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Jonas Blume
Julika Breyer

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,[1] and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,[2] in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.[3]

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.[4]

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

José Manuel Salazar-Xirinachs

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1 See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

2 See the successive Reports of the Director-General to the International Labour Conference: Decent work (1999); Reducing the decent work deficit: A global challenge (2001); Working out of poverty (2003).

3 See http://www.ilo.org/gea. And in particular: Implementing the Global Employment Agenda: Employment strategies in support of decent work, "Vision" document, ILO, 2006.

4 See http://www.ilo.org/employment.

Executive Director, Employment Sector

Foreword

Access to microfinance – as one tool of many – can be used to prevent, mitigate and reduce child labour. But when applied incorrectly, microfinance can also contribute to the creation of child labour. The ILO's Social Finance Programme (SFP) and the International Programme on the Elimination of Child Labour (IPEC) have historically worked together to ensure Decent Work programmes allow for access to finance while remaining child-labour free.

Seven years have passed since the ILO published Technical Guidelines: Microfinance against Child labour, which explored how project designers and implementing partners could use microfinance more effectively in child labour programmes. This paper takes a step back and reviews the causal chain, conceptually connecting the root causes of child labour to actions, tools and most specifically, financial services that can be provided by microfinance institutions (MFIs) to fight child labour within client households. Each root cause and its complimentary intervention are supported by case studies and examples from the field, illustrating either best practices or cautionary tales.

This publication is targeted at two specific audiences. For policymakers and activists in the fight against child labour, this paper provides insightful guidance about the potential and limitations of microfinance as a programming tool, highlighting in particular that microfinance is much more than microenterprise loans. For microfinance professionals, it provides guidance regarding product design and delivery to increase the social impact of their programmes, but it also raises an important warning about the circumstances in which MFIs could be stimulating a demand for child labour.

I want to express my appreciation to the authors, Julika Breyer and Jonas Blume, who have done an excellent job of presenting a well-balanced view, highlighting the opportunities and the risks. Their paper is indeed relevant and timely for the microfinance industry as a whole. As attacks on mission drift—from core social values and poverty alleviation to commercialization—continue to build, they illustrate how and why some MFIs are willing to embrace an anti-child labour message.

Craig Churchill
Social Finance Programme

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Acronyms

BRAC	Bangladesh Rehabilitation Assistance Committee
BRBD	Bangladesh Rural Development Board
CRECER	Crédito Con Educación Rural
EACID	Egyptian Association for Community Initiatives and Development
FIME	Fondo de inversion para el desarrollo de la microempresa
GDP	Gross Domestic Product
HH	Household
ILO	International Labour Organizatio
IPEC	International Programme to Eliminate Child Labour (ILO)
LAPO	Lift Above Poverty Organization Microfinance Bank
MEDA	Mennonite Economic Development Associates
MFI	Microfinance Institution
NGO	Non-Government Organization
NRSP	National Rural Support Program
PPIC Work	Promoting & Protecting the Interests of Children who Work
PTE	Partners in Technology Change
SAT	Sinapi Aba Trust
SFP	Social Finance Programme (ILO)
WWF	Women’s World Foundation, Colombia
UCW	Understanding Child Labour Project
UN	United Nations

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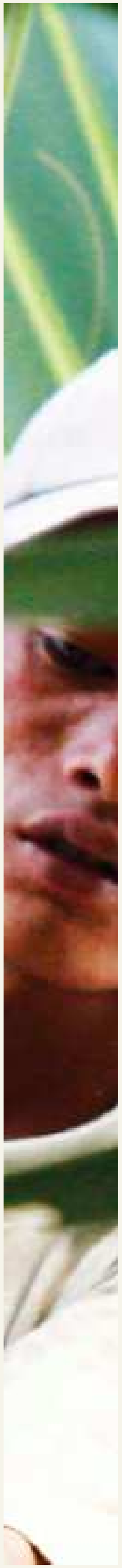

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1. Introduction

The South African labour union environment is unique in that its history and that of the Child labour remains a pressing concern in the world today. According to estimates from the International Labour Organization's (ILO) International Programme on the Elimination of Child Labour (IPEC), there were 215 million children child labourers in 2008, almost two-thirds of whom, worked under hazardous conditions (ILO 2010b). Child labour, especially its worst forms, often causes severe physical harm for children and deprives them of their right to education. It is therefore banned under ILO Conventions No.138 (Minimum Age Convention) and No.182 (Worst Forms of Child Labour Convention), as well as the UN Convention on the Rights of the Child.

While there is a broad consensus that child labour—as defined by the ILO—must be eliminated, the question of how to address it is widely debated.

The emergence and growth of microfinance institutions in developing countries, as well as impact analysis on their clients, has given rise to the idea that financial services could be an effective instrument to reduce child labour. Several impact assessments claim that microfinance has led to higher schooling rates and a reduction in child labour among the families of microfinance clients (Littlefield, Morduch & Hashemi 2003; Maldonado, Gonzales-Vega & Romero 2003). In addition, there is growing body of economic literature suggesting that the development of capital markets and the access to financial services, and in particular credit, can significantly reduce child labour (Dehejia & Gatti 2002, Beegle, Dehejia & Gatti 2003, Guarcello, Mealli & Rosati 2003, Jacoby & Skoufias 1997). Yet, other authors find that microcredit programmes can also have negative impacts on child labour (Wydick 1999, Kring 2004, Islam & Choe 2009).

This paper aims to assess the role of microfinance as an instrument in combating child labour. It reviews the economic literature drawing on empirical evidence of the impact of microfinance on poverty, income stability, overall household wellbeing and the demand for child labour. The paper also examines the direct experience of microfinance institutions engaged in the fight to eliminate child labour. Contrary to a frequently heard claim in the literature that is often limited to the impact of micro<u>credit,</u> this paper takes a comprehensive perspective on micro<u>finance</u> which includes loans for consumption, savings, insurance, financial services for improving the access to education, and awareness raising.

The paper is organised as follows: the first section clarifies the notion of "child labour" and the different causes of child labour. The next section looks into the role of microfinance in reducing income poverty, decreasing vulnerability towards income shocks, improving education and raising awareness. Section four presents examples of financial institutions that have developed programmes to prevent and eliminate child labour, and that effectively appear to have improved access to education for children and youth. It also highlights the on-going action research of the ILO's Social Finance Programme. The last section offers conclusions and discusses policy options.

2. Understanding Child Labour: Definition and casual factors

Defining "child labour" is a challenging task. Children in the developing and developed world alike often perform economic activities at a young age. Some perform these activities voluntarily (e.g. to increase the amount of available pocket money), while others are forced by the necessity of income for survival. Some children work only a few hours a week or only during peak seasons such as harvest times or festivals; while others work full time every day, year-round. Depending on their workload, some children are still able to combine school attendance and work, while in other cases children are deprived of their right to an education due to their heavy workloads (Boyden et al. 1998). Taking into consideration the large variety of economic activities that children perform, it is often difficult to define the line between earning pocket money or helping out at home, and harmful child labour.

Following the definition of the ILO, child labour refers to work undertaken by persons under the age of 18 that harms their mental, physical, or social development and interferes with their schooling by depriving them of the opportunity to attend school, by forcing them to drop out of school early, or by requiring them to combine school attendance and excessively long and heavy work. In short, child labour is "work that is unacceptable because the children involved are too young and should be in school, or because even though they have attained the minimum age for admission to employment, the work that they do is unsuitable for a person below the age of 18".[5] ILO Convention No.138 stipulates that ratifying States set a minimum age for admission to work, and Convention No.182 defines the worst forms of child labour prohibited for all children below 18.

According to these ILO Conventions, the concept of child labour excludes the activities of children above the age of about 12 who only do a few hours of light work where it is allowed by national legislation, and those of children who have reached the minimum working age and whose work is not considered as hazardous or other worst forms of child labour, such as slavery, prostitution, and trafficking. What is permissible depends primarily on the following: the child's age, the type of work, the number of hours worked per week, the conditions under which work is performed, and the national legislation on minimum age to work (see Box 1 below).

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5 This also reflects a UN-wide understanding. See the UN Secretary-General's Report to the General Assembly on Status of the Convention on the Rights of the Child (A/64/172) dated 27 July 2009, paragraph 7 et seq.

Box 1. ILO Convention No.138 - Minimum Age for Admission to Employment

The Minimum Age Convention specifies that:

a) Every country ratifying this convention shall specify a minimum working age for admission to employment or any other work, which is consistent with the fullest physical and mental development of young persons; and which shall not be less than the age of completion of compulsory schooling and, in any case, shall not be less than 15 years.
b) Children between the age of 13 and 15 may perform 'light work', as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training.
c) Developing countries may make use of a special paragraph referring to member states whose economy and educational facilities are insufficiently developed, who may initially set a lower minimum age of 14 years, and 12-14 years for light work, respectively.
d) The minimum age of hazardous work, however, is 18 for all countries (or never permissible at any age in the case of forced labour), and is exceptionally lowered to 16 only under strict conditions of sufficient protection and prior instruction.

According to ILO estimates, 215 million children aged 5-17 were classified as child labourers in 2008, 153 million of who were below the age of 15 (ILO 2010). Contrary to widespread perception in the industrialised world, only a few children are employed in formal enterprises, including manufacturing companies that produce goods for export. Instead, the vast majority of child labourers work in the informal sector. This part of the economy largely operates outside the legal and regulatory framework of a country and is usually not covered by official statistics. The informal sector is often characterised by small, family-owned enterprises that operate in markets with low entry barriers and low requirements for formal education. In fact, studies on the prevalence of child labour show that around 60% of working children perform informal activities in agriculture, fishing, hunting and forestry. In the urban context, most child labourers work in informal manufacturing, street vending, mining and domestic services (ILO 2008).

In many cases, working children perform activities that fall under the ILO definition of the *worst forms* of child labour. These activities are particularly harmful for children. Over 90% of ILO member states have ratified the corresponding ILO Convention 182 that calls for the abolition of the worst forms of child labour (ILO 2009) (see Box 2 below). Yet, it is estimated that approximately 54% of all child labourers remain under hazardous conditions (ILO 2010a).

Box 1. ILO Convention No.182 – The Worst Forms of Child Labour

Convention 182 specifies that:

(a) all forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom and forced or compulsory labour, including forced or compulsory recruitment of children for use in armed conflict;

(b) the use, procuring or offering of a child for prostitution, for the production of pornography or for pornographic performances;

(c) the use, procuring or offering of a child for illicit activities, in particular for the production and trafficking of drugs as defined in the relevant international treaties;

(d) work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety or morals of children;

The Worst forms of Child Labour Convention No.182 was adopted in 1999, and as of September 2010, 172 countries had ratified it. The ratification of the Convention obliges governments to implement programmes of action to prevent the engagement of children in the worst forms of child labour and to remove and rehabilitate those children who are victims of it.

2.1. Why do children work?

Who decides that a child must work? It is usually assumed that the parents make the choice about the activities of a child.[6] Parents decide whether a child works, goes to school, combines school and work, or stays at home neither working nor going to school. Parents choose among these options according to their preferences, taking into account their own, the child's and the whole family's well being, as well as budgetary constraints and cultural norms. Important factors that influence these preferences and constitute causes for child labour are income poverty and access to basic services, vulnerability and risk exposure, the unavailability or the poor quality of schools, and the attitudes and social norms among parents, children and the rest of society. In addition, the demand from employers for child labour due to specific advantages of children over adult workers may make child labour appear attractive for families[7]. The following sections provide more details on the aforementioned causal factors.

2.2. Income poverty

For households living below the poverty line, child labour might be the only way to ensure sufficient income for the survival of the family. Hence, children have to work and in many cases leave school, because their parent's income is insufficient to cover their family's basic needs. In the economic literature on child labour, this phenomenon is often described as the *Luxury Axiom* (Basu & Van 1998). According to this axiom, parents consider child labour as "bad" and

6 Older children usually have a certain influence on the use of their time and might choose for themselves between school, work, and leisure (Boyden, Ling & Myers 1998).

7 Some literature (in particular Boyden, Ling & Myers 1998) also stresses the importance of children wanting to work as one factor behind child labour.

use it only as a last resort to meet the basic subsistence needs of the household. Child leisure is a luxury good here that parents “consume” only if they are forced to do so as a result of income poverty. An increase in income would decrease the family’s resource constraints and allow parents to take their children out of work.

This view is supported by the assumption of decreasing marginal utility of income which is often referred to in the economic analysis of causes for child labour when explaining why child labour is correlated to poverty (e.g. Edmonds & Pavcnik 2005). According to this assumption the income contribution of a child is more valuable in the case of low family earnings than in the case of high family incomes. With increasing family income, the small additional income of a child adds less and less to the overall household well-being. Therefore, an increase in the parents’ income would decrease the utility of the child’s additional earnings and thus the incentive to put a child to work.

Empirical evidence supports the idea that income poverty is an important cause of child labour and that rising incomes lead to a reduction of child labour. Cross-country data show a strong negative correlation between the incidence of child labour and GDP per capita. Edmonds and Pavcnik (2005) use data on the economic activity of children between the age of 10 and 14 and real GDP per capita at purchasing power parity to show that 73% of the variation in the economic activity of children is explained by a variation of GDP per capita.

Studies on the household level further strengthen the evidence of child labour disappearing with increasing family income. Based on household survey data from rural India, Nielsen and Dubey (2002) show that low household expenditure (as a proxy for low income), is one of the main driving factors of child labour. Rising income was an important force behind the reduction of child labour in the surveyed households. Edmonds (2005) draws a similar conclusion from his analysis of two rounds of panel data from Vietnam. He uses household per capita expenditures as a proxy for the economic status of households, and estimates the relationship between the economic status of households and child labour. He finds that above a certain threshold, signalled for example by the intake of 2,100 calories per day, the probability that children work declines with increasing household per capita expenditure. In total, increased per capita expenditure could explain about 80% of the decline in child labour between 1993 and 1998 in the surveyed area.

It is not necessarily the poorest households that use the most child labour, though. Some studies show an ambiguous relationship between the poverty level of a family and the working hours of children. Ersado (2005), for instance, compares rural and urban data from Nepal, Peru and Zimbabwe and finds evidence for the poverty hypothesis in rural areas but no significant correlation between poverty and child labour in urban areas. Even stronger evidence for a wealth paradox was found in research on child labour in Pakistan and Ghana (Bhalotra & Heady 2003). The study shows that daughters of richer landowners are significantly more likely to work than those of land-poor households. The effects for boys are less clear, but the hypothesis that boys from richer households are in all cases less likely to work was rejected.

Similar ambiguous results on the role of family assets for child labour were found by Cockburn (2001) in an empirical study with data from Ethiopia. Factors like ownership of oxen, higher quality of land and proximity to water were found to decrease child labour. Conversely, other assets like small livestock were correlated with a higher workload for children.

These results can be explained by the different effects that come along with the ownership of an asset. An immediate effect of acquiring an asset can be the substitution of child labour. Investing in drilled wells, for instance, reduces the workload of family members to collect water from sources further away (Guarcello *et al*. 2004). This "asset effect" along with access to better services then leads to a reduction in child labour.

Another effect that usually results from the acquisition of a productive asset is the potential for increasing income by improving productivity. For example, use of an oxen and a plough makes it easier to cultivate land, therefore leading to a larger harvest and higher income. This in turn should also reduce the necessity of child labour, as the household no longer relies on the child's minor income contribution or extra working hours.

However, a possible negative effect of the acquisition of an asset might be a higher demand for complementary labour. Buying small livestock, for example, which requires supervision and maintenance, is work that lends itself to a household's children. Hence, ownership of assets *can* lead to a higher incidence of child labour; especially if parents are already employed full-time and alternative sources of labour are not available.

Depending on the magnitude of these effects, the acquisition of household assets can thus either increase or decrease child labour. Logically, the same result applies for poverty if it is only measured by household assets. Wealthier households with more assets might then use more child labour than poorer household with fewer assets.

Yet, the ambiguous results caused by different types of assets should not confuse the general observation that income poverty is one cause of child labour, and that increasing family income should be an effective way of reducing child labour.[8]

2.3. Vulnerability and income shocks

Poor people are extremely vulnerable to risks. They often live in environments that are prone to natural disasters, disease, business failure, or fickle harvests. Even worse, they usually do not have the possibility to protect themselves and their families against these risks, and do not have sufficient assets or an effective social security system to act as a safety net in times of need. Therefore, poor households have to find alternative ways to cope with risks and to smooth income and consumption over time.

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[8] This conclusion was also made by Edmonds and Pavcnik (2005) after a review of several empirical studies on child labour. They found that "studies tracking families over time almost universally find large declines in child labour with substantive increases in family incomes."

Income smoothing is a strategy to reduce risks before adverse income shocks occur. This can be achieved through the diversification of economic activities or through the choice of an employment source that is not exposed to fluctuations.

Consumption smoothing is a mechanism that is used to mitigate the impact of adverse income shocks after they have occurred. It is a strategy to uncouple consumption from the current income stream in order to ensure a minimum consumption over time. To this end, households borrow and save money, accumulate and sell assets, insure themselves against risks and increase or decrease labour supplies (Morduch 1995, Cohen & Sebstad 2005).

In both income and consumption smoothing practices, child labour may play an important role. Child labour is one way of diversifying and thus smoothing family income. When children pursue a different economic activity than that of their parents, the family can rely on this separate income source if a parent's business is not performing well.

In the case of consumption smoothing, parents might decide to take their children out of school and put them into work to sustain a certain minimum consumption level if the parents' income drops or fails (for example, due to a bad harvest or illness of the breadwinner).

The danger of this strategy lies in the irreversibility of child labour. Once children are taken out of school and integrated into the labour market, transition back to school is often very difficult. As a result, children continue working even when the direct consequences of a shock are overcome (Guarcello 2003).

Empirical evidence supports the point that child labour is used as a buffer against shocks: Duryea, Lam & Levison (2007) show how households in urban Brazil increase the use of child labour as a reaction to an income shock. Using a large set of longitudinal data including over 100,000 children aged 10 to 16, they calculate a high probability for a child to drop out of school and to start working if the male household head becomes temporarily unemployed.

Similarly, an empirical study on human capital accumulation, risks and financial markets (Jacoby & Skoufias 1997) found that child labour is extensively used as a self-insurance strategy among poor, rural households. The authors use panel data on income levels and children's school attendance in six villages in rural India to analyse the response of families to covariant and idiosyncratic income shocks. The results show that, in the absence of perfect capital markets, one response to income shocks is to take children out of school. Since the reduction of human capital accumulation is used to smooth consumption if a shock occurs, this coping mechanism is likely to not only have immediate effects, but also negative, long-term effects on the educational attainment, productivity, and skill level of the child. This self-insurance strategy may thus perpetuate poverty and vulnerability levels over time.

Finally, Cigno and Rosati (2005) find in their analysis of Guatemalan household data that negative shocks substantially increase the probability of child labour. Coupled with the evidence that child labour shows a high degree of persistence, they deduce that "policies aimed at improving access to credit and providing safety nets, especially for poorer households, […] appear to be among the most powerful instruments for promoting school attendance and reducing child work”.

2.4. Costs and quality of education

When deciding how children spend their time, parents usually have a strong preference for schooling, as long as the basic needs of the family are covered. Altruistic and egoistic motives may apply here. Altruistic parents want the best for their child and choose education over work to secure the future of their offspring. Also egoistic parents might prefer to pay the upfront cost of schooling and reduce the current household income, in return for a higher income later on when the children are older and earn higher wages due to a better education. This can be especially relevant in the absence of a pension system, where parents rely on their children’s income for their own future financial needs.

In some cases, however, in the absence of attractive schooling, parents might prefer to send their children to work instead. The returns from education might be low as teachers are often absent or insufficiently educated; school buildings and learning materials may be missing or broken; classes may be overcrowded, and curricula could out-dated or not in-line with demand for skills in the local labour market. Therefore, in some cases, schools do not allow children to gain the skills necessary to obtain a decently paid job after having finished their education. Hence, quality of schools is an important factor in the decision to send children to work or not.[9]

Also, particularly in developing countries, jobs that utilize highly-educated/highly-skilled employees may be scarce or difficult to obtain, in particular for children from under-privileged households who lack the right contacts and connections. In these cases, the potential benefits of education cannot be materialised and schooling becomes a less attractive option.

Parents might also be deterred from sending their children to school due to the high costs associated with schooling. Numerous empirical studies have found evidence for this proposition (see e.g. Bhalotra / Tzannatis 2003). School fees and expenditures for books, uniforms, and transportation are costs are often difficult to cover, in particular if they have to be paid in a lump sum (e.g. school fees that have to be paid for the whole year in advance). In theory, parents could overcome this problem by borrowing against the future income of their children, provided the school quality and labour markets allow for the benefits of education to materialise. An important cause for child labour could, in this instance, be non-functioning capital markets that make it impossible for parents to borrow against the future pay-offs of their children’s education.

Given that long-term borrowing is not an option for poor households in developing countries, many families try to cover the expenses for education by combining child labour and schooling (Boyden *et al*.1998).

[9] See Huisman/Smits 2009 for a review on empirical studies confirming the link between school quality and school attendance.

2.5. Social norms and lack of awareness

Parents might also choose to let their children work because they conceive work as a valuable experience that provides a child with skills and maturity to enter adult life. In these cases it is not the dire need for additional income that causes parents to send their children to work, but rather the fact that child labour might be in line with the cultural norms of a society, that parents consider work as “skills training” or they may simply not be aware of the detrimental effects of child labour. This perception may be intensified by a low quality education system that does not enable children to obtain well-paid jobs. And even if schools of sufficient quality are available, parents might not be aware of the benefits of education, possibly because they themselves have not had the opportunity to go to school.

Finally, cultural norms might encourage children themselves to express the wish to work. Their social environment might provide rewards to work such as prestige, independence or being part of the adults’ world. In these cases, parents might have preferred to send their children to school or let them play, while the children themselves convince their parents to let them work.

2.6. Child-specific labour demand

The factors discussed in the previous sections provided explanations as to why families *supply* children for work. Yet, the *demand* for child workers can also be identified as a cause of child labour. Usually adults are more skilled and productive than children; therefore, adults should generally be the more attractive option for employers who hire workers. However, in some cases they might prefer children. The wages of child workers are generally lower than those of adults, which allow employers to reduce costs, as long as the productivity of children in specific tasks is similar to that of adults. In addition, employers might prefer children over adults because children are usually easier to control, have less power to demand better working conditions, and are less reluctant to obey orders from superiors. Also, in particular during peak seasons, there may be too many positions and too few adult workers; thus, pushing employers to fill these positions with underage workers. Finally, there could be a demand for child labour because children have special abilities that adults do not have. Yet, various empirical studies show that this is usually not the case. For example, the production of carpets is usually done by an adult who produces carpets of superior quality thanks to his or her skills and not a child because of their “nimble fingers” (Drusikka et al. 2003).

There are additional factors behind the demand for child labour that apply only for family-run businesses (i.e. farms, market shops, or small-scale producers) that are largely run by family members. As shown below, child labour is particularly prevalent in those types of businesses.

When a family business needs additional labour it can choose between external wage labourers or additional family members—like their own children. Parents may prefer to employ their own children instead of external labourers for the following **four** reasons:

First, costs. Employing their own children requires no immediate monetary payment; whereas, employing external labourers does. Hence, the wage costs for employing their own children are lower. This is particularly relevant in the case of low-skilled work such as cattle herding or shop keeping, where the productivity of an additional external adult worker is not much higher than that of a child. This leads parents and family business owners to believe that letting the children work reduces costs, especially if they are not aware of the opportunity costs of child labour.

Second, flexibility. Children constitute a flexible source of labour. If the investment in a (household) enterprise raises productivity and labour demand, entrepreneurs might find it too risky to employ an external wage labourer before having stabilized the growth of the enterprise. In this situation, the employment of their own children may seem favourable, especially if the labour market is inflexible and if employing and laying off labourers bears considerable costs.

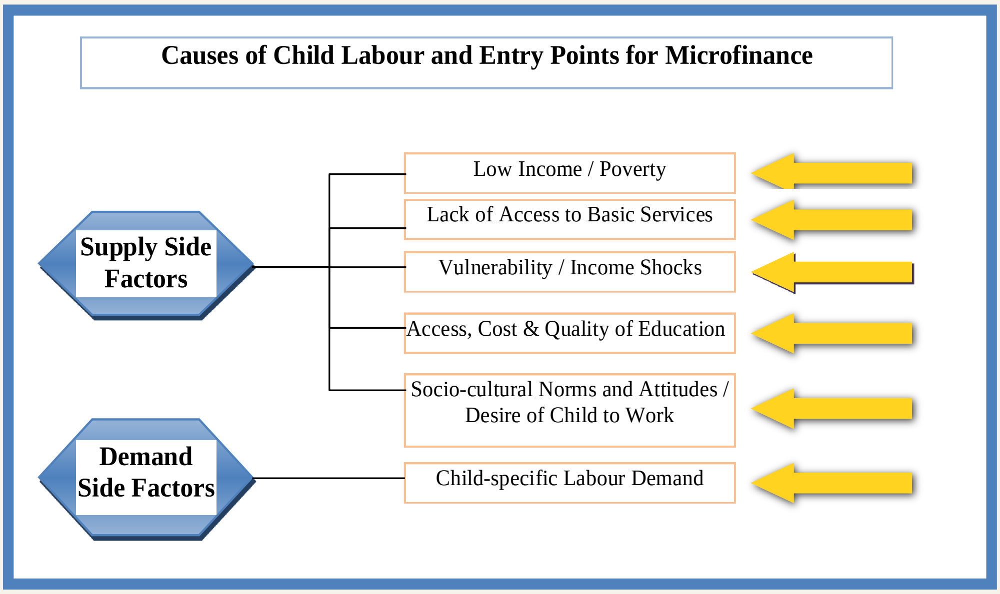
Third, control. Hired labour is usually more difficult to control than one's own children. Also, moral hazard is likely to be stronger. Many clients of microcredit programmes are small-scale traders operating in the urban informal sector. Leaving the shop to a non-household member involves the threat of petty theft. In rural areas, moral hazard may also be a problem. Hired labour could, for example, be less motivated to take proper care of animal herds than family labourers.

Finally, family tradition. Parents may prefer to meet additional labour demands through the labour of their own children in order to transfer skills and traditional family knowledge. These parents see the employment of their own children as human capital investment. Through their participation in an enterprise, children learn important technical, business and life skills. This argument might be especially strong in the absence of a good education system. Also, the family business might involve traditional family skills that parents would like to transfer to the next generation, rather than employees' external to the family. Transferring knowledge is often expensive and time consuming; non-household members are more likely to leave the family enterprise and to take this special knowledge with them. Therefore, the risk involved in the human capital investment of non-family members, and the perceived benefit of training children in the family craft can explain the preference for employing children over external labourers (Wydick 1999).

3. How microfinance can help to address the causes of child labour

As the previous section has shown, child labour has a variety of causes that in many cases are interlinked. The following section examines if and how microfinance might address each of the different causes of child labour. In doing so, not only the positive but also potential negative impacts of microfinance on child labour will be assessed. Below, figure 1 illustrates where microfinance could be effective and provides an overview on this section.

Figure 1. Child Labour Determinants & Microfinance Entry Points



3.1. Income generation through microcredit and the impact on child labour

Small loans are often assumed to be a powerful tool to facilitate income generation in micro and small enterprises/farms, and thus could potentially be important instruments in reducing child labour. Access to microcredit is especially relevant for entrepreneurs that do not have access to commercial bank loans or other financing sources. These are often micro and small enterprises that operate in the informal sector, in remote areas, or without sufficient bankable collateral. To lift this credit constraint, specialized microfinance institutions (MFIs) have emerged in most developing countries.[10] The loans that these institutions offer to micro and small entrepreneurs—in formal and informal sectors—facilitate investment and, ideally, increase productivity, income and revenue. As income poverty is one of the root causes of child labour, an increase in income may lead to a reduction in child labour.

Several impact assessments of microfinance programmes show empirical evidence of a significant improvement in the income status of microfinance clients.[11] One well-known example is the study by Khandker (1998) that analyses the impact of three microcredit programmes in Bangladesh: Grameen, BRAC and BRDB's RD-12. Khandker finds that all three programmes raised average household incomes from non-farming activities, by 29%, 33%, and

[10] For an overview of microfinance institutions worldwide, visit: www.mixmarket.org

[11] See Littlefield, Morduch & Hashemi 2003 and Goldberg 2005 for a review of several impact assessments.

21% respectively, and increased household production by over 50%. While Grameen and BRAC programmes mainly raised household incomes from non-farming activities, RD-12 clients also increased their income from purely farming activities by nearly two-thirds. More importantly, households were able to sustain these income growths and 5% of microfinance clients graduated out of poverty each year. In a follow-up study, Khandker (2005) reiterates the positive results of the microcredit programmes on the reduction of income poverty at the individual level as well as positive spill-over effects that increased welfare at the village level.

MkNelly and Dunford (1998, 1999) assessed the impact of two microcredit programmes on participants: CRECER in Bolivia and Freedom from Hunger in Ghana. These programmes mainly target women and are combined with education sessions on health and business issues. Two-thirds of the participants in Bolivia and 90% of the participants in Ghana reported that their income had increased since they joined the programme. In addition, clients reported that they had diversified their income sources and had built up savings, which allowed them to smooth consumption.

However, there is also literature that cautions the enthusiastic results of the income generating effect of microcredit. Re-assessing the impact of the three-microfinance programs in Bangladesh (Grameen, BRAC and BRDB), Morduch (1998) finds no notably higher consumption levels in the client group than in the control group. Positive impact was claimed to be due to income smoothing, followed by consumption smoothing (i.e. a reduction of vulnerability), rather than due to increases in income. In a later paper, Roodman and Morduch (2009) even more strongly reject the earlier findings by Khandker and others mentioned above. Using refined econometric techniques they do not find evidence of a positive impact of microcredit on the reduction of poverty. In a study on village banks in Thailand, Coleman (1999) had obtained similarly disappointing results. To avoid bias related to self-selection and endogenous programme placement, Coleman uses quasi-experimental data generated to analyse the impact of village bank loans. His results suggest little impact on savings, production, sales, physical assets or consumption levels of clients.

The mixed findings reflect the complexity of impact assessments in microfinance. First of all, there are the usual drawbacks in the form of selection bias, invalid control groups and attribution issues. Many studies overestimate the income-generating effect of microloans because they do not (sufficiently) control for self-selection bias. Clients of microcredit programmes frequently differ from non-clients already because they have abilities and advantages that allowed them become members of the programme (Honohan 2004, Armendáriz de Aghion & Morduch 2005). People with business skills, for instance, find it easier to obtain a microloan than people without. They also have a higher potential to increase their income than persons lacking these abilities. It is then difficult to attribute higher income levels to access to microloans or business skills.

Secondly, collecting reliable data on income, expenditure, use of credit and debt is expensive and difficult, as survey respondents are reluctant to give details on such sensitive issues

(Robinson 2001). Therefore, even if rigorously conducted, purely quantitative studies can lead to an incorrect picture of the impact of microcredit, if the underlying data is inaccurate.

Finally, the effectiveness of microloans for income generation depends on the way the credit is designed, delivered, and employed. Different economic activities like trading, farming or manufacturing have different demands regarding loan size, loan term, grace periods and so on. Therefore, a particular loan and delivery technique might be effective for one activity, but not for the other. Coleman (1999) for example reflects that the “one size fits all” approach of village banks, with a first loan of US$ 50 and a maximum of US$ 300, did not necessarily match the demands of all the households in his survey in northern Thailand. He estimates that the loan size might have been too small for productive investment and was therefore often used for consumption purposes.

Overall, the empirical results at least cast doubt on the proposition that microloans automatically increase income. **A loan only leads to a higher income if the borrower buys assets that yield returns in combination with labour and knowledge.** Or as von Pischke (1991) puts it: “Credit earns no return for borrowers”. A microentrepreneur must have the necessary business skills to operate successfully in difficult markets and dispose of a sufficient debt capacity to repay an often expensive loan. Without entrepreneurial behaviour, business skills and productive investment opportunities, taking out a loan can be risky and families may struggle to repay it. If a loan is not invested productively or if an investment opportunity fails, families can find themselves in *worsened* financial conditions. Also, a failed business or investment can increase the dependency on child labour as parents rely more on their children’s income to help repay the loan.

In summary, a microloan may offer the opportunity to generate income for those with sufficient entrepreneurial skills, capacities and investment opportunities, but that are excluded from access to commercial bank loans. In other cases, however, microloans will have only limited effects on income.

3.2. Taking a closer look at the impact of microcredit for productive use on the house-hold economy

The previous section argued that through their potential to positively impact household incomes, microloans for investment may be able to reduce child labour. However, theoretical considerations and empirical work on how loans affect the household economy suggest that the impact of small loans for productive use on the household’s children has to be analysed in more detail. Impacts may vary depending on the characteristics of the assets financed, the type of business for which the loan is used, as well as on the labour market conditions. In addition, impacts might also depend on who in the family (i.e. the father or the mother) receives and makes use of the loan.

A loan used for productive investment in a (household) enterprise may lead to greater productivity, thus allowing the household to increase its income. As discussed in the previous sections, this income effect should lead to a reduction in child labour. However, productive investments in household enterprises may also increase the marginal product of labour which makes the use of additional labour more attractive.[12] Assuming that parents already work full-time, letting the children work more would then be a logical response, especially when the quality of education is perceived as poor and the opportunity costs for schooling continue to grow.

Wydick (1999) finds empirical evidence for these negative impacts of microloans on child labour and schooling in a study of two rural towns in Guatemala. While he supports the findings of positive effects from microloans on schooling, he shows a statistically significant negative effect on schooling if the family enterprise produces a skill-demanding traditional cloth, such as a tailoring shop or a retail business. This result corresponds to the argument made in Section 2.5 which showed that in particular, family-owned businesses might have a preference for employing their own children over external labourers because of the costs, higher flexibility, agency problems, or to keep valuable knowledge in the family.[13]

Another study on microcredit for investment in home-based, non-farm enterprises in Pakistan (Menon 2005) shows similar negative impacts on schooling. Children who were already working part-time in a family business—though still attending school and whose parents had taken a loan—were found to have significantly reduced school attendance. The data suggest that for a 1000 Rupee (approximately US$ 17) increase in credit for a family business, the likelihood of continuing schooling decreased by nine percent. However, she also found that with better credit access, children who did not work in a family enterprise were more likely to attend school.

The latter result is in line with the generally positive effects on child schooling found in a review by Littlefield, Morduch & Hashemi (2003) utilizing both quantitative and qualitative studies. The authors conclude that much of the additional revenue gained through the participation in a microfinance programme was spent on schooling.

The impact of microloans on child labour also has an important gender dimension. Many microcredit programmes specifically target women. Women are said to be more responsible financially and to have better repayment performance than men. Access to credit often contributes to the empowerment of women: receiving a microloan allows women to gain access and control over resources, which in turn can increase their income-generating potential and thus their autonomy and decision making power.[14] Experience shows that this is often

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[12] As already discussed in Section 2.1 different household assets might either increase or decrease the additional need for labour.

[13] See Section 2.5 for further details.

[14] It has to be noted though, that microcredit programmes that are exclusively targeted at female clients might have negative consequences for them, too. In particular in male-dominated societies, husbands might encourage their female family members to take out a loan and then force them to pass on the

associated with positive effects for children as women are more likely to invest additional income in education and family well-being (Mosley & Rock 2004).

From their studies in Bolivia and Ghana, MkNelly and Dunford (1998, 1999) report that the participation of women in microfinance programmes enhanced their self-confidence. Women improved their status in the community as evidenced by more actively participating in cultural and political life. In a study on three microfinance programs in Bangladesh, Pitt & Khandker (1996) found evidence of an empowering element in credit programs targeted at female clients. Women increased their contribution to household consumption, their hours spent in the market, and the value of their assets. Moreover, credit given to women had a positive effect on girl's schooling.[15]

However, these positive effects of microcredit on gender and household well-being (including schooling) may be offset by the negative impacts of women's increased workloads. As Pitt and Khandker argue, the increase of the mother's time in self-employment may lead to a substitution between the daughter's time in school and her time in household production or self-employment. This substitution seems to be especially strong when the girl's time is a close substitute to that of her mother's time (Pitt & Khandker 1995). The empirical findings of Kring (2004) in footwear production in the Philippines support the observation that girls are often taking over household chores once the mother's labour input in production increases. Although parents usually accommodate the children's working hours to be compatible with schooling, during peak seasons the amount of hours spent in chores and production often impedes the children's schooling. Along the same lines, Menon (2005) shows that girls in Pakistan spent significantly more time on household chores and less time in school if their mothers operate a microenterprise. In these cases, the opportunity costs of schooling are not the foregone wages of the children, but those of the mothers (Grootaert & Kanbur 1995). Therefore, as Peace and Hulme (1994) conclude after their review of over 70 income-generating programmes, a positive impact of parent's participation in these programmes on the welfare and education of children cannot be automatically assumed.

In conclusion, it is important to remember that there might be important differences in the impact of microcredit for productive use on child labour depending on who receives the loan and how it is invested. In some cases the positive income effect will reduce child labour. In other cases the additional labour demand that is created by some types of productive assets will increase the workload of children; in particular: where adult labour is not available, cheap or sufficiently flexible; where parents find external labourers untrustworthy or prefer to pass on specific knowledge to their children; or where children have to take on some of the household chores, because the parents have to spend more time working.

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money to male members of the family. The control over the financial resources then goes into the hands of the male family members whereas the debt toward the microcredit programme remains with the woman.

15 Yet, the gender empowering results originally found in the statistical analysis of data related to these programmes were later questioned by Roodman and Morduch (2009), who do not find statistical evidence for increased incomes of women through microcredit.

3.3. The role of microfinance for income and consumption smoothing

Another important cause of child labour is the inability of poor families to manage risks by smoothing income and consumption over time. Microfinance can play an important role in making financial markets work for the poor. Access to financial services may help the poor to better manage risks and to smooth income and consumption over time, without having to resort to child labour.

This section elaborates how comprehensive microfinance services like savings, insurance and emergency loans might offer alternative measures to manage risk and could thus contribute to reducing child labour.

Access to savings is the most flexible and the least expensive consumption-smoothing tool. Poor people save in a variety of ways to accumulate funds for life-cycle events such as marriages or funerals, to take advantage of sudden investment opportunities, or to cover emergency costs (Rutherford 2001). However, most of them do not have access to formal bank accounts. Therefore, they are obliged to use less secure and often less versatile ways of saving, such as storing money at home or purchasing physical assets. As these alternatives bear severe disadvantages[16], saving facilities in microfinance institutions that are easily accessible, cheap, liquid, and flexible have the potential to improve the risk-managing capacity of the poor in stable macroeconomic environments.

Insurance also plays a role in protecting households against large losses in the case of less likely events. In recent years, several microinsurance schemes have emerged and are offering life, health, business, and other insurances to the poor (Cohen & Sebstad 2005).[17] The disadvantage of insurance is that it usually only covers one specific risk, such as death, illness, or property loss. Therefore, microinsurance can constitute an important element in the risk-managing strategy of the poor, but is not sufficient to protect against *all* risks that poor households face.

Finally, emergency loans may help poor households to effectively manage risks. Emergency loans are loans that are easily accessible and may be used to cover immediate consumption needs. Emergency loans may therefore be a useful self-insurance mechanism when households experience sudden income or expenditure shocks that they cannot cover with savings, and that they are not insured against. In some situations, taking on an emergency loan might even be preferable to drawing upon savings, especially if savings are held in productive assets. In particular, credit may be appropriate if a shock increases expenditures in the short-run, but does not affect household income in the long-run, such as times when emergency loans are provided against approved, but delayed insurance claims (Churchill 2003). To effectively

[16] In-kind savings might be costly as assets have to be sold at a below-market rate when there is an urgent need for liquidity. Monetary savings at home can be subject to theft or claims from friends and families and do not generate any interest that could offset inflation.

[17] See Churchill 2006 for extensive information, analysis and examples on microinsurance.

smooth income and expenses, emergency loans have to be readily available at low transaction costs.[18]

With savings facilities, emergency loans and insurance, microfinance offers a wide range of possibilities to effectively buffer income and expenditure shocks. Access to these financial services allows families to better manage risks and gives them alternatives to less desirable/unwanted strategies such as withdrawing children from school and sending them to work.

The proposition that a lack of access to risk-managing financial services is linked to the supply of child labour is supported by several empirical studies.

Dehejia and Gatti (2002) tested how a lack of access to credit and income volatility can explain child labour on a cross-country level. They use aggregate country level data on the predominance of child labour in 172 countries, and the share of credit to the private sector as a proxy for the degree of financial intermediation and the level of financial development, which influence access to credit. Controlling for other variables that explain child labour and performing various robustness checks, they find a strong negative relationship between child labour and access to credit. Furthermore, they show that in countries with less developed financial markets, the use of child labour to respond to income fluctuations is much more common. They conclude that the development of the financial market and improved access to credit could effectively reduce a household's dependency and use of child labour.

However, it must be kept in mind that the proxy for access to credit used in the analysis is limited to the share of private credit issued by deposit-taking banks to GDP. This variable excludes all other sources of loans, such as microfinance institutions, NGOs, moneylenders and family and friends. It is therefore only a rough indicator for access to credit of the poor.

More accurate results can be obtained from empirical studies at the micro level. Beegle, Dehejia & Gatti (2003) use panel data from Tanzania to examine the link between transitory income shocks, access to credit and child labour. They confirm that child labour *is* used as a mechanism to smooth consumption in the case of transitory income shocks such as crop loss or fire. Moreover, the frequency of child labour as a risk-management strategy seems to be lower when households have access to credit, measured by the availability of collateral. They therefore conclude that improved access to credit could help to reduce the use of child labour significantly as a response to temporary income fluctuations.

Similar results were obtained by Guarcello, Mealli & Rosati (2003). Using representative panel data from Guatemala, they find that collective shocks such as earthquakes, floods and fires, as well as idiosyncratic shocks such as loss of employment and death of a family member, are

[18] From an institutional point of view, offering emergency or consumption loans bears challenges with respect to delivery methods and control against risks. Nevertheless, successful examples like the basic needs loan of PRIZMA, a microfinance institution in Bosnia Herzegovina, or the pawn loans offered by the Cajas Municipales in Peru, both products that intend to cover small immediate expenses, confirm the feasibility of emergency loans.

strongly associated with a higher level of child labour and lower school attendance. Also, independent of an economic shock, the authors find that credit rationing significantly influences households' decision to send their children to school. Lacking access to credit reduces school attendance and increases idleness, rather than child labour. The authors also show that insurance schemes can help to mitigate the impact of shocks on child labour. Overall, in the reduction of child labour, eliminating negative shocks is estimated to have the same effect as increasing income by about 40%.

These findings demonstrate that there is a clear link between child labour and income shocks, and a less evident connection between child labour, shocks and dysfunctional financial markets that do not allow households to effectively manage risks. While shocks are transitory events, they may have considerable long-term, negative effects on the well-being and education of a child. As Guarcello, Mealli & Rosati (2003) point out, even being taken out of school temporarily may make a return to regular schooling difficult and thus lead to the persistence of child labour. Therefore, as the authors conclude, due to the large impact of shocks on child labour, policies aimed at the reduction of vulnerabilities and the promotion of credit access for the poor appear to be powerful tools in the elimination of child labour (Guarcello, Mealli & Rosati 2003).

To sum up, a combination of access to financial services that mitigate income shocks such as savings, credit, and insurance can be a very effective way to buffer a client's business and household from fluctuations in income and necessary expenditures, thus reducing the inclination to put children to work.

3.4. The role of microfinance in improving access to education

There are several ways in which financial market development could make access to education easier.

One approach would be the development of microfinance services to fix malfunctioning credit markets for investments in education. As discussed in Section 2.3, the inability to borrow against a child's future returns to education is thought to be one of the causes for child labour and easing this credit constraint should therefore lead to a reduction in child labour. However, the development and extension of educational loans includes several challenges for conventional microfinance.

First of all, there is the risk of borrowing against the uncertain future returns to education. Without bankable collateral or a credit history, financial institutions will hesitate to take on the risk of extending a long-term loan. Specialised microfinance institutions usually base their operations on the extension of small loans with a short maturity and frequent repayments. After the successful repayment of a first loan, clients are entitled to access a larger, subsequent loan. This approach helps microfinance institutions to build trust in their clients and reduce the cost and risk of default, without having to rely on traditional, bankable collateral. The prospect of receiving a second, larger loan provides clients an incentive for on-time repayment of their loan. This approach enables microfinance institutions to take on the risk of lending to the poor. However, short-term microloans are not suitable for financing education, since returns on investment in children's education only accrue in the long-run, after years of schooling. In addition to a long maturity, loans for investment in education would also require an extended grace period. This approach, though, is contrary to conventional microfinance lending methodologies wherein clients need time to acquire a reputation as a good borrower through frequent and regular repayments of short-term loans.

Microfinance institutions might, however, decide to extend educational loans to parents that are already clients of the institution and have proven their credit worthiness through timely loan repayment. However, this bears two disadvantages. First, it significantly reduces accessibility, since only those children and youth would have access to loans whose parents are experienced clients of a microfinance institution. And second, even if a microfinance institution would be interested in financing education on a long-term basis, it would in most cases find itself unable to do so, because of a scarcity of long-term funding and a resulting maturity mismatch in its balance sheet.

The absence of microfinance institutions that offer long-term educational loans seems to confirm these challenges. While microfinance appears not to be a solution for households to borrow against a child's future income, it may help to meet the cost for education by either offering specific savings possibilities or short-term loans to meet expenditure needs for books, uniforms, transportation costs, etc. that are due at the beginning of each school year. Examples of microfinance institutions offering short-term educational loans are presented in Section 4.

Microfinance might also have a role to play in improving the quality of education and thus in making schooling a more attractive alternative to child labour. This could be particularly the case in countries where public schools do not function (e.g. due to a lack of physical infrastructure or qualified and motivated teachers), and basic education is provided by private schools that may better serve the educational needs of the poor. In fact, there are studies showing that in some areas, more than half of all school children are enrolled in private schools (Tooley 2007). It is beyond the scope of this paper to discuss whether the quality of private schooling is superior to public schooling or not, but in those cases where private schools exist and offer affordable education, microloans for investment into these schools might increase their quality. This in turn should make schooling a more attractive alternative to child labour and encourage parents to send their children to school. An example of a microfinance institution that provides loans to private schools will be presented in Section 4.4.

3.5. Microfinance as an instrument for raising awareness for child labour issues

The previous sections have examined the role microfinance institutions can play in the fight against child labour through the provision of various financial products. However, in addition to financial services, MFIs can also be vehicles for education and sensitization. The most common education approach taken by microfinance institutions is community awareness raising.

MFIs are uniquely positioned organizations. The personnel of a microfinance organization maintain weekly, if not daily contact, with clients. Loan officers recruit new clients, collect loan repayments, and monitor client businesses. In addition, they also advise their clients on financial issues and products. In many instances, institutions have taken this interaction farther to include advising clients on health issues, nutrition, and education. Furthermore, the group-lending methodology utilized by many MFIs lends itself as a space for open discussion among members and the further distribution of knowledge.

Though data is scarce on the use of awareness campaigns by MFIs to combat child labour, the role of awareness campaigns by MFIs to effectively increase awareness on issues such as HIV/AIDS and malaria have proven strongly effective. Cruz *et al*. (2009) show that through Freedom from Hunger's campaign against malaria in Ghana, clients who received the sensitization from trained loan officers in rural banks—as compared to control group clients who did not—significantly increased their knowledge of the disease: its symptoms, transmission agents, as well as complications for children and women of reproductive age. Sensitized clients were also significantly more likely to own an insecticide-treated bed net. "Results indicate that, although significant barriers to malaria control remain, a malaria education programme provided by microfinance institutions can effectively contribute to community and national malaria initiatives," (Cruz *et al*. 2009).

The lack of evidence available on the use of awareness campaigns by MFIs to thwart child labour implies that the approach is rather novel. More research is needed to assess the impact of awareness campaigns on child labour, as well as the impact of sensitization programs combined with financial services geared to prevent or withdraw child labourers.

3.6. The role of microfinance in addressing the demand of child labour

The role of microfinance in addressing the demand of child labour appears to be somewhat limited. As argued before, this may be particularly true in those cases where it is difficult or expensive to flexibly hire external workers, where employees from outside the family are mistrusted or where parents wish to pass on specific skills to their children and not to external labourers.

Yet, microfinance institutions may have a role to play in raising awareness among their clients of the problems caused by child labour (e.g. during group sessions or during visits of the loan officer at the clients' premises). Loan officers who frequently visit their clients' businesses could also serve as a watchdog and thus exert social pressure on those clients that employ children in an unacceptable way. As mentioned above, further testing and research is necessary to fully assess the effectiveness of using microfinance as an instrument to raise awareness on child labour issues.

Microfinance institutions might also be able to provide incentives for not employing children by excluding those clients from their lending that make use of child labour. In fact, many microfinance institutions have already committed themselves not to lend to clients that use child labour.[19] However, it remains open if loan officers are trained well enough to distinguish between child labour and acceptable economic activities of children and if microfinance institutions can monitor their clients sufficiently to ensure that no child labour is used.

4. Targeted microfinance against child labour

The discussion in the previous sections has demonstrated that microfinance can have a positive impact on the reduction of child labour in multiple ways.

In this section we will showcase some examples of microfinance interventions that specifically target child labour affected families or aim at making schooling a more affordable and attractive alternative to child labour. As most of these interventions are on-going, not much evidence exists today as to whether or not these interventions have been effective, sustainable and cost-efficient. However, they can provide inspiration for similar interventions and a testing ground for further research. This section also highlights on-going research by the ILO's Social Finance Programme that aims at further developing microfinance interventions against child labour.

4.1. Microloans for income generation in child labour affected communities: World Vision and FIME's intervention in the Dominican Republic

ILO IPEC, under its programme to support the elimination of the worst forms of child labour in the Dominican Republic, recognized income poverty as one of the main causes of child labour in the project area. Being aware of the potential negative effects of microfinance, it partnered with World Vision and FIME (Fondo de inversion para el desarollo de la microempresa) to set up an integrated programme to prevent and eliminate dangerous child labour in agriculture.

[19] For example, the ProCredit Holding that is major shareholder of numerous microfinance institutions around the world explicitly declared in their Annual Report 2007 that no loans are issued to clients that are suspected to make use of child labour.

One component of this programme is the facilitation of access to financial services for families of working children to help them develop income-generating alternatives, in combination with business development and financial management support. FIME opened a branch in the project area and started to extend loans to a so far, un-served market. The second component of the programme is the sensitization of the community about the negative impacts of child labour, as well as the withdrawal of children from work and the establishment of educational alternatives by World Vision. In the first 18 months of operation, FIME experienced a very high demand for loans among families with former working children. The repayment rate was excellent, above 98%. A potential negative impact of the microloans on the demand of child labour was effectively prevented through close collaboration with World Vision and the community-wide approach.[20]

The integrated approach at the community level, a combination of access to financial services with sensitization of families, active withdrawal of working children, and the establishment of educational alternatives, provided by two different, but collaborating agencies, can be identified as the success factors here.

4.2. Microfinance as a tool for risk management — savings, insurance and emergency loans: Innovative approaches in Colombia and India

The risk-managing potential of microfinance is at least as important as the income-generation one, especially where a functioning social security system is absent. Microfinance institutions are well positioned to offer risk-managing products next to income-generating loans. In addition to providing its clients with valuable services, offering risk-management products also provides benefits for the institution itself. By helping its clients to protect themselves against risks, microfinance institutions lower their own risk of loan defaults due to unforeseen and unprotected income and expenditure shocks among their customers. They also may gain a reliable and cheap source of funding through savings collected in the clients' accounts.

4.2.1. Life insurance from Women's World Foundation and La Equidad in Colombia

One example of an insurance product that reduces the vulnerability of families towards income shocks and that specifically addresses the costs of schooling is the life insurance product of Women's World Foundation (WWF) in Colombia. The microfinance institution WWF in Colombia partners with La Equidad Insurance to offer a combined credit life and life insurance to its customers.[21] The credit life insurance, on the one hand, insures WWF against the risk of a borrower's death or permanent disability. Additionally, Amparar, the life insurance product,

[20] Information based on IPEC project documentation and personal interview with Lucilla Polanco and Roman Morillo, Project Coordinators of FIME, Santo Domingo, 13.11.2007

[21] See Almeyda & de Paula Jaramillo 2005 for a detailed case study on La Equidad Seguros, Colombia.

offers its borrowers the possibility to insure their families against the risk of permanent income shortfall due to death or disability of the income earner. Amparar offers several insurance plans that correspond to the needs and financial capacity of the insured. Besides the payment of a lump sum premium in the case of death or permanent disability, the product also provides financial support to assist beneficiaries to pay for groceries, utilities, and the funeral. The smallest plan costs US$ 1 per month. The benefits of this plan include a lump sum payment of around US$ 1,200 plus an allowance for groceries and utilities for 12 months after the event of death or permanent disability. For US $2 per month, the benefits additionally include a monthly payment for children's school fees for 24 months. This coverage, therefore, prevents children's withdrawal from school due to the inability to pay for school fees or the necessity to earn money to cover the daily family needs, in the event that the main income earner dies. For convenience, insurance premiums are collected with a loan repayment, which limits transaction costs. In the case of claims, clients receive a cheque from WWF and settlement is done between WWF and the insurance company La Equidad.

After 18 months of operation, 25% of WWFs over 40,000 clients had purchased Amparar and WWF had settled seven claims. Clients value the insurance product for its benefits, providing bereaved households not only with a lump sum payment but also assisting with groceries, utilities, and education expenses, as well as for its convenient premium collection mechanism with premium amounts being adapted to the clients' payment capacities.

4.2.2. Emergency loans and family needs loan by Ujjivan, India

As argued before, loans to cover urgent consumption needs might be equally or even more important for poor households than loans for investment. Ujjivan[22], a Non-Bank Finance Company in India, offers two interesting loan products that aid clients in better managing their risks: emergency loans and family needs loans.

Emergency loans were introduced to help clients cover unforeseen expenses like medical bills or a death in the family. The loans are accessible for existing clients within 24 hours of request, often less. Ujjivan introduced emergency loans when it realized that its clients still resorted to the always-available moneylenders in times of urgent need. Through emergency loans, Ujjivan is able to offer its clients a cheaper alternative to manage risks. Additionally, by assisting clients in smoothing income and consumption, Ujjivan also decreases its own risk of loan default.

The family needs loan is a consumption loan that intends to help clients to cover a range of basic needs, including children's school expenses, medical care, house repairs, consumer durables as well as social and religious obligations. By offering a special consumption loan, Ujjivan avoids that clients use their income-generating loans to pay for health or school-related needs. Also, it allows the microfinance institution to reach new groups of potential customers that might not need an income-generating loan.

[22] http://www.ujjivan.com

From the consumer's point of view, both types of consumption loans help to smooth their cash flows, without having to resort to loans from moneylenders, friends, and family or by taking their children out of school and putting them to work.

4.3. Meeting the cost of education: educational loans in India and saving accounts in Kenya

High costs of education, as discussed above, may force poor families to send their children to work instead of to school. School fees, payment for uniforms and other school related costs are usually due at the beginning of the school year. Without prior savings, this lump sum payment can easily exceed the payment capacity of a poor household at the required point of time. Therefore, several microfinance institutions have developed special loan and savings products for educational purposes. The following paragraphs showcase two Indian microfinance institutions that offer education loans and a Kenyan institution that offers special savings accounts for education.

4.3.1. Education Loans from Ujjivan and Mahasemam Trust, India

Ujjivan, for example, in addition to its emergency and family needs loan, offers education loans to its existing customers. Education loans are intended to help clients finance their children's school-related expenses such as school fees, uniforms, textbooks and other fees. Education loans are repayable in 12 monthly or 48 weekly instalments, depending on the cash flow of the borrower. The interest charged on this product is 1.25% flat per month, which is slightly higher than for income-generating loans of Ujjivan.

Mahasemam Trust, a non-bank financial institution in India, offers its active clients a specially designed loan to enable them to cover the lump sum expenses for their children's education at the beginning of each school year. In line with this purpose, the loan has a one-year term and is repaid in weekly instalments. According to Mahasemam Trust, its educational loan experienced a very high demand in its first year of existence, with 90% of clients applying for it. According to clients, this loan helps to effectively solve the cash management problem that families face at the beginning of each school year. In previous years they would resort to money lenders that offer loans at an interest rate of 120% per year (Botero 2006). As part of its non-financial services, Mahasemam Trust furthermore gives scholarships to encourage its members to invest in the education of their children. The Trust extends these scholarships to the children of their members, on the basis of successful secondary and higher secondary examinations.

4.3.2. Saving accounts for educational expenses from Jamii Bora Trust, Kenya

Jamii Bora Trust,[23] the largest microfinance NGO in Kenya, not only offers loans that can be used to cover school fees, but also a special children's education savings account. This savings product intends to support families in their effort to save for their children's education. Funds in the savings account cannot be withdrawn until they mature, which helps people to sustain a savings discipline in order to meet their savings target.

The savings account thus fulfils the same aim as a school fees loan; it helps families to finance the recurrent lump sum expenses related to schooling. Instead of receiving a loan that has to be paid backed in small amounts later on, a special savings product encourages people to regularly save small amounts in order to build up the necessary amount for foreseen expenses before they are due. Saving, instead of borrowing, has the advantage of being cheaper, as families do not have to pay interest, and it avoids putting families into debt. Since voluntary saving in advance of an expense often requires a higher degree of self-discipline than the repayment of a loan, contractual savings accounts that are designed to accumulate the desired amount within the available time and capacity of a client, can be a useful measure to save for investments in education.

4.4. Microfinance to improve the quality of education: loans to schools in Ghana

Realizing the potential of private schools to contribute to a better quality educational system for the poor and in order to provide incentives for choosing school over child labour, Opportunity International launched the programme 'Microschools for Opportunity'. Under this programme, Opportunity International provides loans to owners of schools (edupreneurs) in order to invest in their schools and improve their quality.

Sinapi Aba Trust (SAT) in Ghana, implementing partner of Opportunity International, has set up the micro-schools project with the aim of extending financial services to owners of primary, secondary, tertiary or vocational schools. The main goals are to increase enrolment, improve the quality of education and increase the sustainability of the schools.

The main features of the project are the following: Micro-school loans are targeted at school proprietors with a minimum of two year's experience and a school in an authorized area, with proven need for financial assistance. Loans can be given for working capital or asset acquisition needs, always with the aim of improving the quality of the schools. For asset acquisition loans, including infrastructure projects, transportation, land acquisition or hostel renovation, the loan has a maximum term of two years. Working capital loans have a shorter maturity, between four and six months. The repayment has to be made in monthly instalments, following the individual

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23 http://www.jamiibora.org/

loan methodology of SAT. Therefore, school proprietors have to have a regular monthly cash flow, without income shortfalls during school holidays. However, most school proprietors organize special classes during breaks, run their school buses for commercial purposes or have other secondary jobs. Therefore, SAT estimates that school proprietors will not have a problem in repaying their loans even during school breaks.[24]

At the time of writing, the project was in the implementation phase and was just about to disburse its first loans. Therefore, nothing can be said regarding the demand for or impact of microschool loans yet.

4.5. Microfinance in combination with awareness raising, educational alternatives and incentives: Case studies from Pakistan, Morocco, Egypt and the Dominican Republic

In many countries and cultures, child labour is considered as normal or even beneficial for the child. It is thought to prepare children for their adult life. If child labour exists and persists because of cultural norms, neither income increases, nor improved access and quality of education can prevent or eliminate it alone. Several microfinance institutions have introduced awareness rising into their lending operations and provide incentives for not using child labour. Four examples of this type of intervention are discussed in the following paragraphs.

4.5.1. The experience of NRSP and Bunyad in Pakistan

In Pakistan, ILO-IPEC initiated a comprehensive programme to eliminate the worst forms of child labour in six hazardous sectors.[25] The project's strategies included parent-targeted awareness raising, free non-formal education, and health screenings to withdraw, prevent and rehabilitate child labourers in combination with microfinance. The ILO's Social Finance Programme oriented the project partners on how microfinance products could be designed or appropriated to make these sensitive to the needs of families with child labourers.

Two project partners, National Rural Support Programme (NRSP) and the NGO Bunyad, agreed to roll out their on-going microcredit programmes in the project areas to families with children in hazardous work. The objective was to remove a family's reliance on the income generated by their children. ILO-IPEC provided the institutions with project staff and resources for social mobilization to cover their additional costs.

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[24] Information based on personal email correspondence with Abigail Acquah, the coordinator for the microschools project at Sinapi Aba Trust, July 2009.

[25] ILO-IPEC's Project of Support to the National Time-bound Programme on Worst Forms of Child Labour in Pakistan targeted six hazardous industries, namely Glass Bangles, Surgical Instruments Manufacturing, Deep Sea Fishing, Coal-mining, Leather Tanning, and Rag-picking (2003-2008).

NRSP targeted families of children working in the Glass Bangle Industry in Hyderabad, Sindh province. In the course of the ILO-IPEC project it disbursed a total of 1553 loans to families with working children. Prior to disbursement, NRSP oriented families on savings and investment and after the disbursement it encouraged them to continue their savings routine. Since NRSP is not entitled to collect savings, families were saving at home. Most of the loan recipients were owners of small businesses, who used the loan to expand their activity. Coupled with awareness raising and informal education programmes, families were convinced to stop sending their children to hazardous work.

The NGO Bunyad focused on families with children working in the informal supply chain of the surgical instrument manufacturing industry in Sialkot, Punjab Province. It adopted a two-fold approach targeting the demand and supply sides of child labour by providing loans to both employers and families of child labourers. It disbursed a total of 193 microloans to surgical vendors and families. Recipients of loans were given an orientation on the negative effects of child labour, with the result being that the beneficiary vendors discontinued employing children below the age of 14, and beneficiary families stopped sending their children to hazardous work. Instead, children were enrolled in non-formal education programmes. Older children did continue to work, though in non-hazardous work.

In both districts, access to microloans served as an incentive mechanism for convincing families to withdraw children from hazardous work. Coupled with extensive social mobilization, awareness raising and health screening—that helped to convince families of the disadvantages of child labour—it proved to be a successful approach. Furthermore, non-formal education programmes provided a valuable alternative for former child labourers.

The challenge of this approach is its cost and time intensiveness. To be effective, it requires the cooperation and coordination of various actors. Also, from a microfinance point of view, the exclusive targeting of a small group of families in a specific area limits institutional sustainability and scope.

In Pakistan, however, both NRSP and Bunyab continued serving the target group after the end of the ILO-IPEC project and the loan recovery rate continued to be above 95%.[26]

4.5.2. Sensitisation among microfinance clients: Al Amana's programme against child labour in Morocco

Al Amana,[27] the largest microfinance institution in Morocco, regularly conducts impact assessments to evaluate the programme's impact on the poor. In 2004, the evaluation of client data unexpectedly showed that Al Amana's lending activities increased child labour in client enterprises. According to this survey, repeat borrowers were using more child labour than first time borrowers. While only 10% of new clients were employing children, the proportion was 20%

[26] Information based on personal correspondence with Muhammad Saifullah Chaudhry, Senior Programme Officer, ILO Pakistan, May, 2009.

[27] http://www.alamana.org/

among veteran clients. Moreover, the difference was especially significant in the employment of one's own children: 11% of repeat borrowers employed their own children while only 4% of programme entrants did (Al Amana 2006).

As a consequence, Al Amana decided to conduct an in-depth study to find out what was happening on the ground and to subsequently develop a programme to prevent the use of child labour among its clients. This marked the birth of the programme "Lutte contre le travail des enfants auprès des bénéficiaires d'Al Amana".

The objective of this programme was to reduce and prevent the employment of children among clients. To achieve this aim, Al Amana developed communication and sensitization materials and integrated the fight against child labour into various stages of its operations. Loan officers were trained to inform and sensitize clients about the negative impacts of child labour. Also, before accessing a new loan, clients had to go through a training that included a session to sensitize and encourage clients to prevent and eliminate child labour. The first impact assessment is currently under way.[28]

4.5.3. Raising awareness and providing incentives: EACID's activities against child labour among its clients in Egypt

The Egyptian Association for Community Initiatives and Development (EACID), one of the largest non-bank financial institutions in Egypt, is implementing a project to improve working conditions and learning opportunities of working children (Hossein, Redfern & Carothers 2006). This initiative started after EACID realized that over 50% of its microfinance clients were employing children in their businesses. With technical support from Partners in Technology Change (PTE) and Mennonite Economic Development Associates (MEDA), the project 'Promoting and Protecting the Interests of Children who Work' (PPIC Work) was developed. Under this project, EACID is providing financial services to business owners who employ children with the aim of improving the working conditions and learning opportunities for the children and youth. One requirement for accessing a loan under this programme is the demonstrated interest of the business owner to improve the working conditions and learning opportunities of the children that he/she employs. Also, the loan has to be used to improve the technology and working environment in the enterprise, as well as reduce hazardous conditions. EACID thus uses financial services as an incentive mechanism and takes advantage of the positive relationship among the financial institution, loan officers and business owners to improve the lives of children and youth who work in microenterprises.

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[28] Information based on a presentation and personal discussion with Fouad Abdelmoumni, Founder and Director of Al Amana, Turin, 3.12.2007 and email correspondence with Bouchra Moutanabi, June, 2009.

4.5.4. Mainstreaming the fight against child labour into lending operations: Awareness raising and incentives by Banco Agricola in the Dominican Republic

The engagement of the agricultural bank Banco Agricola in the Dominican Republic also offers some interesting insights into the potential influence of financial institutions in combating child labour. Banco Agrícola is a state-owned development bank with the mission to support agricultural producers in the country. Forming part of the national committee on the elimination of child labour, the agricultural bank assumes the role of a financing, executing and facilitating agency in the fight against the worst forms of child labour in the Dominican Republic. Child labour in agriculture is one of the most dangerous forms of child labour, exposing children to numerous risks including pesticides, dangerous instruments, long hours of work, and exposure to extreme temperatures. Through its lending activities, the agricultural bank has direct linkages to a large group of agricultural producers in the country. It is present in every province and, due to the scarcity of access to agricultural loans, possesses a powerful economic instrument.

Recognizing this potential, Banco Agricola, with the support of ILO-IPEC, is planning to mainstream the elimination of child labour into its retail lending activities by integrating clauses against the use of child labour in its loan contracts. Furthermore, it is planning to train loan officers to disseminate messages about the negative effects of child labour and to monitor the absence of child labour in the businesses it finances. Besides these sensitization and awareness raising activities, the bank may also decide to condition access to its loans on the absence of child labour in agricultural production.[29]

4.6. Microfinance and the ILO's Decent Work Agenda: current action-research in the field of microfinance and child labour

The ILO's Social Finance Programme (SFP) is currently investigating the impact of innovations designed by microfinance institutions against child labour—as part of a larger, global action-research programme. The partner MFIs test the impact of different modifications in the delivery of microfinance and document changes over time, costs, and benefits via a randomized control trial methodology through a series of three to five panel data collections until the end of 2011. The three MFIs vary in their approaches and innovations designed to tackle the issue of child labour among clients. The innovations and institutions are reviewed below.

NRSP, an MFI previously mentioned and working in Pakistan, will address child labour indirectly through the provision of microinsurance (health & death) to additional members of a client's

[29] Information based on personal interview with Carlos Feliz, Project Officer of IPEC and Dr. Teófilo Lapport Robles, Legal Advisor of Banco Agricola, Santo Domingo, 16.11.2007.

household between the ages of 18 and 65. NRSP has been offering microinsurance to its clients for the last six years; however, access was restricted to the client, spouse, and their children. Now, realizing that the average household size of NRSP clients is between 6 and 10, NRSP will offer the same product to the extended family of the household as well. In addition, NRSP will follow the household's overall socio-economic well-being through the Pakistan Poverty Scorecard. NRSP hopes that extending the coverage to additional uninsured household members (i.e. aunts, uncles, grandparents, older siblings, etc.) will cushion health-related income shocks and that consequently, children will not have to replace those adults without access to healthcare by leaving school and beginning work prematurely. NRSP will track changes at the household level, particularly child work/school status, health of household members, and fluctuations in poverty levels. NRSP hopes to see an increase in insured household members, a decrease in the number of at-risk children (those who may be withdrawn from school to begin working prematurely), as well a general trend towards decreasing income poverty levels in the sample.

Lift above Poverty Organization, (**LAPO**), an MFI in Nigeria, will address child labour through a combination of tools under its "School Support Initiative" including: a locally-developed awareness campaign on child labour/child schooling; a new loan product with softer, more flexible terms for school-associated costs; and where applicable, a blend of the two. The loan is accessible to veteran LAPO clients with the permission of their solidarity group members and loan officer. The loan size is based on the amount of school fees plus transportation costs, and the repayment schedule is flexible and adjustable, with weekly or monthly payments. LAPO will track changes at the client/household level—particularly client portfolio, exposure to awareness campaign, and child schooling/working status—in order to follow the impact of the innovation over time. LAPO hopes to see an increase in the number of children enrolled in school among clients, a decrease in the initial population of child labourers, and a heightened awareness of the adverse effects of child labour in comparison to the control group.

Finally, **Nyésigiso,** an MFI in Mali, is utilizing a combination of approaches to maximize its potential as a financial institution to decrease the number of rural child labourers employed by its clients. Nyésigiso believes the reasons for the high incidence of child labour in agriculture are poverty, low productivity, poor financial skills and the idea of socializing children through work. In order to reduce child labour and increase schooling, Nyésigiso will train its clients on three specific topics: how to improve working conditions and productivity (using the ILO training programme on safety, health and working conditions in agriculture, the so-called WIND methodology), financial education, and best practice measures for reducing hazardous work for children in agriculture. In addition, Nyésigiso will raise awareness among clients through posters and flyers in the target branch. Also, throughout the action research, loan officers will collect information on their client's employment of children through an identification form in order to build a database on the specific nature of clients who employ children and design an appropriate financial product to meet their specific needs. Nyésigiso, through its innovation, expects to see a reduction in the number of working hours for children, a shift to less hazardous activities, and an increase in schooling and school attendance.

The action research began in late 2008 with a diagnostic tool to identify decent work deficits among the clients of 25 participating microfinance institutions around the world. This has been followed by the design of innovations, as the ones in the area of child labour explained above. The next step is the implementation of the innovations, initiated after a baseline survey and accompanied by regular panel data collections. The collected data will undergo econometric analysis with a view to track changes at the client level, as well as to analyse costs and benefits for the institution. NRSP and LAPO began implementation of their innovations in the last quarter of 2009, and Nyésigiso in May 2010.

Pending the findings of the action research, institutions will decide how best to continue and expand the innovation. Innovations with unsatisfactory results will be discontinued or modified to better fit the programme and desired results based on continuous feedback. SFP hopes that more institutions will take notice of the innovations and consider implementing them alongside current financial and social services if the results of the overall impact assessment are proven to be satisfactory, cost-effective, replicable, and scalable.

5. Summary, Conclusions and Recommendations

This paper aimed to analyse the potential impact of microfinance on the reduction, elimination and prevention of child labour. By first reviewing many of the determinants of child labour—income poverty and access to basic services; vulnerability; access, costs and quality of education; socio-cultural norms; and child-specific labour demand, the paper then discussed the potential impact of microfinance to support the fight against child labour, depending on the root cause.

In the case of reducing income poverty, microloans may be effective; however, the empirical evidence on the income-generating effect of microcredit remains inconsistent. Microloans may even have a negative impact on the household economy if, for example, they increase the total labour demand of a family enterprise and thus increase the children's workload. Inefficient labour markets, agency problems and a lack of awareness surrounding the negative consequences of child labour further increase a parent's likelihood of employing their own children—instead of external labourers in the case of increased labour demand. Microfinance appears most effective in providing tools—savings, insurance and emergency loans—to reduce the vulnerability of the poor and better their risk management strategies.

This paper has also shown how microfinance institutions and products could play a role in financing the costs of education, improving the quality of schooling and raising awareness on the negative effects of child labour in cultures where child labour is considered normal or even beneficial to the child.

There are, however, important limitations on the role of microfinance in reducing and eliminating child labour. First, loans will only have a limited income-generating effect if recipients lack the business skills necessary to grow their microenterprise. Especially for the poorest of the poor, grants or conditional cash transfers might be more appropriate than loans.[30] Second, microfinance does not appear to be an appropriate instrument for providing long-term credit to finance education. Third, while microfinance institutions may offer a unique opportunity for sensitization of vulnerable clients, not all provide non-financial services (such as sensitization of clients) and, if it does not belong to their core business, they may be limited in their capacity or interest to do so. And finally, as the examples in Section 4 illustrate, microfinance is not a one-size-fits-all approach, but rather one that needs to be adapted to specific circumstances and included side-by-side with complimentary interventions in order to be effective.

Therefore, the evidence presented herein leads to the conclusion that **microfinance can have a positive impact on child labour, but does not automatically do so**. Child labour has many different and interlinked causes, the combination of which could determine whether or not microfinance can be an effective tool. It is necessary, therefore, to carefully assess the whole set of child labour causes in a specific case, before a microfinance intervention is designed, implemented and possibly mainstreamed. It is equally important that the definition of microfinance is not limited to loans, as is often the case; managing risk through savings, insurance or emergency loans can often be more important in reducing child labour than a microloan that is intended solely for income generation.

Secondly, microfinance is not a standalone solution, but rather a supporting instrument in the elimination of child labour. As the examples in Section 4 demonstrate, the impact of microfinance on child labour appears to be particularly high if it is supported by awareness raising, community assistance, education and other tools. Policy interventions such as improving the quality of education or providing grants to help poor people with working children may be equally or even more effective in the fight against child labour.

Third, in order to be a viable tool, microfinance needs to be sustainable. The poor need long-term access to financial services in order to generate long-lasting impacts on their lives. Therefore, when designing microfinance interventions that support the fight against child labour (i.e. choosing a microfinance institution to partner with), it remains crucial to make use of best practices in microfinance.[31] Further research on a “business case” model for microfinance-led child labour interventions may provide evidence that a sustainable, business alternative exists for microfinance institutions wishing to mainstream child labour initiatives.

Fourth, despite the numerous examples of microfinance institutions using innovative approaches to address the causes of child labour and the seemingly positive results, knowledge

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30 For more information on how small grants and microfinance can interact see Hashemi & Rosenberg 2006.

31 See www.cgap.org for information on best practices in microfinance. For guidelines on how to integrate microfinance in child labour programmes see Churchill & van Doorn “Technical Guidelines: Microfinance against Child Labour”, downloadable at www.ilo.org/socialfinance.

on the effects of microfinance on child labour is still scarce. Further research remains a necessity; thorough evaluations of existing experiences aimed at understanding their impact and contribution to the reduction and prevention of child labour are crucial. Future research should focus on understanding the underlying conditions wherein microfinance is an appropriate tool in the fight against child labour, how financial products should be designed with child labour in mind, which additional elements (other financial tools, capacity building, and linkages to other organizations) need to be in place, and how the negative impacts of microfinance on child labour can be avoided.

The “Microfinance for Decent Work” action research programme currently being implemented by the ILO’s Social Finance Program, is expected to contribute decisively to this aim. The study uses a randomized control trial methodology to track the impact of microfinance innovations on selected decent work issues, including child labour. Outputs from this research will further shed light on the benefits of child labour innovations for microfinance institutions, as well as their client’s households, and thus provide key insight on innovative changes to be scaled up and disseminated.

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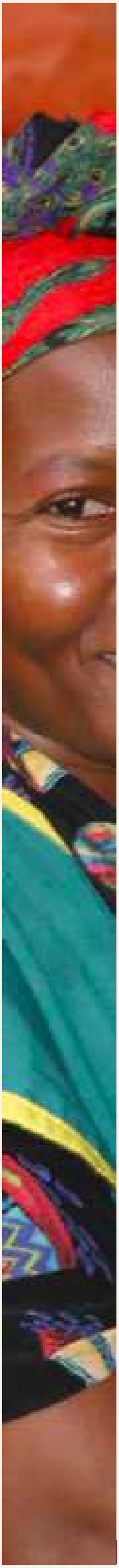

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