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1 Summary

This document articulates AusAID's implementation strategy for development assistance in Latin America from July 2010 to June 2014. This approach was developed in consultation with key stakeholders and was agreed by the former Minister for Foreign Affairs, Mr Stephen Smith, in 2010.

A mid-term review of the Latin America program commenced in April 2013 in line with AusAID quality processes to assess the ongoing relevance and effectiveness of the focus areas set out in this document.

2 Context and rationale for Australian aid in Latin America

2.1 Context

Latin America is a vast region with diverse social, economic, and political systems.¹ All countries in the region are classified by the World Bank as middle income countries but development progress across the region varies, as does the gap between the rich and poor within countries. Less developed countries still require development assistance whilst the more developed economies welcome assistance to build their domestic capacity to address inequality and secure long term sustainable development.

Latin America faces constraints to economic and social development similar to those experienced by other middle income developing states. The number of people living in poverty and the persistent rates of extreme poverty in multiple countries are unacceptably high. Economies are growing, but many are dependent on natural resources and therefore vulnerable to economic shocks and falls in commodity prices. Technical and public sector institutions have limited capacity and resources to effect and manage development and change. The effects of climate change and natural disasters are increasing and further threaten the region's environmental and economic base as well as posing a significant humanitarian challenge. Security is a growing challenge to development in Central America.

However, with relative stability and economic growth there is an opportunity for Latin America to build on its success in reducing poverty to date and address entrenched and persistent development challenges.

Australia has the capacity and development experience working with middle income countries in other regions to engage effectively in Latin America.

2.2 Poverty and need

Some Latin American countries have made significant achievements towards reducing poverty and achieving the Millennium Development Goals (MDGs). However, despite these gains, poverty and inequality remain at very high levels and sustaining life and livelihood is a significant challenge for millions of people across the region.

Within Latin America, the scale of extreme poverty (less than US\$1.25 per day) differs widely between countries. The extreme poor are particularly vulnerable when economies slow down or experience shocks such as the rise in food prices between 2006 and 2008. They suffer disproportionately from natural disasters and environmental degradation. Economic shocks such as global food, fuel and financial crises in 2009, and natural disasters in Chile, Colombia, Brazil and Central America, have placed further pressure on poverty reduction efforts.

¹ There are 17 Latin America countries supported by AusAID: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

Andean countries (Colombia, Ecuador, Peru, Bolivia and Paraguay) are the poorest and most unequal countries of South America. The Central America countries of Guatemala, Honduras, El Salvador and Nicaragua are the poorest and most vulnerable in Latin America.²

Many Latin American countries have far higher rates of poverty and extreme poverty than comparable middle income countries in other regions.³ This is because Latin America is the most unequal region in the world—ten of the world's 15 most unequal countries are in Latin America.⁴ In many Latin American countries, those in the top 20 per cent income bracket have over 55 per cent of total national income and those in the bottom 20 per cent have 3.5 per cent or less of total national income. The richest one-tenth of the population earns 48 per cent of the total income.⁵

Whilst development challenges vary between countries, the Organisation for Economic Cooperation and Development (OECD) has highlighted key opportunities for Latin America to build inclusive and sustainable long-term development. Reducing inequality, improving the provision of public services and public sector management, and promoting economic diversification are seen as particularly relevant alongside fiscal reform.⁶

The unusually high level of inequality in Latin America is a fundamental impediment to individuals' quality of life as well as overall economic growth and development. Women, indigenous and Afro-descendent populations experience poverty disproportionately, and the incidence of extreme poverty in rural areas is three times higher than in urban areas. This reflects the lack of economic and social development opportunities for marginalised populations as well as longstanding disadvantage based on gender and racial-ethnic origins, leading to persistent intergenerational disadvantage. These people are generally the least able to access expanded opportunities when economic growth accelerates.

Inequality in Latin America is also reinforced by low participation of disadvantaged people in the formal sector, which would normally give people access to a range of public social protection programs such as pensions and health insurance.⁷

2.3 Australia's national interests

AusAID's Latin America regional program reflects Australia's foreign policy and national interests by promoting global stability and prosperity. It is in Australia's interest to support human development and security beyond our region and our traditional partners.

Australia has significant economic interests in Latin America. Backed by trade agreements, strong relationships and a good investment environment, Australia's two-way merchandise trade with Latin America has grown consistently over the past decade, reaching \$7.7 billion in 2011.⁸ Brazil, Mexico and Chile are Australia's largest trading partners in Latin America, accounting for \$6.15 billion. Australian

² The statistics provided in the table below for the countries listed above and the statistics for non-target countries listed at Appendix 1 show the comparative needs of the selected countries at a macro level.

³ United Nations Development Program 2011, *Human Development Report 2011 Multidimensional Poverty Index*. Accessed 19 September 2012. <http://hdr.undp.org/en/statistics/mpi/>

⁴ United Nations Development Program 2010, "Regional Human Development Report for Latin America and the Caribbean 2010", United Nations Development Program, New York, p.37

⁵ The top most unequal countries, as measured by the Gini coefficient, are Colombia, Bolivia, Brazil, Honduras and Panama. Source: World Bank, World Development Indicators 2009

⁶ Organisation for Economic Cooperation and Development 2011, "Latin American Economic Outlook 2012: Transforming the State for Development", Asuncion, Paraguay, accessed 19 February 2013. <http://www.oecd.org/dev/latinamericaneconomicoutlook2012transformingthestatefordevelopment-asuncionparaguay-28october2011.htm>

⁷ de Ferranti, D. and Ody, A.J 2009, "Key Economic and Social Challenges for Latin America: Perspectives from Recent Studies", accessed 19 February 2013. <http://www.brookings.edu/research/papers/2006/08/globaleconomics-ferranti>

⁸ This figure is based on statistics provided in the DFAT country briefs (internet) on the 17 countries supported by AusAID, accessed 15 August 2012

investments are in excess of \$27 billion.⁹ Australian companies in mining and agribusiness and renewable energy have significant interests in the region.

People to people and institutional links are growing, primarily through tourism and education. In 2012 around 21 000 Latin American students were studying in Australia, and enrolments are growing. Improved promotion and transport between Australia and Latin America have also boosted tourist numbers from the region, reaching 69 300 in 2011, at an economic value of \$500 million to Australia.¹⁰

Recent years have seen increases in Australia's cooperation with Latin America in international fora, notably the World Trade Organization and Cairns Group, Group of Twenty Finance Ministers and Central Bank Governors, UN Group of Friends of the Responsibility to Protect, UN Climate Change Conference of the Parties, Asia-Pacific Economic Cooperation, Central America Integration System (SICA), and The Forum of East Asia-Latin America Cooperation. Australia has worked closely with Brazil, Argentina and Mexico on issues relating to reform of the global financial system.

2.4 Capacity to make a difference

Australia's capacity to make a difference in Latin America through the aid program lies in our experience supporting development in many regions of the world including middle-income countries. Our approach to development and Australia's technical institutions are recognised for their relevance and responsiveness to regional needs and flexibility to provide assistance effectively in partnership with recipient countries.

Our international recognition and expertise in governance, disaster management and risk reduction, and sustainable economic development align with the needs of Latin American countries and place us in a strong position to share our domestic and international expertise.

Australia's experience in natural resource management and mining in particular is well recognised and our support to build capacity in this sector is increasingly sought. Latin American countries recognise Australia's stable institutional governance and delivery capacity at all levels and they are keen to draw on and learn from this.

Australia has world class education opportunities, which when made accessible to developing countries through scholarships and fellowships help build local capacity and leadership to support sustained development.

Australia is recognised and respected internationally for its commitment to the MDGs. Australia provides a strong voice in international fora such as the G20 and United Nations Security Council advocating the interests of developing nations. New partnerships formed through this engagement also enable us to maximise our voice and shared interests in international fora.

In Latin America, Australia has the benefit of being a new development actor which is free from the constraints and sensitivities inherent in post-colonial relationships. The perception of Australia as an effective and neutral partner in development facilitates our engagement at bilateral and regional levels beyond what would ordinarily be expected from the actual scale of our investment.

2.5 Scale and effectiveness

The top three bilateral donors for 2011—United States (US\$ 1.75 billion), Germany (US\$1.29 billion) and France (US\$773 million)—made significant official development assistance (ODA) contributions to Latin

⁹ This figure is based on statistics provided in the DFAT country briefs (internet) on the 17 countries supported by AusAID, accessed 15 August 2012

¹⁰ Tourism Research Australia. 2012. "Latin America short-term visitor arrivals: the trends and outlook for Australia". COALAR and Department of Resources, Energy and Tourism, Canberra. Accessed 15 August 2012. <http://www.ret.gov.au/tourism/.../2012/>

America.¹¹ Canada, a medium-sized donor, provided approximately US\$305 million.¹² The top three multilateral donors to Latin America are the Inter-American Development Bank, European Union Institutions, and the World Bank's International Development Association.¹³

Australia's average ODA flow to Latin America is around \$13 million per year, representing around 0.5 per cent of Australia's annual aid budget.¹⁴ In this context, Australia's investment is small relative to other donors.

Our ability to achieve effective outcomes is also challenged by the scale of our aid relative to the size, diversity and complexity of the region where no single body advocates for the region as a whole and the needs of the region remain vast. A further challenge is our limited presence and experience in the region.

To maximise our impact, Australia's aid contribution will achieve results by strategically targeting sectors where we can add value and by delivering assistance through—or in partnership with other donors (regional, multilateral and bilateral) —who are already delivering results on the ground.

¹¹ AusAID Online Statistics: Latin America, accessed 19 February 2013.
<http://intranet2.aisaid.gov.au/sharedsites/aso/Pages/LatinAmericanandtheCaribbean.aspx>

¹² AusAID Online Statistics: Latin America, accessed 19 February 2013.
<http://intranet2.aisaid.gov.au/sharedsites/aso/Pages/LatinAmericanandtheCaribbean.aspx>

¹³ AusAID Online Statistics: Latin America, accessed 19 February 2013.
<http://intranet2.aisaid.gov.au/sharedsites/aso/Pages/LatinAmericanandtheCaribbean.aspx>

¹⁴ Bob Carr, "Budget: Australia's International Development Assistance Program 2012-13", *Blue Book*, Statement by Minister for Foreign Affairs, 8 May 2012

3 Strategic priorities for Australian aid

3.1 Proposed focus areas, expected outcomes and Australia's contribution

Consistent with the Comprehensive Aid Policy Framework, Australia's aid will:

- **Support sustainable economic development**—by helping improve food security, incomes and enterprise opportunities; and helping reduce the negative impacts of climate change and other environmental factors.

One of the best ways to help people out of poverty is by generating sustainable economic growth and providing them with the opportunity to earn a living. Jobs increase people's incomes and generate revenue for governments to reinvest in services such as education and health. The program is primarily focusing on:

- **Improving incomes, employment and enterprise opportunities:** Private enterprise increases the capacity of individuals to break out of the poverty cycle and also contributes to increasing government revenues which can be reinvested in improving service delivery. In Latin America the poor often lack access to capital and financial management skills necessary for them to develop self-sustaining enterprises. Relatively small-scale micro-finance initiatives support individuals and communities to engage in enterprise that has the capacity to raise them out of poverty.
 - **Improving food security:** The poor have been hardest hit by rising food prices, as they spend most of their income on food. In the Latin America region rural poverty rates can reach up to three times that of urban poverty rates. Improving the productive capability and sustainability of rural producers, in particular smallholder farmers, is the key to alleviating poverty in the region.
- **Support effective governance**—helping improve public sector capacity to deliver better services, including security and human rights.

Social stability, the quality of government and public sector, and an engaged civil society all contribute to an environment where jobs can be created and services delivered to poor people. Under this focus area AusAID supports improved policy, service delivery and resource allocation with an emphasis on public sector governance.

Under this focus area, the program is providing support primarily through AusAID global programs including the Public Sector Linkages Program (now Government Partnerships for Development); the Human Rights Grants Scheme; provision of Australia Awards (short and long-term scholarships) and placement of Australian volunteers.
 - **Reduce the humanitarian impact of natural disasters**—by helping develop more effective preparedness and responding, when necessary, to these events.

According to the United Nations Development Program, Latin America and the Caribbean experience the second-highest incidence of flooding, landslides, earthquakes and droughts in the world. These disasters threaten to reverse decades of hard-won development gains and impact disproportionately on poor people who live in vulnerable regions and have the least resilience to withstand these disasters. Our goal for humanitarian action in Latin America is to save lives, alleviate suffering, and maintain human dignity during and in the aftermath of natural disasters and other humanitarian crises as well as to strengthen preparedness for the occurrence of such situations. For example, Australia supports countries to pre-position food stocks for humanitarian relief following natural disasters.

Under this focus area, the program is:

- Supporting more effective preparedness and responses to natural disasters and crises.
- Providing food assistance

Through AusAID programs we aim to focus on those hardest hit by poverty, social disadvantage and inequality in particular women; indigenous and Afro-descendent populations; people adversely affected by natural disasters; and rural communities.

3.2 Program approaches and ways of working

A regional approach: Australian aid in Latin America is delivered primarily on a regional or multi-country basis, with some capacity for small bilateral support where Australia has particular expertise and there is a clearly established need.

Working through partnerships: Australia primarily works through partnerships in the region to extend the reach and impact of our relatively small contribution. Our partners include multilateral organisations (Inter-American Development Bank, World Food Programme, Food and Agriculture Organisation, the United Nations Office for Disaster Risk Reduction, OECD Development Assistance Committee donors (Germany), Regional organisations (SICA), and emerging Latin American donors (Chile and Brazil).

Global programming: All 17 countries covered by the Latin America program have access to AusAID global programs including Australia Awards (short and long term scholarships and leadership awards), Government Partnerships for Development and small grants through the Human Rights Grant Scheme. They have access to the Development Assistance Program managed by Australian embassies in the region. Australian non-government organisations who are AusAID NGO Cooperation Program partners are able to use AusAID funding to support their initiatives in Latin America. Australian volunteers will be strategically placed to support local organisations (public and NGOs) improve planning and program delivery.

3.3 Building on strengths

Where possible, Australian aid will be used to build on or expand high quality activities of strategic partners where our input provides an opportunity to enhance results. Small scale activities will be minimised to limit program management and overhead costs. Program partners

Multilateral organisations: Channelling funds through effective multilateral partners such as the Inter-American Development Bank, the World Bank and the United Nations helps streamline programming and meet critical needs, leveraging greater impacts than working bilaterally in the region. Australia has a good track record in working with these organisations in Latin America and other regions.

OECD DAC Donors: Middle-level OECD donors such as Germany have significant experience working in Latin America. AusAID has an existing relationship with Germany in this and other regions.¹⁵ Australia and Germany will work together with other partners, such as the Inter-American Development Bank, in priority sectors.

South-South cooperation partners: South-South and trilateral cooperation is a significant approach to development in Latin America. Australia will work under two trilateral partnerships (with Brazil and Chile) to deliver assistance in less developed third countries. Trilateral partnerships will help to facilitate Australia's engagement in the region, deliver appropriate development activities based on the local experience of emerging donors and build aid delivery capacity by sharing knowledge and expertise.

¹⁵ Australia has a strategic partnership with GIZ (Germany's primary implementing agency) globally including in Asia, Afghanistan and Africa.

4 Program performance and risk management

4.1 What success will look like at the end of the strategy

Using effective partners, Australia's modest aid program will yield measurable development results in Latin America. Australia will be recognised as a valuable development partner, able to contribute to the region's efforts to reduce poverty and achieving sustained development in the region.

Support sustainable economic development:

Australian aid will have improved exposure, for at least 100,000 people (mostly women), to training and tools to better understand good business practice and financial management. Through this they will have greater chances of accessing financial services, establishing microenterprises and thereby participate in and contribute to economic development. Our aid will have also contributed to improvements to the microfinance services for poor communities

Improving food production in rural areas will help communities recover more quickly from natural disaster such as earthquakes and hurricanes and build their longer term resilience to these on-going and regular threats.

Support effective governance:

Through AusAID global programs (Australia Awards, Public Sector Linkages Program/Government Partnerships for Development, Human Rights Grants Scheme and Volunteers), Australia will have made a notable contribution to the institutional strengthening of many organisations in Latin America, which will help them to develop policy and provide services to their communities. Over 250 postgraduate scholars will return from study in Australia to their countries of origin with new skills and knowledge to help build the technical and professional skills of their own workplaces. Australian volunteers will have directly contributed to the organisational capacity of around 40 institutions and enhanced people-to-people links. Australia will have contributed to building capacity of public sector institutions in Latin America and Australia's reputation as a source of technical and professional expertise will have been significantly enhanced.

Reduce the humanitarian impact of natural disasters:

Latin American countries, particularly in Central America, will have benefitted from timely Australian humanitarian support in the wake of natural disasters and will be better prepared for natural disasters. By pre-positioning food in disaster prone areas and supporting regional response capacity Australian aid will have improved the ability to deploy lifesaving food and equipment rapidly to avert humanitarian crises.

4.2 Performance assessment framework

The program summary (Annex A) lists the three focus areas for Australian Aid to Latin America, links them to the core goals of *An Effective Aid Program for Australia: Making a real difference - Delivering real results*, and outlines selected 2014 targets. In 2013, AusAID will develop a performance assessment framework to increase the measurement and reporting of results.

4.3 Risk management

Five main risks may inhibit or prevent delivery of the program. These risks and the measures for managing them are outlined below.

Summary of risks and the associated management approaches

Focus area	Major Risks	Risk management approach
Sustainable economic development	The size and diversity of the Latin America region is such that Australia's regional assistance is unlikely to have a direct and discernible impact on poverty. It can, however, help to establish the conditions which improve poverty reduction by delivering assistance through, or in partnership with, experienced partners.	Australia's programs must be strategically targeting sectors where we can add value. They must also work toward change over longer periods of time. This strengthens the case for working through existing partners (regional, multilateral and bilateral) who are already delivering results on the ground.
	Income inequality levels will continue to widen if economic growth and wealth creation is not more equally distributed, resulting in more people being driven into extreme poverty.	Through selected initiatives, Australia will target those hardest hit by poverty, social disadvantage and inequality; chiefly, women, indigenous and Afro-descendent populations, as well as people adversely affected by conflict and natural disasters, and rural communities.
Effective governance	Ongoing conflict and violence throughout the region threaten development gains. In some countries (Colombia and Guatemala) the finalisation of peace agreements to resolve longstanding conflicts has helped to improve economic performance.	The aid program will work through dedicated security for development funding where we can add value, and scholarships.
	Our partnership approach relies on the partners driving our assistance programs. This presents a risk of implementation delays.	Australia will monitor and adjust assistance programs and activities as necessary.
Humanitarian and disaster response	The whole region is prone to natural disasters, severely impacting on human and economic development.	Australia will stand ready to provide appropriate support in response to crises in the region.

Annexes

Annex A: Latin America Program Summary

End State	Australia will support Latin America to reduce poverty and inequality and make progress towards achieving the MDGs					
Where We Work	Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela					
Focus Areas	Sustainable Economic Development	Effective Governance			Humanitarian and Disaster Response	
Regional Emphasis	<ul style="list-style-type: none"> Improved food security Improved incomes, employment and enterprise opportunities Reduced negative impacts of climate change and other environmental factors 	<ul style="list-style-type: none"> Improved institutional capacity (particularly the public sector) to deliver better services, improve security, and enhance justice and human rights 			<ul style="list-style-type: none"> More effective preparedness and responses to disaster and crises 	
Headline Results	At least 5,000 women with increased access to financial services <i>(At least 35,000 women will receive micro-enterprise training)</i>	At least 250 people awarded scholarships (with 100 of those from Central America)	At least 80 public servants trained	At least 90 civil society organisations supported to track service provision	Provide 60,000 women, men and children affected by conflict and crisis with lifesaving assistance	32 classrooms built or upgraded following the Chile earthquake in 2010
Progress to date	3,074 women have received increased access to financial services <i>(26,250 women have</i>	156 people have been awarded scholarships	71 public servants trained	80 civil society organisations supported to track service	48,761 women, men and children affected by conflict and	32 classrooms built or upgraded

	received micro-enterprise training)			provision	crisis provided with lifesaving assistance	
How We Work	Through regional partnerships with development banks (Inter-American Development Bank), UN agencies, civil society organisations; and through trilateral cooperation partnerships (Brazil and Chile)	Through global programs (Australia Awards, Public Sector Linkages Program (now Government Partnerships for Development), AusAID NGO Cooperation Program, Volunteers & Human Rights Grants Scheme), UN agencies and Central America’s pre-eminent regional body (known as SICA).			Through twinning arrangements, civil society organisations, trilateral cooperation partnerships (e.g. Brazil), UN agencies (e.g. World Food Programme) and NGOs	
Target Countries	REGIONAL, MULTI COUNTRY AND BILATERAL APPROACHES: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela					

Annex B: Progress against MDGs in Latin America¹⁶

Latin America	MDG 1 Eliminate Extreme Poverty and Hunger	MDG 2 Achieve Universal Primary Education	MDG 3 Promote Gender Equality and Empower Women	MDG 4 Reduce Child Mortality	MDG 5 Improve Maternal Health	MDG 6 Combat HIV/AIDS and Other Diseases	MDG 7 Ensure Environmental Sustainability	MDG 8 Develop a Global Partnership for Development
Argentina	Mixed	Achieved	Achieved	On track ↑	Mixed	On track ↑	Insufficient Information	Insufficient Information
Bolivia	Off track ↓	Mixed	Mixed	Mixed	Off track ↓	Mixed	Off track ↓	Insufficient Information
Brazil	Achieved	Achieved	Achieved	On track ↑	On track ↑	Achieved	On track ↑	On track ↑
Chile	Achieved	On track ↑	On track ↑	On track ↑	On track ↑	On track ↑	On track ↑	Insufficient Information
Colombia	Mixed	Achieved	Mixed	On track ↑	On track ↑	Insufficient Information	Insufficient Information	Insufficient Information
Costa Rica	Mixed	Mixed	Mixed	On track ↑	On track ↑	On track ↑	On track ↑	Insufficient Information
Ecuador	Achieved	Mixed	Mixed	Mixed	On track ↑	Mixed	Insufficient Information	Insufficient Information
El Salvador	Insufficient Information	Mixed	On track ↑	Mixed	Mixed	Insufficient Information	Insufficient Information	Insufficient Information
Guatemala	Mixed	Mixed	Insufficient Information	Mixed	Off track ↓	Insufficient Information	Insufficient Information	Insufficient Information
Honduras	Insufficient Information	Mixed	Mixed	On track ↑	Insufficient Information	Insufficient Information	Insufficient Information	Insufficient Information
Mexico	Achieved	Achieved	On track ↑	Achieved	Mixed	On track ↑	On track ↑	Insufficient Information
Nicaragua	Insufficient Information	On track ↑	Achieved	Mixed	Off track ↓	Insufficient Information	Insufficient Information	Insufficient Information
Panama	Mixed	On track ↑	On track ↑	Mixed	Mixed	Off track ↓	Mixed	Insufficient Information
Paraguay	Off track ↓	Mixed	Mixed	Off track ↓	Off track ↓	Off track ↓	Off track ↓	Insufficient Information
Peru	Mixed	On track ↑	On track ↑	Mixed	Mixed	Off track ↓	Off track ↓	Insufficient Information
Uruguay	On track ↑	Achieved	Mixed	On track ↑	On track ↑	On track ↑	Mixed	Mixed
Venezuela	Insufficient Information	On track ↑	On track ↑	On track ↑	Mixed	Mixed	On track ↑	Insufficient Information

¹⁶ “The MDGs in Latin America and the Caribbean: Employment Remains a Challenge for Poverty Reduction” <http://www.un.org/wcm/content/site/chronicle/cache/bypass/home/archive/issues2008/partnershipfordevelopment/pid/21591?print=1> accessed 28 April 2013.

Annex C: Brief summary of development needs in Latin America

Whilst less than one per cent of people in Argentina, Chile, Costa Rica, and Uruguay live in extreme poverty, Brazil (7.4 million) has the largest population living in poverty although the percentage is low at 3.8 per cent, and Colombia has a similar number of people but a higher percentage (16 per cent). Colombia (7.3 million), Guatemala (2.4 million), Honduras (1.7 million), Bolivia (1.4 million) and Nicaragua (1 million) have some of the highest rates of extreme poverty, over 12 per cent – and except for Colombia also rank the lowest in the region under the United Nations Human Development Index. Peru has 1.7 million extremely poor people, although its rate of extreme poverty is lower at 5.9 per cent.

Andean countries from Colombia, Ecuador, Peru, Bolivia and Paraguay (landlocked like Bolivia) are the poorest and most unequal countries of South America. The four Central American countries of Guatemala, Honduras, El Salvador and Nicaragua are the poorest and most vulnerable in Latin America.

Bolivia: Despite being upgraded from a low to lower-middle income country, Bolivia, with a population of 9.9 million, continues to face significant development challenges. It suffers from high levels of poverty, with the second lowest GNI per capita in Latin America at US\$1,630; widespread income inequality, with a GINI index of 57.3 (second only to Honduras); and social exclusion. Just under 12 per cent of Bolivia's population live in extreme poverty (on less than \$1 a day), which has hindered Bolivia's MDG progress.

Paraguay: As a landlocked country, Paraguay's more than 6 million people are some of the poorest in the region. Its GNI per capita is US\$1,710 - typical of a country with a low level of industrialisation. The poverty rate (people living under US\$2 a day) is 13 per cent. Around 40 per cent of the population lives in rural areas and they rely heavily on agriculture. While high commodity prices have allowed strong economic growth, Paraguay remains susceptible to external economic volatility and climatic factors. Significantly high poverty, unemployment and population growth threaten its sustainable development. The poorest 40 per cent are mainly from rural areas and receive around 10 per cent of the income, while the richest 10 per cent receive over 4 per cent.

Peru: With population of nearly 30 million, Peru has a strong record of poverty reduction over the years 2004 to 2007, mainly as a result of political stability and strong economic growth based on its substantial resources (it is one of the largest mineral producers in the world). It also has one of the world's highest levels of biodiversity (plants, animals and fisheries). Poverty declined sharply in the previous decade although this was uneven and a high proportion of Peruvians remain poor. Peru has high rural poverty.

Central America: The low income countries of Central America (in addition to Bolivia) are the poorest in all of Latin America, with extremely low GNI per capita in Guatemala (US\$2,650), Nicaragua (US\$1,000) and Honduras (US\$1,800) compared to Brazil, Chile or Mexico (at nearly US\$9,000). They are followed closely by El Salvador. Three of these countries (Guatemala, Honduras and Nicaragua) also have the lowest human development indicators in the region. They also have some of the highest income inequality, particularly in rural regions and have been slowly recovering from long term conflict. Populations in Nicaragua, Honduras and El Salvador are small (ranging from 5 to 8 million), although Guatemala is larger (14 million), but they all have high poverty rates. These countries also are extremely vulnerable to frequent natural disasters and climatic changes such as floods, droughts and storms.