

CHILD LABOUR AND THE GLOBAL CRISIS: an issues paper¹

Objectives of the working paper²

While the recent years had seen sustained progress in eliminating child labour, the paper demonstrates that the economic crisis could reverse the positive trends in certain countries or regions where the phenomenon of child labour had been resistant to policy and programmes. The paper attempts to identify channels through which the crisis is likely to affect child labour and schooling, focusing in five main areas that are inter-related: reduction of living standards; access to credit markets; migration and remittance flows; public transfers and international aid flows; and increased informalisation of developing economies.

Reduction in living standards

Evidence from previous economic and financial crises indicates a link between economic downturns and rising income poverty. The reduction in living standards due to a decline in economic growth can have two different effects on children's schooling and work status. On the one hand, a decrease in household income might force households to send their children to work and/or take them out of school. On the other hand, worse labour market conditions (lower wages or returns to the family or fewer employment opportunities) might lead to a decrease in returns from work and induce households to keep children in school. Whether the first or the second occurs depends on the following factors: i) ability of the household to cope with shocks; ii) characteristics of production; and iii) public policies put in place to address the crisis.

Impact on schooling

While evidence from countries such as Indonesia, Costa Rica and Mexico demonstrate that during periods of economic down-turn the percentage of children *not* enrolled in school or school drop-out rates went up, additional evidence from other Latin American countries such as Nicaragua saw progress in primary enrollment rates and a slight decline in child labour. In this case, social safety net programmes played an important role in protecting households and in investing in children's human capital. It is important to note that the consequences of the crisis will vary from one country to another and that it is dependent on the social policies in place.

Impact on children's work

Empirical evidence indicates that households in low income countries, with little access to credit markets are more likely to reduce children's full time school attendance and send them back to work when hit by economic shocks, using child labour as a form of risk coping mechanism. Empirical results from Guatemala show that households reduce children's full time school attendance and increase their work. Evidence from Tanzania also shows that households respond to transitory shocks by increasing child labour. In the case of Venezuela,

Understanding Children's Work (UCW) - As part of broader efforts towards durable solutions to child labour, ILO, UNICEF, and the World Bank initiated the interagency UCW program in December 2000. The program is guided by the Oslo Agenda for Action, which laid out the priorities for the international community in the fight against child labour. Through a variety of data collection, research, and assessment activities, the UCW program is broadly directed toward improving understanding of child labour, its causes and effects, how it can be measured, and effective policies for addressing it. For further information, see the project website at www.ucw-project.org.

the number of children who worked increased by almost five percentage points from 2000 to 2003. This increase was driven mainly by the growth of children combining work and school (accompanied by a decrease of the percentage of children only attending school), leaving overall enrollment rates unaffected. However, even where the crisis has led to an initial increase of working students such as in the case of Venezuela, the strain of work and poor school performance could lead to school drop-out.

Credit Flows and Access to credit

By alleviating budget constraints, access to credit is essential to allow poor household to invest in children's education and to reduce their involvement in work. Since credit-rationed households tend to show higher levels of child labour, interventions that favour access to credit and financial markets alleviating budget constraints can have an important impact on protecting children from labour and preventing school drop-out. Micro-finance institutions (MFIs) have an important role in extending this access.

Households with easy access to credit are less likely to use children's labour as an instrument to cope with negative income shocks. Evidence shows that credit market development has an impact on child labour. Research from Guatemala indicates that credit rationing is relevant in determining the household's decision to invest in children's human capital and that children from "credit-rationed households" are more likely to be involved in working activities or to be "inactive". A credit crunch also reduces the availability of credit from the formal institutions. In this case, MFIs are considered important tools to progressively eliminate child labour in poor households through improving opportunities for income generation and assisting vulnerable households in coping with risk. However, the difficulty of accessing credit markets and MFIs might generate additional risks such as indebtedness by accepting small but accumulative loans or wage advances from usurers or employers. In cases of debt bondage, the entire family can be bonded and children obliged to work for little or no remuneration alongside their parents.

Migration and remittances

Remittances can promote schooling investments and increase child reservation wages, reducing children's labour force participation. The global crisis on migration impacts on child labour in two ways: reduction of remittances from international migrants and the return of migrants to their areas of origins (mostly rural). In the first case, resource constraints and imperfect capital markets reduces households' investments in children's capital (schooling for example). In the second case, as the crisis affects migration flows, many migrants are expected to return to their area of origin, to be involved in family based enterprises, especially in agriculture where child labour is often more prevalent.

Changes in public budgets and international aid flows

A macro-economic down-turn leads to falling tax revenues and usually puts pressure on governments to cut public spending. During periods of fiscal contraction, social and/or education expenditure typically suffer the most. Developing countries are heavily dependent on aid flows. Donor countries confronting economic recession and rising fiscal strain are expected to face difficulties to maintain their foreign aid commitments. The result of strain put on recipient countries' education and social expenditures may indirectly lead to a

decrease in households' incentives to send children to school and an increase in children's labour force participation.

Informalisation of the economy

Informal activities are likely to increase as a result of economic turmoil in low and some middle-income countries, particularly as they can act as a buffer when people are laid off in the formal sector and need to find new job opportunities. The current crisis is expected to lead to an increase in the number of people joining the ranks of those in vulnerable employment. Data shows that child labour is prevalent mainly in the informal sector, as the technology level is often such that children can be easily utilized as unskilled labourers. Greater opportunity to find employment in the informal sector in times of economic hardship might push many children out of school and into the labour market.

Policy implications

Child labour is a complex phenomenon that cuts across policy boundaries, and cannot be seen in isolation from the other facets of human capital, namely education and health, to which it is closely linked by a set of common key causes. Progress against child labour therefore requires a policy response that is cross-sectoral in nature. It is worth highlighting that the optimal policy mix will also depend on the particular conditions and characteristics of child labour (and its worst forms) and the relative resilience of the economy to shocks will determine the optimal policy mix in a specific country.

Investment in human capital development

Investment in human capital development (education, health and elimination of child labour) should be at the core of the agenda when addressing the economic crisis and protecting progress made thus far. The crisis provides an opportunity to reshape poverty-reduction programmes and to develop effective social floors through increased investment in the areas specified. Sustainable solutions to the crisis should include counter-cyclical investments maintaining aid commitments, promoting special measures to help the poorest and increasing efficiency and transparency in economy. Moreover:

- Ensure the promotion of labour-intensive schemes that are also tightly monitored for the potential use of child labour. Intensive public works programmes are also considered an effective strategy to put employment and social concerns at the centre of investment policies in response the economic crisis, as they rely on labour-based technology and can generate long-term benefits and skills;
- Promote the expansion of the role of the private sector in improving human capital investments;
- Undertake prevention measures that are effective in order to achieve sustainable reductions in children's work, including efforts to stem the flow of school-aged children into work by improving quality of school and increasing access to schooling, including by reducing costs;
- Undertake direct interventions for the removal, recovery and reintegration of children in child labour, including allocation of resources for inspection

and child labour and school attendance monitoring to establish an early warning system; and for remedial education efforts and for prevention of return to work.

Social protection

In countries where social protection systems are already in place, in times of economic downturn they should be strengthened to protect households that are likely to be hit the hardest by the crisis. However, in many developing countries public safety nets tend to be weak or non-existent, such as in low-income countries. In this case, the crisis should be an opportunity to transform inefficient subsidies in favour of more effective safety net programmes. Social protection instruments available during a crisis should include cash transfer, public works programmes, unemployment assistance, wage and commodity price subsidies, targeted human development or cash transfer programmes conditioned on school performance or health visits, service fee waivers, food and nutrition programmes, micro-finance and social fund programmes. These policies should be integrated, incentive-based and sustainable social security programmes. Conditional cash transfer schemes are being advocated as important to human capital investment and to child labour elimination, by alleviating poverty as well as reducing the likelihood or extent of future poverty.

Access to credit

Interventions that favour household's access to credit and financial markets and relax the budget constraints can have an important impact in protecting children living in vulnerable households from child labor and/or early school dropout.

International institutions, for example, could help to guarantee securities that finance loans to poor households for investments in education. Such loans, if coupled with the right incentive system, are able to come with low default rates and therefore would not require high risk.

Microfinance institution can play a crucial role in expanding access to credit. However, the global economic and financial crisis might inhibit the microfinance sector's development. How MFIs are affected will depend on factors such as the structure of an institution's liabilities, its financial state, and the economic health of its clients. Effectively managing and mitigating existing risks (management quality and staffing, governance, technological expertise, and ability to effectively manage growth) while maintaining a commitment to their original mission (financial inclusion for the poor) will be instrumental to expanding the industry, even in the event of a severe economic downturn

¹UCW, Child labour and the global financial crisis: an issues paper, Rome, 2009 (available at [website at www.ucw-project.org](http://www.ucw-project.org).)

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