

Title: Do Parental Entrepreneurship and Access to Microcredit Increase Child Labor? The Case of Indonesia

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INTRODUCTION

The International Labor Organization (ILO) estimates that in 2008 there were 215 million children aged 5 to 17 years old working below the minimum age for employment or in hazardous work (ILO 2008). In order to design effective policies and programs to eliminate child labor, the underlying reasons for why children work must be fully understood. Extensive research on child labor has shown that household poverty is the most significant determinant leading to the supply of child labor. However, a growing body of literature suggests that the relationship between household wealth and children's employment may be more complex (Basu et al. 2010). Studies on household land ownership and parental involvement in microfinance have actually documented increases in children's work (Basu et al. 2010, Edmonds 2007).

As microfinance continue to be a predominant antidote in development projects for lifting poor households out of poverty, its application to reducing child labor may actually have an opposite effect. The creation of local microfinance programs, which would provide loans or credit to collateral-constrained households, while reducing household poverty, could also increase children's propensity to work since many children work in family businesses. Using longitudinal household surveys from Indonesia, the purpose of this paper is to explore to what

extent type of parental work and, more specifically, access to microcredit and entrepreneur opportunities for parents, are associated with child labor.

Using the longitudinal Indonesian Family Life Survey, this paper attempts to answer two research questions. First, are parental entrepreneurship and child labor correlated and, if so, how? Second, does accessing microcredit via microfinance programs, which lead to increased opportunities for parental entrepreneurialism, influence the propensity of children to work? There is a lack of research on identifying the influence microfinance programs have on children, specifically child labor, in developing countries. Given that the U.S. Government has decided to support income generating approaches as a vehicle for reducing child labor, it is more important now than ever to identify the true link between microfinance and children's work.

BACKGROUND

Child Labor in Indonesia

While prevalence estimates on working children do not exist, child labor is a historically and culturally known practice in Indonesia. In the early 1990s, Indonesia's fishing industry received negative media attention for the forced labor of children in *jermals*. Even though this practiced has ceased, children continue to work in fishing and fisheries. Children are also known to work in agriculture in the production of oil, palm oil, cacao, tobacco, rubber, tea, and sugar. Children mine gold and coal, and assist in the manufacturing of a variety of goods, including footwear. Children continue to work on the streets scavenging and selling newspapers. Girls are particularly vulnerable to trafficking for commercial sexual exploitation and domestic servitude. They are generally trafficked from rural areas into large cities to assist their families by earning extra income. The traffickers vary and can include recruiting agents, government officials, employers, brothel owners and managers, marriage brokers, parents and relatives, and spouses.

Government Response

Over the last decade, the Government of Indonesia has been proactive at eliminating child labor in their country. Shortly after the government ratified the International Labor Organization Convention 182 on the Worst Forms of Child Labor, the passed four main policy instruments that provide a framework for action to eliminate the worst forms of child labor, especially trafficking, include:

1. Presidential Decree No. 59/2002, National Plan of Action on the Elimination of the Worst Forms of Child Labor;
2. Presidential Decree No. 87/2002, National Plan of Action for the Eradication of Commercial Sexual Exploitation of Children;
3. Presidential Decree No. 88/2002, National Plan of Action for the Elimination of Trafficking in Women and Children; and
4. Law Number 23 Year 2002 on Child Protection.

In support of these efforts, the US Department of Labor has funded at least \$15 million in technical assistance programming to reduce the prevalence of child labor in Indonesia.

Currently, the government is implementing a conditional cash transfer program with the goal of increasing school attendance and withdrawing children from work.

LITERATURE REVIEW

This section will added at a later date. It will focus on providing a broad overview of the current literature on child labor, including literature relating to microfinance. The sources listed in the bibliography section below are a sample of the type of literature to be referenced and discussed in this section.

METHODS

Data Source

This paper uses the Indonesian Family Life Survey (IFLS) to analyze the relationship between parental entrepreneurship, access to microfinance, and child labor. IFLS is a

longitudinal survey representing 83 percent of the Indonesian population. Four waves of data exist, which follows the same household overtime (1992-2007). Our paper analyzes data from the last two waves of the survey (2000 and 2007/8). The purpose of IFLS is to provide researchers valid, longitudinal data on the health and wellbeing of individuals in a developing country context. IFLS provides information on employment for those aged 5 and older. Additionally, it provides detailed information on who received microcredit loans and who had access to microcredit organizations within a 2km radius from their household. Finally, detailed information exists on the type of employment of the parents, including whether the parents are self-employed or own a small business or farm. These key variables, along with other socio-demographic variables such as age, sex, schooling, and household income, allow a thorough analysis of the relationship between child labor and microfinance loans.

Analysis¹

Using household data on households with children aged 5 to 17 years old, our paper accomplishes two goals. First, we provide descriptive statistics on child labor in Indonesia, including a comparison of the relationship between parental entrepreneurship and child labor. We expect a positive correlation between parental entrepreneurship and child labor. In other words, we expect that children of parents who are self-employed entrepreneurs, either through a family farm or small family business, are more likely to be employed (most likely in the family business). Second, we analyze whether access to microcredit influences the propensity for

¹ Tables in the analysis will include a table of descriptive statistics describing the variables used in the analysis, a table describing the association between parental entrepreneurship and child labor, and tables with our regression results.

children to work. If parents have access to additional credit with which to start or continue a small business, the availability and use of this credit by the family could increase the likelihood that the children in the family will work in order to help in the family business.

Our methodology is as follows. For our first goal of identifying correlations between parental entrepreneurship and child labor in general, we will create crosstabs and run chi-square test statistics on parental entrepreneurship and children's work. Regarding the second goal, we take advantage of having longitudinal data. We will compare households with children ages 5 to 17 and no microcredit income in 2000 (IFLS3) to the same households in 2007/8 (IFLS4), some of which will have gained access to microcredit income. Understanding the complexities of joint household decisions regarding whether to send children to school or work, we plan to follow a similar modeling strategy as developed by Assaad, Levison, and Zibani (2010), which using a modified bivariate probit approach simultaneously controls for joint decision-making in the household. As mentioned above, we expect access to and use of microcredit to increase the propensity of children working.

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