accountant General. To counter fiscal slippages that began to emerge in June, the authorities have made some spending cuts. The government should be prepared to make further adjustments if necessary, while safeguarding priority poverty programs.

"The authorities have made progress in strengthening tax administration and the Lesotho Revenue Authority should be operational by the end of 2002. Better tax administration can play an important and needed role in addressing anticipated revenue shortfalls," Mr. Sugisaki stated.