

European Union provides Lesotho with EUR 21 million financial support to face the impact of the crisis

Today, the European Commission decided to provide additional support to Lesotho for an amount of EUR 21 million. Lesotho has been hard hit by the financial and economic crisis. Government revenues have declined dramatically as a result of which the budget deficit is projected to increase to more than 20% of GDP. The Commission's support will be funded under the Vulnerability Flex mechanism.

The recent economic downturn has had a dramatic impact on Lesotho's economy. As government revenues have declined by over 20% of GDP, a large budget deficit has developed. Also the major exports of textiles and diamonds have been affected, with in turn a very negative impact on employment opportunities and poverty incidence.

Lesotho is facing this financial crisis in a situation where it has to address the financial and social challenges of the HIV/AIDS pandemic. Lesotho has one of the highest HIV/AIDS infection rates in the world.

Today's Commission decision complements recent decisions of the IMF and World Bank to provide additional financial support to Lesotho.

The additional support of EUR 21 million will be paid in form of budget support topping up the EU's existing poverty reduction support programme of EUR 26 million. The additional funds will stabilise the fragile fiscal situation and enable the government of Lesotho to maintain social expenditures for free primary schooling, old age pensions and healthcare.

Background:

The Vulnerability FLEX mechanism is the European Union's swift response to help countries that are most affected by the economic downturn. It was created in 2009 with an initial allocation of EUR 500 million for the 2009/2010 period.

The Vulnerability FLEX mechanism is demand-driven and it targets countries with a high degree of economic, social and political vulnerability. V-flex support helps countries in bridging financing gaps that have developed as a result of the economic downturn. To qualify for V-flex support countries must have the right policies in place.

See also: Press Release [IP/10/1091](#)

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