

## EXECUTIVE SUMMARY

Indigenous peoples make up less than 5 percent of the world's population, yet comprise 15 percent of the world's poor. The indigenous population of Latin America is estimated at 28 million. Despite significant changes in poverty overall, the proportion of indigenous peoples in the region living in poverty – at almost 80 percent – did not change much from the early 1990s to the early 2000s.

*Economic Opportunities for Indigenous Peoples in Latin America* moves beyond earlier work which focused primarily on human development, and looks at the distribution and returns to income generating assets – physical and human capital, public assets and social capital – and the affect these have on income generation strategies. Low income and low assets are mutually reinforcing. Low education levels translate into low income, resulting in poor health and reduced schooling of future generations. Low assets not only reduce the ability to generate income, they also hinder the capacity to insure against shocks, thus increasing vulnerability. This is especially true when coupled with missing credit and insurance markets. There are significant complementarities across assets, which imply that the returns to one asset depend on access to another. These synergies between assets accumulate the disadvantages of the asset-poor in terms of returns to income-generating activities. They also dictate policies that facilitate access not only to one key productive asset, such as land, but also to complementary assets, such as training and infrastructure, which affect the returns to land.

By comparing occupational outcomes in both rural and urban areas across the region, further differences between the indigenous and non-indigenous emerge. In rural areas, we first see a confirmation of the relatively higher dependency on agriculture as a sector of economic activity among the indigenous. Indigenous peoples are also more likely to work as unskilled laborers compared to non-indigenous in rural areas. In urban areas, indigenous workers are less likely to work for wages as witnessed by the fact that less than 50 percent of urban indigenous in Guatemala have waged employment, compared to 65 percent for non-indigenous. The indigenous are at the same time more likely to be informally employed. In Ecuador, for instance, we see that while only 28 percent of urban indigenous are formally employed, over 50 percent of the non-indigenous are.

Naturally, having fewer assets hinders indigenous peoples' ability to engage in income-generating activities and to take advantage of economic opportunity. However, it also lowers the return the indigenous receive from economic activity. Low levels of education hinder entry into higher paying jobs, while the lack of credit or physical machinery may be key obstacles to increasing the productivity of agricultural activities. The role of asset endowments in determining economic opportunity is magnified by the complementary role of some assets (education, skills, credit and machinery) in making other assets and economic activities more productive.

Low assets make it harder for households to insure against shocks. It is also important to note that endowments of assets differ depending on geographic areas, as do indigenous/non-indigenous differences. Yet, the gap in endowments between indigenous and non-indigenous holds true even when looking at rural and urban areas separately. What does change when moving from rural to urban areas is the relative importance of different assets and the dynamics of asset complementarity. In rural areas, agricultural economic activities dominate and agrarian

assets and complements to these take on great importance; while in urban areas, economic activity is more diverse and the markets in which returns to assets are determined.

The disadvantaged position of indigenous peoples is reproduced if we look at land assets. The distribution of agrarian assets is unequal in Latin America. The size of indigenous landholdings is between two times smaller than non-indigenous land holdings in Peru to nearly eight times smaller in Ecuador. The rural land titling program in Peru confirms that the average plot size is considerably smaller for indigenous peoples than for the non-indigenous. Quality of land holdings also differ as illustrated by the fact that only 13 percent of all irrigated land in Ecuador was in the hands of indigenous farmers. Over time the non-indigenous population in Guatemala pushed out indigenous peoples from productive land sites; also non-indigenous land holding are also much larger.

In Ecuador, among small-scale producers, it has been shown that titling, technical assistance, the availability of credit and agricultural education, have positive impacts on productivity. In Mexico, education, contextual factors and being indigenous are factors that impact on the marginal welfare value of the land. Being indigenous is an important negative social asset as the marginal value of land for non-indigenous households is on average twice as high as it is for indigenous households. The structure of land ownership also affects access to complementary assets such as credit. In Guatemala, indigenous peoples are much less likely to hold formal title to their lands, which along with the isolation and poor quality of the land, make land holdings useless as collateral, thus limiting their access to credit and finance.

Access to financial assets plays an important role in determining rural economic opportunity as it complements other assets. Only a small fraction of indigenous households have access to formal or informal credit. Evidence from Peru suggests that education increases the likelihood of obtaining credit for indigenous peoples, mainly through increased access to information. In rural Ecuador, indigenous business owners are deterred from seeking a loan due to high interest rates.

It is not clear if small landholders would improve their access to credit even with a land title. Smallholders may lack well defined and legally recognized property rights, so land-titling programs appear attractive. But current smallholders may already have localized, but non-transferable, tenure security. Therefore, while land titling may make localized tenure security transferable (all thus valuable as collateral), this may not by itself suffice to improve the access to capital by current smallholders. Transferable tenure security may enhance the marketability of smallholder land to other, better capitalized farmers.

Another important complement to assets is infrastructure and basic services such as running water and electricity, which can help to increase productivity and diversification of income generating activities. In rural Mexico, for instance, the marginal value of land depends not only on complementary assets such as education, but also on access to roads. Lack of infrastructure and basic services is of course related to welfare outcomes. At the same time, the higher poverty rates experienced by indigenous peoples may be the result of an uneven distribution of public assets across households within a particular area.

Social spending has increased significantly over the last decade. However, few programs are targeted specifically at indigenous peoples. However, in Mexico, one of the most important anti-poverty programs – *Oportunidades*, a conditional cash transfer program – is well targeted and effective. In fact, it disproportionately benefits indigenous peoples. The program is

instrumental in reducing the schooling gap between indigenous and non-indigenous children and short-term poverty, and for improving health and nutrition status. The program also positively affects household saving and productive investments. Thus, a large and generalized targeted program contributes to poverty reduction, human capital attainment, and increases income-generating activities, thus giving all poor beneficiaries, including the indigenous, access to basic services, markets and productive infrastructure.

In consideration of these issues one key component of this regional study is the emphasis on the role of social networks in shaping economic opportunities available to indigenous households. Social networks can affect the economic opportunities of individuals through two important channels: information and norms. The information channel emphasizes the role of externalities, that is, how a person's ability to take advantage of economic opportunities depends on the behavior and knowledge of others. The social norm channel, on the other hand, emphasizes how a person's preferences themselves may depend on the behavior of others, either directly by affecting tastes or indirectly via social pressure.

In Mexico, indigenous social networks have a positive and significant effect on the employment of adult males; but as unskilled workers. The effect of social networks on migration appears to be significant in semi-urban areas only. The only significant effect of social effects on female employment appears to be in the handicrafts/manufacturing industry in urban areas. In Guatemala, indigenous peoples are more likely to find a job through social contacts in rural areas. In urban areas, however, indigenous peoples are less likely to find a job through social contacts, where their networks are limited. The relatively higher use of formal methods for finding a job by indigenous peoples in urban areas suggests that there is room for programs helping them find jobs. The form of social networks and the nature of social interactions among indigenous peoples suggest that the bridging social capital is relatively weak in comparison to bonding social capital.

The networks available to indigenous peoples do not facilitate employment in non-traditional sectors. At the same time, however, there are a range of individual cases which show how indigenous bonding and bridging capital may help communities do better in their traditional sectors of economic activity (that is, agriculture and handicrafts). Another trend that is changing the predominantly bonding nature of indigenous social capital is migration. With indigenous migration on the rise, traditional village-based kinships networks are turned into dynamic, transnational links. In other words, traditional bonding social capital becomes bridging social capital.

As a result of their historic exclusion indigenous peoples continue to have low endowments of human capital; limited access to productive land, basic services, financial and product markets; and poor infrastructure. Their main resources are labor and the set of social relations and institutions that they have come to develop over time. The main policy issue is the choice and design of appropriate interventions that increase economic opportunities for indigenous peoples. The analysis in *Economic Opportunities for Indigenous Peoples in Latin America* suggests that focusing on one or two priority areas of intervention is likely to be ineffective due to constraints that are encountered sooner or later in other areas. Well designed multi-sector development programs (increasing to infrastructure, access to credit, land, health, education and nutrition) that generate positive synergies among the different types of interventions are required.

Social networks currently help indigenous people access employment opportunities. However, most of these employment opportunities are in the informal sector, agriculture, and self-employment. Without a well designed intervention, social networks are not very helpful at increasing the mobility of the indigenous into different or new types of occupations, thus perpetuating the current poverty and inequality patterns. Developing policy instruments that increase the inclusiveness and effectiveness of social network effects is thus advisable. Pilot programs providing new role models for children, or examples of a few success cases adopting new production practices, accessing modern health services, cultivating new crops (such as non-traditional agricultural exports) are likely to have large positive multiplier effects through social networks and thus help equalize opportunities for indigenous peoples.

The relative scarcity of bridging social capital in indigenous communities suggests that interventions aimed at increasing social capital and agency in indigenous communities also deserve serious consideration. Some scholars argue that attempts to address the disadvantaged situations of poor and excluded groups through promoting participation, institutional engagement and the formation of social capital cannot work without a deeper consideration of the structural disadvantages of the poor and the constraints to agency.

Related policy options include interventions targeted to indigenous communities that improve access to basic service needs. These projects typically involve infrastructure subprojects in water, sanitation, electrification, and rural roads. The infrastructure component of the project enhances economic opportunities through increased access to product markets, health services and schools, and lower transportation costs, while the participation of the indigenous peoples in articulating their basic services needs, is aimed at “building social capital for development” thus having additional spillover effects. However, serious efforts have to be made towards evaluating rigorously the impacts of such social capital interventions on the welfare of indigenous peoples.

This suggests two actions that indigenous communities could consider. First, indigenous peoples could argue for a linking – formal or otherwise – of the indigenous decade with the MDGs. This could imply at the very least disaggregated data on indigenous peoples indicators in terms of poverty, education and health. Second, indigenous peoples could leverage this increased attention to argue for results. That is, rather than just getting more inputs or spending on programs that may or may not reach the indigenous peoples, the targets could be outcomes, such as specific reductions in illness rates, or increases in school completion. The targets could be elements of “contracts” between governments and the indigenous peoples. And in the event of missing targets, then indigenous peoples could renegotiate the contract or change the service provider.