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Introduction

Poverty is a multidimensional problem that goes beyond economics to include, among other things, social, political, and cultural issues (see Box 1). Therefore, solutions to poverty cannot be based exclusively on economic policies, but require a comprehensive set of well-coordinated measures. Indeed, this is the foundation for the rationale underlying comprehensive poverty reduction strategies.[1] So why focus on macroeconomic issues? Because economic growth is the single most important factor influencing poverty, and macroeconomic stability is essential for high and sustainable rates of growth.[2] Hence, macroeconomic stability should be a key component of any poverty reduction strategy.

Macroeconomic stability by itself, however, does not ensure high rates of economic growth. In most cases, sustained high rates of growth also depend upon key structural mea-

[1] There has been an emerging consensus on how to make actions at the country level, and the support of development partners, more effective in bringing about sustainable poverty reduction. This consensus indicates a need for poverty reduction strategies that are country-driven, with broad participation of civil society, elected officials, key donors, and relevant international finance institutions; outcome-oriented; and developed from an understanding of the nature and determinants of poverty. Under the new framework, the country-led strategy would be presented in a Poverty Reduction Strategy Paper (PRSP), which is expected to become a key instrument for a country's relations with the donor community.

[2] Macroeconomic stability is a situation where key economic relationships are broadly in balance and sustainable.

Box 1. Definition and Measurement of Poverty

The World Bank's 2000 *World Development Report* defines poverty as an unacceptable deprivation in human well-being that can comprise both physiological and social deprivation. Physiological deprivation involves the non-fulfillment of basic material or biological needs, including inadequate nutrition, health, education, and shelter. A person can be considered poor if he or she is unable to secure the goods and services to meet these basic material needs. The concept of physiological deprivation is thus closely related to, but can extend beyond, low monetary income and consumption levels. Social deprivation widens the concept of deprivation to include risk, vulnerability, lack of autonomy, powerlessness, and lack of self-respect. Given that countries' definitions of deprivation often go beyond physiological deprivation and sometimes give greater weight to social deprivation, local populations (including poor communities) should be engaged in the dialogue that leads to the most appropriate definition of poverty in a country.

sures, such as regulatory reform, privatization, civil service reform, improved governance, trade liberalization, and banking sector reform, many of which are discussed at length in the *Poverty Reduction Strategy Sourcebook*, published by the World Bank.[3] Moreover, growth alone is not sufficient for poverty reduction. Growth associated with progressive distributional changes will have a greater impact on poverty than growth that leaves distribution unchanged. Hence, policies that improve the distribution of income and assets within a society, such as land tenure reform, pro-poor public expenditure, and measures to increase the poor's access to

[3] The sourcebook is available at http://www.worldbank.org/poverty/strategies/sourctoc.htm.

financial markets, will also form essential elements of a country's poverty reduction strategy.[4]

To safeguard macroeconomic stability, the government budget, including the country's poverty reduction strategies, must be financed in a sustainable, noninflationary manner. The formulation and integration of a country's macroeconomic policy and poverty reduction strategy are iterative processes. Poverty reduction strategies need first to be articulated (i.e., objectives and policies specified), then costed, and finally financed within the overall budget in a noninflationary manner. The amount of finance, much of which will be on concessional terms, is, however, not necessarily fixed during this process: if credible poverty reduction strategies cannot be financed from available resources, World Bank and IMF staff should and will actively assist countries in their efforts to raise additional financial support from the donor community. Nonetheless, in situations where financing gaps remain, a country would have to revisit the intermediate objectives of their strategy and reexamine their priorities. Except in cases where macroeconomic imbalances are severe, there will usually be some scope for flexibility in setting short-term macroeconomic targets. However, the objective of macroeconomic stability should not be compromised.

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[4] These points are reflected in the design of programs supported by the IMF's Poverty Reduction and Growth Facility (PRGF), which are derived from a country's own poverty reduction strategy. The strategy itself should be based upon fully integrated macroeconomic, structural, and social policies. See *Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs*, August 16, 2000, available at http://www.imf.org/external/np/prgf/2000/eng/key.htm.