Crossfire: 'MFIs are a good mechanism to address issues of children's work (child labour) and contribute positively to the well-being of children'

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In our regular debate between experts, Crossfire invites Richard Carothers and Richard Rinehart to debate the following with Eric Edmonds: 'MFIs are a good mechanism to address issues of children's work (child labour) and contribute positively to the well-being of children'.

Sometimes MFI activity can draw children into work

Dear Eric,

MFIs (microfinance institutions) have a social responsibility to contribute positively to the well-being of children who are working in their clients' enterprises and to do this routinely by design rather than as an afterthought when individual cases come to light. They are also in a good position to help prevent hazardous work situations for children because of their far reach into the small workshops where children frequently work.

Finding children working in MFI client businesses is not uncommon. A study on the 'Impacts of Microfinance Initiatives on Children' funded by the Canadian International Development Agency and carried out with large MFIs in Bolivia, Egypt, India and Tanzania found children ranging in age from 6 to 17 years working in client businesses. The study also suggested that in some situations MFI activity can draw children into work. As credit became available and production in client businesses started to increase, children often provided the additional labour that allowed the businesses to grow and repay loans. By employing children the business owners were able to keep costs low.

MFIs need to recognize that children will in many cases be active in the workforces of their client businesses and while this may create concern on the part of MFIs who do not want to be accused of inadvertently

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MFIs should not immediately try to ban children from all work

Where bans have been imposed, children have sometimes ended up in more dangerous or illegal forms of work

MFIs may work with their clients to finance health and safety improvements

promoting child labour, it is important that MFIs do not immediately try to ban children from all work. Many children need to work to support themselves and their families and in fact many of the MFI clients that were part of the study mentioned above pointed out that the increased revenues they were generating from their expanding family businesses were being used to support their children's education. In some cases where children have been banned from work with the hope that they would be able to return to school, children have instead ended up in more dangerous or illegal forms of work as was the case in Sialkot, Pakistan, when international pressure forced children out of work in football stitching factories.

Recognizing that children are likely to continue working within MFI client businesses is an important first step, but MFIs also need to recognize that children can be harmed through the work that they do. Children's work maybe hazardous or inappropriate for their age or involve long hours and prevent them from obtaining an education. A new report by the ILO ('Accelerating action against child labour') estimates that the number of 15–17-year-olds doing hazardous work increased from 52 to 62 million from 2004 to 2008. It is assumed that most of these children worked in micro and small enterprises and the informal economy – the types of enterprise supported by MFIs. These businesses, from arts and crafts to motor workshops, food stalls, and agriculture, present many health hazards, including lead, silica, toxic woods, organic solvents, cadmium, dyes, and ergonomic problems. There are numerous safety (injury) hazards as well. Children's work is hazardous if they are exposed to dangerous substances or at high risk of injury.

MFIs can engage with their clients and working children through normal loan officer visits to identify, design and implement programming that mitigates harm and allows children to successfully combine age-appropriate work and education. For example, the PPIC-Work project in Egypt www.ppic-work.org, last accessed 8 October 2010) has worked with MFIs to develop a series of intervention tools that improve children's working conditions and learning opportunities. These tools have been integrated into normal MFI operations with little additional cost or effort. MFIs are able to build on the trusted relationships that they have with their clients, provide the means through loans to finance health and safety and other business improvements and make use of self-financed loan officer visits to implement programming and monitor change.

Yours,
Richard and Rick

Dear Richard and Rick,
The term 'MFI' can mean a lot of different things. Your note focuses on clients who borrow to grow or start a business. New or expanded economic activity located within the household is apt to engage family members. Working family members may be better workers, because they have a vested stake in the success of the enterprise and thereby work harder/shirk less. Working family members may also be willing to work for less than labour hired on the open market.

Some of these working family members are going to be children. It is unrealistic to suppose otherwise. Your note rightly points to the importance of minimizing the harm that comes from the work. The fact that this work takes place within the child's family does not imply that the child is safe from harm. In fact, family work is less likely to comply with health, environmental and safety laws, and small-scale enterprises may be less aware of the risks posed by many types of task when compared with large-scale, formal enterprises.

Family work is less likely to comply with health, environmental and safety laws

We do not know how to reduce the risks to health, safety and education associated with child engagement in small-scale enterprises. That may seem a funny statement. If a heavy load poses serious injury risk, the child can avoid that risk by not carrying the load. The question urgently in need of more attention is: how do we get the child to carry safer loads? The carrying of heavy loads is just one example, but in general there has been too little serious consideration of how we improve the circumstances of children's work. The reason for this lack of attention is obvious: if work is easier for children, they are more apt to do it.

In the case of household-based microenterprises and family farms, the probability of child involvement may be sufficiently high that concerns about encouraging child labour by reducing the costs of work can be ignored. Household-based microenterprises and family farms might be exactly where we should focus on learning how to reduce the consequences of work for children. Learning how to reduce the consequences of work for children requires independent and scientifically valid research designed to answer these questions. I am not aware of any such on-going research.

MFIs that rely on donor support should be trying to reduce the risks posed by child involvement

MFIs may play a role in reducing the risks of work, but I worry that your opening sentence, 'MFIs have a social responsibility…', presumes that all MFIs perceive some social mission. I do not think that is true. However, some MFIs rely on donor support, and donors are likely to have a social mission. MFIs that rely on donor support should be concerned about how to reduce the risks posed by child involvement in their projects. It seems natural that donor-supported MFIs engaged with family-based enterprises or farms should try to work with their donors to support independent, scientifically valid research on how to reduce the risks of child work.

Yours,
Eric

Dear Eric,

It seems we are in agreement that the provision of micro-credit may draw children into the workplaces of MFI client businesses. In addition, children may already be working before the MFI relationship begins. As you pointed out, sometimes this work can be quite hazardous. While it is important that MFIs recognize this reality, they also can help reduce these hazards.

You mentioned that: 'The question urgently in need of more attention is: how do we get the child to carry safer loads?' Although far from perfect, tools and experience in this area have already been developed. For example, the ILO's (International Labour Organization) Work Improvements in Small Enterprises (WISE) programme was designed to promote practical, voluntary actions in small workplaces (see http://www.ilo.org/wise). Spin-offs have been designed for business owners who hire children (see http://www.ilo.org/ipecinfo/product/viewProduct.do?productId=12352, last accessed 8 October 2010). In the example above, a WISE solution would be for the business owner to build or buy a cart so the child does not have to carry the load. This type of simple intervention is good for business as well as the child's safety. It may be good for the MFI's bottom line too by increasing the viability of the enterprise in the long run.

The interventions developed through the PPIC-Work project mentioned earlier also demonstrate practical ways for MFIs to improve the working conditions of children. These include:

- training for loan officers so they can help business owners identify and mitigate workplace hazards during the course of normal loan visits;
- a dual purpose loan product that provides additional financing to cover the costs of improvements that reduce hazards (subject to the same conditions as normal loans);
- adoption of a code of conduct governing children's work, developed jointly by business owners and working children.

For any of these types of intervention to be successful, MFIs need to have a system in place so their own loan officers have a shared interest in promoting them. If loan officers get their kudos only by the number and quality of loans given, it

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is unlikely such initiatives will succeed. More action research on this topic is needed, as well as further development of performance indicators to drive MFIs to find their own creative ways to design positive actions into their programming that benefit children who work in their clients' enterprises.

In closing, we recognize that not all MFIs have a social mandate. However, many do see the social impact of their programming as important. We expect this view will grow even for those today that focus only on their own economic growth. Funding from socially responsible investors into microfinance is expected to grow from current levels of US$50 bn to over $500 bn within the decade. The Global Impact Investing Network (GIIN) represents a range of private investors who 'actively seek to place capital in businesses and funds that can harness the positive power of enterprise'. MFIs that are able to show the positive social impact of their programming will be well placed to tap these types of investment. Paying attention to the issues of children's work and contributing positively to the well-being of children will be one of the ways that MFIs can demonstrate positive social impact – and they are in a good position to do so.

The pressure to repay debts could lead children to enter into new or dangerous work environments

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Yours,
Richard and Rick

Dear Richard and Rick,
Our discussion has been built from the premise that when MFIs foster small-scale enterprises, children are apt to be drawn into that work. We have omitted discussion of the other ways that MFIs might impact children.

It is possible that MFIs could reduce child labour with lending. Sometimes, loans are used for consumption or emergency health expenses. MFIs are probably not the best way to compensate for insurance failures. But better access to credit may mitigate some of the key push factors that cause children to work. MFIs also could bundle insurance products with their core credit products to both reduce income volatility and help protect repayment rates.

There are other ways MFIs might reduce child labour. Growing employment within the household could reduce the possibility that children enter into work circumstances that leave them extremely vulnerable. MFIs might increase household income, and there are many reasons to believe child labour will decline with rising income.

MFIs might unintentionally foster child labour through channels we have not discussed. The pressure to repay debts that households might not have incurred without the MFI could lead children to enter into new or dangerous work environments to help cope with the debt. This type of problem is especially difficult for an MFI to navigate as their sustainability depends on securing repayment.

Changes in the household economic structure or parental availability affected by the MFI's engagement in the household could leave children unattended, in need of new work, and more vulnerable. To pick an obvious example, suppose an MFI threatened large penalties if children were found engaged in a sponsored enterprise. This might lead a child formerly engaged in the enterprise to look for new work that is presumably worse for the child in some way, as evidenced by the fact that the child did not previously participate in the work.

I think we both agree that child labour is an important issue in need of attention from MFIs who profess to have a social mission. There are too many unanswered questions. Your note mentions WISE as an example of how to improve worksite safety. WISE is predicated on the assumption that if you help enterprises identify worksite issues, they will be resolved and improved. How do we know that providing worksite safety information changes working behaviours?

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We cannot rely on the after-action narratives of participants alone to understand the impact of a programme. Biases from selection into participation, after-action narration, and participants' lack of knowledge about what would have happened to them without a programme are intrinsic. We need rigorous, independent scientific impact evaluations in order to know whether and how our efforts work.

In sum, there are two questions that need a lot more attention. The first question is how and whether MFI activities affect the well-being of children in participant families. The second question is whether MFIs can help build in tools and incentives that improve the well-being of children in participant families. Our discussion has focused more on this later question. Both questions are important and receive far too little attention in the current emphasis on promoting microfinance.

Yours,
Eric