

Unintended Effects of Microfinance: An Increase in Child Labour in Some Contexts?

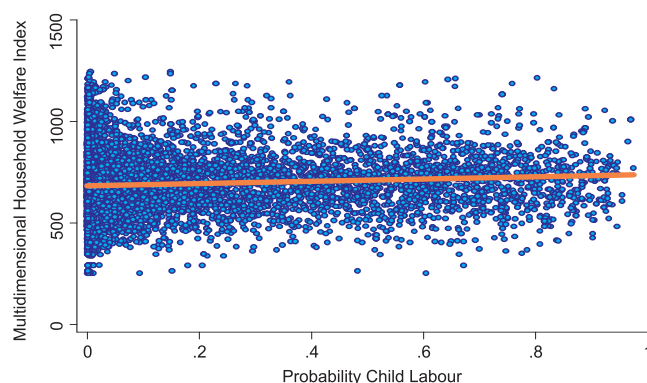
by Christian Lehmann, Paris School of Economics and Guilherme Hirata, International Policy Centre for Inclusive Growth

An increasing number of policies in developing countries seek to empower women through female entrepreneurship. Many microfinance institutions (MFIs), for example, lend exclusively to women. Loans are usually combined with capacity building workshops on entrepreneurial activities such as the production of handicrafts, clothes or food to be sold in local markets. While there is evidence that these strategies have been successful in empowering women (Panjaitan-Drioadisuryo and Cloud, 1999), less is known about how such an increase in mothers' non-domestic labour affects the working hours of their children. In the few available studies, the results are ambiguous: see, for example, Hazarika et al. (2007) and Dehejia and Gatti (2002). Drawing on a study of Mexico (Lehman, 2010), this One Pager points out that policies which encourage the small business activities of women may lead to an increase in child labour. It hypothesises that the provision of family and/or social support infrastructure (full-day schools and childcare facilities), and/or policies that encourage investment in the children's future, may help mitigate these unintended impacts.

Most child labor is associated with family work: see, for example, Basu and Tzannatos (2003). Households affected by poverty often rely on their children's contribution in order to attain a subsistence level of household income. This suggests that an increase in household income, and thus a reduction in the level of household poverty, would probably lead to a decline in the incidence of child labour. Nevertheless, it seems that reducing the level of household poverty is a necessary but not a sufficient condition for reducing child labour, since other factors, such as parental preferences, determine children's working status. The figure illustrates this fact: an analysis of data for rural areas in Mexico reveals that children from "better-off" households have, on average, the same chance of working as those from poorer households. Moreover, the probability of a child working increases by 43 per cent if the mother works, independently of the level of household poverty.

Why do we observe a strong relationship between maternal and child labour? It should be noted that, among other factors, a lack of childcare institutions (adequate schools and so on) often obliges mothers to take their children to work with them. Without monitoring by either their mother or an institution, children may be exposed to a number of risks, such as playing in dangerous sites (streets, dumps and so forth) or getting involved with "the wrong type of people or activities" (in extreme cases such activities include drug trafficking, as happens in many Brazilian shanties). Because of the lack of adequate institutions, the only feasible monitoring option for a mother is to bring the child to work.

Multidimensional Household Welfare X Probability Child Labour



Hence policies that encourage women's entrepreneurial activity, and that by extension increase female labour supply, may have the unintended negative externality of increasing child labour as well.

Such unintended negative side effects may be a consequence of segregated social policies. The above example shows that programmes encouraging female entrepreneurship may need an integrated policy framework, one that addresses all household members as well as the community, in order to avert an increase in child labour. In the present case, for example, the combination of female entrepreneurship policies with conditional cash transfer (CCT) programmes seems to be a promising, integrated strategy. This is because such programmes often require children's regular attendance at school as a condition for receipt of the grant. That in turn exerts supply-side pressure for the building of new schools or for improving the capacity of existing schools in the community (Perez Ribas et al., 2008).

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