

**ILO**

**International Programme on the Elimination of Child Labour  
ILO/IPEC Working Paper 2000**

**The East Asian Crisis and Child Labour in the Philippines**

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International Labour Office  
International Programme on the Elimination of Child Labour  
Geneva, 2000

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This report was commissioned by the International Labour Office as part of a research project on the impact of the Asian financial crisis on child labour. It was prepared in mid-1999.

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The views and interpretations in this report are those of the author and do not necessarily reflect those of the ILO.

# Table of Contents

## Overview of main quantitative findings

1. The pre-crisis context
  - 1.1 Economic performance over the past two decades
  - 1.2 Past performance in human development
  - 1.3 Less successful poverty alleviation
  - 1.4 Improvements during the pre-crisis 1990s
2. East Asian crisis and the Philippines
  - 2.1 Root causes
  - 2.2 Economic impacts
  - 2.3 Impact on human and social development
3. Child labour and the crisis
  - 3.1 Before the crisis
  - 3.2 Effects of the Asian crisis on child labour
  - 3.3 Child labour participation
  - 3.4 Contracting demand for labour
  - 3.5 Location of child labour, employment, and unemployment
  - 3.6 Educational attainment
  - 3.7 Employment by sector
  - 3.8 Employment by class of worker
  - 3.9 Summary
4. Responses
  - 4.1 Addressing the agricultural and financial crisis
  - 4.2 Addressing the decline in school participation
  - 4.3 Monitoring, rescue, and rehabilitation
  - 4.4 An anti-child labour Magna Carta
  - 4.5 ILO-IPEC initiatives
5. Lessons
  - 5.1 Long- and short-term macro level policies
  - 5.2 Policies to keep children in school
  - 5.3 Monitoring victims in the school, the workplace, and the streets
  - 5.4 Supply-side and demand-side factors

## 6. Recommendations and priorities

- 6.1 Rapid identification and appraisal of problem areas and sectors
- 6.2 Appropriate intervention programmes
- 6.3 More accessibility to secondary education
- 6.4 Increased monitoring and surveillance
- 6.5 Coordination with Government, international agencies, and funders
- 6.6 Alternative development strategy
- 6.7 Strengthening institutional capabilities

## Bibliography

### Annex:

- List of Tables
- List of Figures
- Appendix tables

## Overview of main quantitative findings

The Philippines has not been hit as hard as some other ASEAN countries by the East Asian economic and financial crisis. Per capita incomes, however, have declined during the crisis and there is grave concern about the impact of the crisis on poverty and the social sector, especially children, given the relatively low level of social and human development achieved by the Philippines. The child labour problem has definitely been aggravated by the crisis.

School enrolment, which is strongly correlated with child labour, has been seriously affected by the crisis. Initial enrolment figures from the Department of Education, Culture and Sports (DECS) show a decline in elementary school enrolment during the crisis. Based on our estimates, gross enrolment rates in elementary education fell from 99.2 per cent in the school year 1997-98 to 98.1 per cent in the school year of 1998-99. Our estimates reveal that the number of children 6 to 12 years of age not enrolled in elementary education increased from less than 100,000 (0.8 per cent of children aged 6 to 12) in 1997 to 240,000 (1.9 per cent of children aged 6 to 12) in 1998 as a direct result of the crisis.

The situation in secondary schools is alarmingly worse. The crisis year 1998-99 saw a big decline in high school enrolment for both males and females in both public and private high schools, with enrolment in private high schools falling much faster.

Total high school enrolment actually started to fall in school year 1997-98 (on the eve of the crisis) with a slight decline in male high school enrolment. But the sharp drop in enrolment in 1998-99 is obviously a direct effect of the economic crisis in 1998. Total enrolment in secondary schools fell by 7.2 per cent in 1998. Male enrolment fell by 6.6 per cent while female enrolment fell by 7.7 per cent. At the same time, there was a switch from private schools to public schools, reflecting a significant deterioration in the quality of high school education. Our estimates reveal that the number of children aged 13 to 16 not enrolled in high school jumped from around 1.5 million (23 per cent of youths aged to 13 to 16) to 2 million (30 per cent of youths aged 13 to 16) as a direct result of the crisis.

Estimates of gross enrolment were made under three economic scenarios. The first scenario is the low growth and bleak scenario wherein 1999 will be just as bad as 1998 (around -2.5 per cent growth in GNP per capita) and that the years 2000 to 2002 will bring stagnant (zero) growth to GNP per capita. The second scenario is the medium scenario wherein 1999 shows moderate GNP growth (around 2.3 per cent) which translates into zero GNP per capita growth, while the years 2000 to 2002 experience increasing growth in GNP per capita from 1 per cent to 3 per cent. The third scenario is the high scenario wherein 1999 shows a moderate 1 per cent increase in GNP per capita, while the years 2000 to 2002 experience increasing growth in GNP per capita of 2 per cent to 4 per cent, respectively. This last scenario more or less jibes with the high end of the government's targets, wherein full recovery will be achieved by 2000.

In the low scenario, secondary school enrolment deteriorate in the years 1999 to 2002 vis-à-vis that of 1998 and the number of children not enrolled in high school increases from 2 million (30 per cent of youths aged 13 to 16) in 1998 to 2.16 million (32 per cent of youths aged 13 to 16) in 1999 and to 2.26 million (30.5 per cent of youths aged 13 to 16) by 2002. In the medium scenario, an improvement occurs starting 2001 but the total number of children not enrolled in high school still number 1.89 million (26 per cent of youths aged 13 to 16) by 2002, much higher than the 1.49 million (23 per cent of youths aged 13 to 16) in 1997 before the crisis. The forecasts for the high scenario do not differ substantially from the forecasts for the medium scenario, except that the significant improvement occurs in 2001 rather than in 2002.

For the more serious problem of high school non-enrolees then, it seems that speedy economic recovery is vital to reduce the number of children not entering high school. But interventions in the fiscal sector (increasing education expenditure) as well as in the family

and community levels are also necessary if we want to reduce this number to pre-crisis levels within a reasonable amount of time.

Using results from the Labour Force Survey we see that the crisis resulted in growing labour force participation of children aged 10 to 14 -- from 9.63 per cent in October 1997 to 10.6 per cent in October 1998 -- and young people aged 15 to 17 -- from 21.2 per cent in October 1997 to 23.2 per cent in October 1998. This is the supply-side push factor for young people to join the work force during this period of economic difficulty and higher non-enrolment in schools. The increase in labour force participation is strong for young males aged 10 to 17 in both urban and rural areas as well as females aged 15 to 17 in urban areas.

The economic recession, however, has reduced the demand for labour and increased the unemployment rates of children aged 10 to 14 and youths aged 15 to 17. Particularly hard-hit are young male workers in the urban areas. Unemployment rates for young workers (for males and females) in the urban areas exceeded 20 per cent in October 1998 and run to as high as more than 30 per cent for boys aged 10 to 14 and more than 40 per cent for young men aged 15 to 17. The rural areas have also seen increasing unemployment due to the weather disturbances. Unduly affected are female children and youths. The increasing unemployment of children and youths actively seeking work is worrisome since they become vulnerable to informal, illegal and hazardous activities. Out-of-school unemployed youths are also vulnerable to the dangers of drugs, juvenile delinquency and other forms of violence.

Most child workers and young workers are unpaid family workers in agriculture. The crisis has increased the proportion of unpaid family workers in rural areas due to the agricultural crisis. This increases the pool of unemployed and underemployed among the youth and reinforces the problem of unemployed youths discussed earlier. Furthermore, the crisis has increased the share of children and youths employed in wholesale and retail trade and employed by private households. This encourages the entry of young workers into the informal trade sector with increased possibilities of market vending and street selling. This raises issues concerning street children and the informal sector where labour standards are hard to monitor and implement.

Female youths in the urban centres are more exposed to the trade sector and to community, social and personal services as well. These sectors require longer hours and have a higher proportion of full-time workers among the young workers. These are also the sectors where the LFS results show active searching for additional work among young females. More information and analyses in this area are vital to track the growth and conditions of child labour -- both male and female -- in the informal sectors.

## **1. The pre-crisis context**

Prior to the crisis, the Philippines was the only major economy in the ASEAN region that had not joined its East Asian neighbours in the take-off towards newly industrialized economy (NIE) status. One of the worst-hit countries during the foreign debt crisis of the 1980s, the Philippines experienced serious political and economic crises from the mid-1980s till the early 1990s. In the current East Asian economic and financial crisis, however, the Philippines - together with Brunei and Singapore - is among the least affected ASEAN countries. Even so, per capita incomes declined significantly in 1998 and will probably continue to do so through 1999 and beyond. Given that before the crisis erupted Philippine social and human development levels were already far below those achieved by its neighbours, the effects on the social sector, including poverty and income inequality, are of grave concern.

To understand the current economic crisis and its impact on the social sector, especially on child labour, we must examine past economic performance and policies together with their impact on the social sector. It is also important that we compare the Philippines' performance in the social sector with that of its neighbours.

## 1.1 Economic performance over the past two decades

Table 1 contains key macroeconomic indicators for the Philippines. The columns for GDP and GNP growth rates and per capita growth rates show a boom-bust cycle of growth and recession that has left the country stagnant in the long run. The sharp economic decline in the mid-'80s produced an economic crisis comparable to that experienced by Indonesia today. It included political instability, massive foreign debt problems and overhang, sharp devaluation, high inflation, and high interest rates. In terms of GNP per capita, the years 1984 and 1985 alone set the Philippines back more than 10 years. The economic recovery of 1986 to 1990 was short-lived, as the foreign debt overhang wiped out foreign exchange reserves while political instability destroyed the confidence of both domestic and foreign investors. The Philippines missed out on the East Asian takeoff enjoyed by its Southeast Asian neighbours during this period, as the appreciating yen attracted massive foreign direct investments from Japan to the ASEAN countries.

The years 1991 and 1992 again brought stagnation marked by initial devaluation, high inflation, and high interest rates. Together with the economic collapse, this set the Philippines back 15 years in terms of GNP per capita. In 1997 - the year the crisis hit - the Philippines was at an early 1980s GNP per capita level (see Table 1). Just when signs of healthy growth appeared in the 1994 to 1997 period, both the currency turmoil and El Niño/La Niña phenomena rocked the region in July 1997, again dragging the economy into stagnation. Per capita incomes have in fact fallen to levels similar to those of the late '70s.

Table 1 shows that productivity is also suffering. Labour productivity (defined here as GDP divided by total employment) has fallen with every recession in the boom-bust cycle, and the Philippines is losing competitiveness vis-à-vis its neighbours, where rates of labour productivity were growing steadily and rapidly until the East Asian crisis struck.

Furthermore, the table shows that unemployment and inflation rates have risen during the economic crisis and earlier recessions in the boom-bust cycle. A regular pattern is also apparent in the movement of exchange and T-bill rates, with currency devaluation and high interest rates (tight credit and liquidity) occurring during periods of economic crisis and contraction. This simply means that each crisis involves foreign exchange losses or scarcity (thus the need for devaluation) and attempts by the authorities to reduce aggregate demand via high interest rates to reduce foreign exchange losses or scarcity. Both currency devaluation and aggregate demand reduction have contributed to the depth and length of the recession and contraction.

Finally, the figures show that real wage (indicated by the compensation index per employee) is also in decline. Real wage went against the grain from 1994 to 1997, actually falling during the 1995 to 1997 growth period. The long-term trend of declining real wage is consistent with the declining labour productivity. From a social perspective this shows that, without public safety nets, the majority of wage earners will have difficulty drawing from past savings to cope with economic crises that have cut their incomes via unemployment, underemployment, or wage reduction.

## 1.2 Past performance in human development

Compared to other countries in East Asia, the Philippines has fared poorly in the fight against poverty. Table 2 replicates the Ahiya et al (1997) analysis, based on a poverty line of \$1 a day per capita at 1985 prices, for selected countries in East Asia. In these terms, the Philippines has achieved no significant reduction in absolute numbers of people below the poverty line. Poor people numbered 15.4 million in 1975, 17.7 million in 1985, and 17.6 million in 1995. This was the worst performance among all the larger countries in the table - all of which were able to reduce the absolute number of poor people across the years. In terms of head count index, the Philippines again presented one of the worst performances, reducing the proportion of poor people from 35.7 per cent in 1975 to 32.4 per cent in 1985 and 25.5 per cent in 1995. In comparison, Malaysia and Thailand reduced the numbers from around 10 per cent to 11 per cent in 1985 and to less than 1 per cent in 1995. Indonesia reduced the poor from 65.3

per cent in 1975 to 32.2 per cent in 1985 and 11.4 per cent in 1995. China cut the proportion from 37.9 per cent in 1985 to 22.2 per cent in 1995. Even Viet Nam made bigger gains, reducing the proportion from 74 per cent in 1985 to 42.2 per cent in 1995. Only smaller countries such as Lao PDR, Mongolia, and Papua New Guinea seem to have done worse than the Philippines in the head count index. Among all the East Asian countries presented in Table 2, the proportion of poor people declined from 51.4 per cent in 1975 to 35.6 per cent in 1985 and 18.2 per cent in 1995. Because of the poor performance in poverty reduction compared to other East Asian countries, the Philippines' share of the region's poor more than doubled from 2.1 per cent in 1975 to 5.1 per cent in 1995 (Manuelyan and Walton, 1998).

Table 3 shows social indicators, again taken from the Ahiya et al (1997) study, for selected East Asian countries. Although there were significant improvements in the social indicators for most countries including the Philippines, improvements in health indicators (life expectancy and infant mortality) were still smaller in the Philippines than for most other countries. In terms of indicators for education, the Philippines performed well with primary and secondary net enrolment rates even compared with its more economically successful neighbours. But this does not include the quality of education which, judging by East Asian standards, most experts believe may be deteriorating.

### **1.3 Less successful poverty alleviation**

It is important to determine why performance has been poor in the areas of poverty alleviation and improvement in social indicators.

The first factor, of course, is lack of sustained growth due to the boom-bust cycles discussed earlier. Table 4 shows the East Asian growth rates for GDP per capita. It is clear that for the period 1965-80 and even more in 1980-95 and 1990-95 the Philippine growth rate lagged behind those of most East Asian countries. In fact, for the 1980-95 period, the Philippines was the only country in the table showing a decline in real GDP per capita. This is the major reason for the lack of substantial poverty reduction and social improvement in the Philippines. According to Monsod and Monsod (1998), Philippine human development indicators vis-à-vis income per capita were better than the other countries. Keeping income constant, then, the Philippines on average fares better in the human development indices. The lagging human development indicators mainly reflect a failure to increase incomes.

The Philippines has also experienced higher inflation rates than the more successful East Asian countries. Table 1 shows that, except for 1983 and 1986-87 (when the Philippines suffered from extreme capacity under-utilization in the aftermath of economic collapse), and for the growth years of 1993-97, Philippine inflation rates were very high. This means that wage and export competitiveness with other countries has suffered, contributing to unsustainable growth in the longer term. It also means that high inflation rates contribute directly to economic disparities and lead to regressive income and consumption effects as fixed-income earners, unable to catch up with inflation, lose their purchasing power.

Many of the factors militating against sustained growth also contribute directly to lack of success in reducing poverty and improving social welfare, and to the inability of the Philippines to follow the path of "growth with equity" which marked the East Asian "economic miracle". Foremost among these factors is the lack of agricultural and rural development, which results in declining agricultural and rural productivity, lack of rural-urban linkages, and inhibition of growth in off-farm activities and rural industries. Rural areas, where the majority of the poor reside, are hardest hit.

Growth of human capital is another area that has fallen short. Health indicators did improve substantially over the years, and school enrolment rates are good compared to most countries in the region. But there are problems with the quality of education and the consequent efficiency of the workforce, with a long-term decline in labour productivity evident in Table 1. The United Nations Development Programme (UNDP) has suggested that 20 per cent of the total national budget should go to basic human priority expenditures, including primary education, primary health care, family planning, and low-cost water supplies and

sanitation services. The Philippines has not achieved this goal. Neither has it directed what the UNDP suggests should be 20 per cent of all official development assistance (ODA) to supporting these same services. Instead, the Government was allocating only 16.4 per cent of the national government expenditure and 14 per cent of the ODAs. Insufficient budget allocation for primary education and primary health services points to the inadequacy or neglect by the system in addressing both important short- and long-term problems of human capital formation. The economy continues to rely to a large extent on unskilled, low-wage employment, which does not significantly improve the lot of the growing industrial and service workforce.

Just as the supply side of labour is hindered by the lack of improved human capital, the demand side for labour is hampered by the lack of improved technology in the economic sectors. The unsustainable growth, the lack of sufficient attention to science and technology and research and development, the slowness to expand export markets on a long-term basis, the inability of the Philippines to benefit from the massive Japanese medium- and high-technology investment outflow in the second half of the '80s - all this contributed to maintaining industries at the low-technology end while demanding little of skilled and highly educated labour. Table 1 shows a long-run decline in labour productivity in Philippine industries caused mainly by boom-bust cycles leading to unsustainable growth and the inability to improve human capital and industrial technology. Where productivity and skills are not improved, real wages tend not to rise and improvements in the lot of the workforce, especially in an environment of relatively high inflation rates, will be very limited. The lack of spillover effects from technological improvements to other sectors will also hinder the expansion of more-permanent and better-quality jobs, vital outcomes if the lot of the labour force is to improve.

Finally, the most recent Philippine growth has been based on non-tradables such as real estate and mega-malls and asset bubbles with a special dependence on real estate and financial centres (see Lim 1999a and 1999b). Such growth has concentrated on large urban areas and growth centres such as Metro Manila at the expense of other regions, particularly the rural areas. This exacerbates regional disparities and does not contribute to alleviating rural poverty.

#### **1.4 Improvements during the pre-crisis 1990s**

Even if the Philippines suffers by comparison with other countries in the region in combating poverty and improving social and human welfare, it remains true that the latest growth period has improved poverty and social conditions. Table 5 describes the incidence of poverty in 1985, 1988, 1991, 1994, and 1997. The 1991-97 period saw a substantial decline in the number and incidence of poor. However, the decline was greatest in urban areas and in areas close to Metro Manila (NCR, Central Luzon, Southern Tagalog) and in the Metro Cebu (Central Visayas) area. The Cordillera Administrative Region (CAR) and Autonomous Region of Muslim Mindanao (ARMM) - areas dominated by indigenous peoples or the Muslim minority - both increased their number and incidence of poverty from 1991 to 1994, and increased their number of poor and only marginally improved poverty incidence from 1994 to 1997. Most other regions, however, still showed some poverty reduction either in absolute number or incidence.

As the table above shows, regional disparities in terms of the number and incidence of poverty have persisted and in some cases even been exacerbated. This result is replicated in the latest Human Development Report (UNDP, 1997), which extends the analysis beyond poverty to indicators of human (and gender) development.

Given the brief analysis above, it may be concluded that poverty alleviation in the Philippines depends to a large extent on economic growth. Economic and social policies failed to bring about significant reductions in regional, urban-rural, and income disparities over time. An autonomous force independent of economic growth that could have reversed the Philippines' relative poor performance in poverty reduction and in social and human development did not emerge.

## 2. East Asian crisis and the Philippines

The East Asian crisis, together with El Niño and La Niña phenomena, has brought GDP growth down from more than 5 per cent in 1995-1997 to -0.5 per cent in 1998 (Table 1). Real GNP per capita declined by 2.61 per cent in 1998 because of the crisis. Unemployment rates shot up from less than 9 per cent in 1996 and 1997 to 10.1 per cent in 1998. Inflation rates reached double digits in early 1999, and the currency has been devalued by almost 50 per cent (Table 1).

### 2.1 Root causes

There follows a summary of important trends bearing directly on the currency crisis that struck in July 1997:

- Lack of domestic savings. The apparent immediate cause of the troughs in the boom-bust cycle is a lack of foreign exchange to finance an economy dependent on imported capital goods, imported fuel, and imported intermediate products. Low domestic savings in the Philippines is the other side of this coin (around 21 per cent of GDP in 1997, compared to more than 30 per cent for the other East Asian countries), leaving the country reliant on foreign capital inflows to finance growth.
- Foreign exchange and capital liberalization. The latest growth period tried to address inadequate domestic savings and the inability to generate foreign reserves by lifting most restrictions on foreign exchange inflows and outflows. Foreign exchange and capital liberalization in 1992 led to increases in net foreign investments and remittances of overseas workers to the Philippines. Growth was thus sustained for several years even as trade deficits became very large.
- Increase in short-term foreign debt and foreign portfolio inflows and outflows. Capital liberalization, however, led to easy short-term lending and massive portfolio inflows and outflows that increased volatility in the external account as short-run monetary inflows ("hot money") came in and out at very short intervals. The short-term nature of foreign inflows and the get-rich-quick mentality of speculative capital (Stiglitz, 1998; Krugman, 1998; Rodrik, 1998) created a herd mentality wherein over-investments and over-lending led to the creation of speculative bubbles in the real-estate and stock markets. When the Thai crisis hit, the herd panicked and surged the other way, with national economic woes transmitted to other countries in the region, this "contagion" precipitating sudden and continuing foreign exchange withdrawals.
- Overvaluation of the peso. The net external inflow of capital led to a paradoxical situation wherein the currency was appreciating in real terms (sometimes in nominal terms) as trade and current account deficits rose partly due to the higher growth. (See Table 1 figures on Exchange rate and Growth of exchange rate.)
- Bias for nontradables vis-à-vis tradables. The appreciation of the currency in real terms had hurt the export sector (with the exception of semiconductors), and, in conjunction with significant import liberalization implemented in the late 1980s and tariff reduction effected in the '90s, increased tremendously the import intensity of the economy. This led to what some economists call the "Dutch disease", as the perverse effects of positive capital inflows and subsequent currency appreciation led to the deterioration of the trade and current account balances. Furthermore, this bias against tradables encouraged the fast-growing economy to shift resources to non-tradables, particularly the real property, financial, and trade sectors. This, together with the over-lending syndrome in the financial sector, created asset bubbles that would aggravate the financial crisis.
- Lack of prudential regulation. The financial liberalization and easing of bank entry allowed the over-borrowing and over-lending syndrome to unfold in full force without sufficient prudential regulation by the Central Bank. This regulation should have focused on reducing exposure to risky assets and loans, especially real-estate loans, foreign borrowings, and expansion of consumer lending to high-risk groups.
- Unhedged short-term dollar borrowings. Financial liberalization, together with the Central Bank's sterilization of monetary inflows and the policy of a stable currency, ensured that domestic interest rates were above foreign interest rates, particularly

those of the dollar. Together with the stable and appreciating peso, this of course led to high dollar borrowings - largely unhedged - by commercial banks and private firms alike. The unhedged dollar short-term borrowings became very harmful, as a grave mismatch arose between assets of domestic financial institutions and large corporations - which were denominated in pesos and tied in medium- and long-term projects such as real estate - and their liabilities, which were denominated in dollars and were short-term in maturity. When the massive currency depreciation and the withdrawal of short-term dollar lending occurred, this immediately increased non-performing loans and seriously weakened the financial sector.

- El Niño and La Niña. The financial crisis was accompanied by a severe drought in the first three quarters of 1998 and devastating typhoons and floods in the last quarter of 1998. The economic crisis therefore is a combination of natural disasters and financial crisis resulting in sharp declines in both agriculture and industry. This is reflected in the -6.64 per cent decline in the agricultural sector in 1998 (compared to the -1.74 per cent decline in industry), the increase in unemployment rate in the rural sectors from 5.5 per cent in October 1997 to 7.4 per cent in October 1998, and the increase in the underemployment rate in the rural sectors from 29.7 per cent in October 1997 to 32.5 per cent in October 1998. The high inflation in 1998 and, especially in the first two months of 1999, are attributed more to food scarcity brought about by the weather disturbances than to the currency depreciation, although both played a part in the trend towards higher prices.

## 2.2 Economic impacts

### *Peso depreciation*

When the currency crisis struck with the baht devaluation in July 1997, the short-term debt and portfolio inflows that exploded in the past few years suddenly reversed, facilitated by electronic and computer technology. The Central Bank (BSP) vainly tried to defend the peso with almost US\$2 billion worth of reserves. When the peso exchange rate finally caved in, the BSP (with encouragement from the International Monetary Fund [IMF]) initially tried to stem the peso depreciation by high interest rate policies: a combination of increasing liquidity reserves, higher loan loss provisions, higher overnight borrowing and lending rates, and open market operations. This failed to stem the continuing decline of the peso.

Currency stability was achieved only when regional currencies also stabilized in the last quarter of 1998, continuing up to the time of this writing. As of mid-March 1999, the peso had depreciated by 50 per cent compared to June 1997, and had lost a-third of its dollar purchasing power. The sharp peso depreciation killed off import demand (particularly for durable equipment and intermediate parts) and reduced output. As mentioned earlier, it also caused irreparable damage in the financial sector by creating bad and non-performing loans. Worst of all, it reduced the confidence in the economy and set the stage for long-drawn stagnation of the economy.

### *Credit crunch*

High interest rates persisted even when, towards the end of 1997, the BSP tried to bring them down. Initially, the banks themselves were keeping deposit and lending rates higher than what the BSP rules would have generated because of the high-risk exposure to loan defaults and continuing depreciation and volatility of the peso. (Expected devaluation and expected inflation kept going up.) Treasury bill rates reached a peak of 20 per cent in January 1998, with lending rates going beyond 30 per cent. These rates started to go down in March 1998. By mid-March 1999, treasury bill rates had decreased to 12.2 per cent, lower than the pre-crisis rate, bringing lending rates down with them.

Even though interest rates declined from their peak in January 1998, the banking sector was still very bearish, at the time of this writing, and was refusing to lend out money as confidence in the economy and in the region had not yet resurged. Many firms also reduced borrowings as production cutbacks and closure of plants and branches were being considered. The current credit crunch precluded quick and easy recovery from the crisis.

#### *Stagnation and per capita economic decline*

GDP and GNP growth fell from 5.2 per cent and 5.3 per cent respectively in 1997 to -0.5 per cent and 0.1 per cent in 1998 (Table 1). This represented a 17.1 per cent fall in capital formation (or investments), a 6.6 per cent decline in agriculture, and a 1.7 per cent decline in industry, which included an 8.1 per cent decline in construction and a 1.1 per cent decline in manufacturing. These average figures hide the fact that the situation was continuing to deteriorate and the worst time of the crisis, to that point, was the last quarter of 1998 and first quarter of 1999. In the last quarter of 1998, GDP contracted by 1.9 per cent and GNP by 1.2 per cent. Agriculture fell by 7.8 per cent, while industry fell by 4.4 per cent. The decline in industry included a 23.9 per cent fall in capital formation, a 10 per cent decline in construction, and a 3.4 per cent fall in manufacturing.

On a per capita basis the decline is worse, since the Philippines has the highest population growth rate in ASEAN. On average, 1998 saw a decline in GDP per capita and GNP per capita of 2.6 per cent and 2 per cent respectively. This again hides the fact that the situation has worsened so that, in the last quarter of 1998, GDP per capita and GNP per capita declined by 3.9 per cent and 3.3 per cent respectively. Per capita consumption, which grew around 3 per cent in 1997, increased by a scant 0.6 per cent in the fourth quarter of 1998. Obviously, the crisis is causing significant declines in incomes per capita, and is resulting in stagnating consumption and lower economic welfare.

#### *Higher inflation*

The inflation rate of the consumer price index (CPI) had improved significantly in 1997, moving from an 8.5 per cent average in 1996 to 5.1 per cent in 1997 (Table 1). This trend was sharply reversed in 1998 due to agricultural contraction and rising food prices due to the El Nino/La Nina phenomena, as well as to the sharp currency depreciation. The inflation rate shot up to 9.7 per cent in 1998. This again hides the fact that the worst inflation rates occurred in the last quarter of 1998. The inflation rates for January and February 1999 exceeded 10 per cent. The higher inflation rate was caused by a significant uptick in the price of food and agriculture products, due to the weather disturbances, as well as non-food and non-agricultural products due to the higher cost of imported inputs and the credit crunch.

High inflation, together with output contraction and job losses, was certain to bring economic hardship to a vast number of the population. Non-agricultural real wage, as shown in Table 1, had fallen in the 1990s from the levels of the late '80s. High inflation in 1998, coupled with a sharp currency depreciation, was certain to accelerate the decline in real wages and reduce the incomes of families of wage earners.

#### *Fiscal bind*

Another victim of the crisis is the fiscal sector, which from 1995 to 1997 posted national government surpluses. Because of the economic decline and lower income and sales taxes, as well as the sharp drop in imports and import taxes due to the currency depreciation, the Government could not even maintain basic social services in 1998, much less provide the necessary funds for the provision of safety nets for the most vulnerable sectors.

The situation worsened when the initial IMF programme in March/April 1998 stipulated a 1 per cent fiscal surplus. This sharp fiscal tightening forced the Government to order 25 per cent mandatory savings or expenditure cutbacks for all government departments. The IMF and the Government subsequently relaxed this tight fiscal target in the second half of 1998, allowing a

P50 billion national government deficit (about 1.7 per cent of GNP) by the end of 1998. Even then, this involved reducing economic, health, and housing services and keeping other social services close to their 1997 levels just when the economic crisis was causing adverse effects on the population.

One of the social problems of this crisis is the inadequacy of government safety nets and the lack of social insurance to cushion the effects of reduced incomes, higher inflation, and job losses caused by economic dislocation.

#### *Loss of business confidence*

Perhaps one of the biggest economic victims of the crisis has been investor confidence. Entrepreneurs and businessmen all agree that these are hard times. The currency instability and weak financial sector sapped entrepreneurial drive in both the productive and financial sectors; and it may take some time to restore confidence. By mid-1999 - given the relative currency stability, pump-priming efforts on the part of all the East Asian countries, and the lack of financial turbulence in the last few months of 1998 and early 1999 - there was some optimism that the worst of the crisis was over. But economic recovery depends on more than economic pump-priming and policy initiatives on the part of the Philippine Government - regional conditions and world economic and financial markets lie beyond the control of the national authorities. This is why most investors and businessmen were still adopting a wait-and-see attitude.

### **2.3 Impact on human and social development**

#### *On the labour front*

Unemployment has been one immediate social sector impact of the economic crisis. The year 1998 already saw substantial firm closures, retrenchment, and layoffs. The number of workers given formal notices of layoffs as reported to the Department of Labor and Employment increased from 62,724 workers in 1,155 firms in 1997 (338 closures, 804 retrenched firms, and 48 rotation and other changes) to 155,198 workers in 3,072 firms in 1998 (642 closures, 2,310 retrenched firms, and 293 rotation and other changes).

Table 6 compares Labour Force Survey data from October 1998 and October 1997. The crisis had had several effects. First, there was an apparent increase in labour force participation rates among the 15-19 and 20-24 age groups. This increase was most pronounced among those aged 15-19, both among males and females in urban areas and among males in rural areas. In the 20-24 age group, labour force participation was increasing mainly among females in both urban and rural areas.

Table 6 also shows that the unemployment rate increased significantly in all age groups and in both urban and rural areas. The joint effects of severe weather disturbances and the financial crisis caused severe economic and social dislocation. Especially hard-hit were workers aged 15-34. Young male workers in both urban and rural areas, and young female workers in rural areas had the highest and the biggest increase in unemployment rates.

#### *Increased poverty and diminished access to social services*

The combined effects of unemployment, declining real wages, higher inflation, and lower government capacity to provide basic social services and safety nets to the most vulnerable groups will obviously translate into increased poverty and deteriorating social conditions.

This is partly verified by self-poverty ratings provided by respondents to the Social Weather Stations (SWS), a firm specializing in poll surveys. Table 7 shows subjective ratings from September 1997 and September 1998 as to whether people saw themselves as not poor, just on the poverty line, or poor. It is clear that in all areas in the country, as well as in classes A to E, the percentage claiming that they were poor increased, showing a clear shift from those

claiming they were on the poverty line to those claiming they were below the poverty line. The areas and sectors with biggest increases in self-rated poverty are in the whole of Luzon (which grew the most in the 1990s), in rural Visayas, and in the second to the lowest class (class D).

Self-perceptions of increasing poverty would figure prominently in decisions whether to send children to school or to work.

#### *Extended family system and overseas contract workers*

The social security system is the traditional safety net for unemployment and declining incomes in developed countries. In the Philippines, the social security system has limited funds, and is unable to cover adequately even the emergency health needs of its members. It is not prepared to provide unemployment and other benefits for those displaced by the crisis.

Furthermore, as was mentioned earlier, fiscal tightness and expenditure cutbacks are sure to constrain public-sector capacity to provide safety nets for the expected increase in poverty and decline in social and human development. The main safety net will have to be that provided by the extended family system. Because of the economic decline and substantial devaluation of the peso, overseas contract workers' contributions to family incomes will become even more urgently needed.

Reliance on the extended family system as a safety net will generate its own social impacts. The increased dependency burden, as laid-off and deprived individuals and families pass on part of their problems to their relatives, will further drain the resources of many families. On the micro level, this is one reflection of the decreased savings rate caused by stagflation. The higher dependency burden will add to the plight of the family head (and other income-generating members of the family) as reduced real income is further diminished by additional persons relying for subsistence from this reduced income. The additional burden placed on the housewife and mother, as she has to find ways to accommodate more people on meagre resources and as her childcare and household work multiply (as the size of the extended household increases), is usually not considered. Add to this pressures on her to join the labour force in order to supplement the family income, and she can be subjected to tremendous stress, fatigue, and generally unhealthy conditions.

Pressures on overseas contract workers (the majority of whom are women) are also strong, as family members increasingly rely on their remittances as a main means of coping with the current crisis. At the same time, opportunities and wages are dwindling in East Asia, Europe, and the Middle East. Lim (1999) gives the number of declining overseas workers and the decline in remittances from East Asia, the Middle East, and Europe. The only increased remittances, from North America, are not from contract workers but rather from immigrants and Filipino Americans already residing in the United States.

Many families will consider child labour as one coping mechanism in the face of economic hardship and the increased dependency burden.

### **3. Child labour and the crisis**

#### **3.1 Before the crisis**

The weaker achievements of the Philippines in poverty alleviation and social development and its slowness in approaching NIE-hood translate into a bigger child labour problem. Table 8 shows that work participation rates for children aged 10-14 in the Philippines, nationally as well as in urban and rural areas, were considerable compared with those for Indonesia and Thailand in the pre-crisis period. This means that, even though economic decline in the Philippines during the current crisis has not been as drastic, the task of eradicating child labour is at least as great as it is in the two other countries.

In 1995, the National Statistics Office (NSO) of the Philippines conducted a special national survey of working children in close collaboration with the Bureau of Labor and Employment Statistics of the Department of Labor and Employment and ILO/IPEC. Its findings included these:

#### (1) Numbers and work participation rates

- In 1995, there were 22.4 million children aged 5-17, comprising roughly a third of the population.
- Taking 12 months as the reference period for work, the survey showed 3.7 million working children aged 5-17. This is roughly 16.5 per cent, or one out of six, of the population aged 5-17. If the reference period is one week, then 2.85 million (roughly 12.7 per cent) of children aged 5-17 worked. Half of these were under 15 years of age. This means that, if one uses a year as reference period, around 1.8 million children aged 5-14 worked. Of these, 217,561 (12.1 per cent of working children below 15 years of age) were between 5 and 9 years of age. If one uses a week as the reference period, then around 1.4 million children aged 5-14 worked.

#### (2) Categorization by occupation

- By economic sector, 64 per cent of working children were in agriculture, 16.4 per cent in sales, 9.2 per cent in production (manufacturing and industrial), and 8.8 per cent in services.
- In terms of occupation, 56 per cent were in farming, 16 per cent in trade, 7 per cent in services, and 4 per cent in non-food manufacturing
- Of all working children, 60 per cent were unpaid family workers in their own households or family enterprises; 40 per cent were compensated as wage workers or own-account workers.
- Of all working children, 17.2 per cent worked in their own homes, 53 per cent worked in their family farms, while almost 30 per cent worked outside their homes and family farms.
- Among working children, 30 per cent were in permanent employment while 70 per cent were part-time.

#### (3) Child labour and schooling

- About 70 per cent of working children were in school; 30 per cent were not.
- For those attending school, about half experienced such problems with education as these:
  - high cost of education (28.7 per cent)
  - difficulty in catching up with lessons (22.1 per cent)
  - low grades (41.4 per cent)
  - frequent absences (25.3 per cent)
  - frequent tardiness (26 per cent)

Drop-out rates (no figures available) were high for working students.

#### (4) Working conditions and hazards

Of all working children,

- 60 per cent (2.2 million children) were exposed to hazardous work environments including physical difficulties and exposure to chemicals;
- 24 per cent (869,199 working children) had had at least one work-related injury or illness;
- 80 per cent of working children suffered work-related problems such as
  - exhaustion (63.3 per cent),
  - stress (55 per cent),
  - physical burdens (47 per cent),
  - boredom (52 per cent), and
  - dangerous work (17 per cent);
- 8 per cent of working children (309,000 children) had no day off nor free time to engage in recreation and leisure;
- 17 per cent of working children aged 5 to 17 lacked adult supervision. 20 per cent of working children below 15 years of age lacked adult supervision; and
- 4 per cent of working children aged 10-14 and 7 per cent of those aged 15-17 worked at night, for the most part in retail trade, personal services (including domestics), and fishing.

#### (5) Living away from home

- About 2 per cent of all children aged 5-17 (409,849 children) lived away from home.
- Of these only 25 per cent were studying full time, while 75 per cent were working or were idle.
- Most children living away from home were from rural households (72.2 per cent) and were female (64 per cent). The majority of them went to urban centres to work in households as domestics.

The ILO's International Programme on the Elimination of Child Labour (IPEC) has identified the following types of working children as most vulnerable and most meriting special attention:

- victims of child trafficking
- those in mining and quarrying
- those trapped in prostitution
- sugar-cane plantation workers
- vegetable farm workers
- pyrotechnics production workers
- children engaged in deep-sea diving
- children in home-based industries, especially under subcontracting arrangements

### 3.2 Effects of the Asian crisis on child labour

#### *Negative effects on schooling*

As incomes plunge without sufficient safety nets, the schooling of children from low-income families becomes jeopardized. Education is costly, not only because of tuition fees, but also because of high costs of school materials, transportation, and lunch money. Returns on investment in schooling, furthermore, take a long time to realize.

Initial enrolment figures from the Department of Education, Culture and Sports (DECS) point to a serious decline in the schooling of children. Table 9 shows us the gross enrolment figures in elementary schools, their gender composition, and growth rates from the school year 1995-96 to the latest school year 1998-99. It is clear from the table that the crisis year 1998 caused gross elementary enrolment in private schools to fall significantly for both males and females (8.25 per cent for males, and 9.14 per cent for females). For males there seemed to be a switch from private to public schools, so that enrolment for males in general still showed a respectable increase. However, the switch from private schools to public schools indicates some deterioration in the quality of schooling for males, since private sector schools in general offer better-quality schooling.

For females the situation is worse. Private school enrolment has dropped while public school enrolment is stagnant. This represents a net decline in female enrolment in elementary education. A larger percentage of females of elementary education age are unable to go to school. This is a reversal for the school year 1998-99 of a healthy pre-crisis trend wherein females comprised almost half the total elementary enrollees (Table 9).

Table 9 also clearly shows that private school share in total enrolment fell significantly in 1998-99, again, since public schools in general are inferior to private schools in quality, reflecting a deterioration in the quality of elementary education.

The situation in secondary schools is alarmingly worse. Table 10 shows the corresponding figures for high-school enrolment. Private secondary enrolment has declined since school year 1995-96 because public secondary education since 1994 has become free (but not compulsory because of insufficient buildings, teachers, and budget). The crisis year 1998-99 saw a big decline in high-school enrolment for both males and females in both public and private high schools, with enrolment in private high schools falling much faster. The reduction in high-school enrolment actually began earlier, in school year 1997-98 (on the eve of the crisis), with a slight decline in male high-school enrolment. But the sharp drop in enrolment in 1998-99 was obviously a direct effect of the crisis and economic decline in 1998. Total enrolment in secondary schools fell by 7.2 per cent in 1998. Male enrolment fell by 6.6 per cent while female enrolment fell by 7.7 per cent. Again the switch from private schools to public schools reflects a deterioration in the quality of high-school education.

Table 11 calculates the gross enrolment rates for elementary and secondary school children, and these are summarized in Figures 1 and 2. The gross enrolment rates for elementary education (Figure 1) are close to 100 per cent (and may even exceed 100 per cent), mainly because some elementary school children are older than 12 years. (The official age range for elementary education is 7-12 but, since 1996, 6-year-olds have been encouraged to enter grade one. The author uses ages 6-12 for elementary school children.)

Figure 1 shows a reversal in 1998 of the increases in gross elementary enrolment rates in the pre-crisis period (before 1998). Elementary education participation rates fell from 99.2 per cent in school year 1997-98 to 98.1 per cent in 1998-99.

Gross enrolment rates in high school dropped sharply in 1998. Figure 2 shows that the male participation rate fell from 73.4 per cent in 1997-98 to 66.8 per cent in 1998-99. The female participation rate fell from 80.7 per cent in 1997-98 to 72.8 per cent in 1998-99. In the school

year 1998-99, at least 33.2 per cent of male children and 28.2 per cent of female children of high-school age would not be going to high school. It must also be pointed out that the gross secondary enrolment rates here are overestimated, since many high-school students are older than 16 years. (The official high-school ages are 13-16.)

The sharp drop in high-school enrolment rates because of the crisis provides a strong supply-side push factor for child labour, especially since most child labour participants are within the official high-school 13-16 age range. We shall return to this point when we discuss the Labour Force Survey (LFS) results.

#### *Linking school participation to economic and fiscal variables*

Table 12 gives us GNP per capita and its growth rates, education expenditure (per child of elementary school age), and enrolment and gross enrolment rates. It also includes estimates of children of elementary school and high-school age not enrolled in elementary and secondary schools. Figures 3 and 4 graph the estimated percentage of children aged 6-12 and 13-16 not enrolled in elementary and high school, respectively.

A glance at Figures 3 and 4 shows that the percentage of children not enrolled in school (for both elementary and high-school ages) increased during crisis years 1984-86, 1991-93, and 1998. The increase in the percentage of children not going to school is very clear for 1998. The increase in high-school non-enrolment is particularly worrisome (Figure 3), since it has quickly reversed the long-term gains in high-school enrolment achieved between the mid-'80s and the mid-'90s.

Thus, as the Philippine economy entered a downturn in 1998, there was a marked increase in both the number of children not enrolled in elementary and secondary schools. It is estimated in Table 12 that the latest growth period reduced the children not enrolled in elementary school to less than 100,000 by 1997, or 0.8 per cent of children of aged 6-12. In 1998, however, this figure shot up to more than 239,000 - almost 2 per cent of children aged 6-12. For children not enrolled in high school, the problem is obviously much worse. From an estimate of less than 1.5 million in 1997 or around 23 per cent of children aged 13-16, this shot up to more than 2 million in the crisis year of 1998, or 30 per cent of children aged 13-16.

Real education expenditure per child of elementary school age (expressed in 1985 prices) also moves with the economic cycle (GNP per capita and its growth rate), except in 1998, when education expenditure per child of elementary age did not decrease as the economic crisis took hold. Further inspection shows that gross elementary enrolment rates, and the number of children not in elementary school, also seem to move with the education expenditure per child.

On the basis of these data, the author estimated regression equations for elementary and secondary school participation rates. The results are shown in Tables 13 and 14. Table 13 tells us that the elementary participation rate is strongly and positively related to real education expenditure per child of elementary school age. It is also positively related, but not as strongly, to the growth rate in GNP per capita. It is strongly and negatively related to time (the variable year), which indicates that, since the gross elementary enrolment rate is very close to 100 per cent, it has to increase slower than before since 100 per cent is an upper limit. The regression in Table 13 also includes dummies for 1987-88 as well as for 1995-96, periods when the Government committed itself to expanding elementary education. The years 1995-96 were also a period of extreme optimism and great confidence in the economy.

Table 14 gives us the corresponding regression for gross secondary enrolment rate. It shows that the rate is positively and strongly related to the average (two-period) growth rate in GNP per capita. Although there has been a policy of free secondary education since 1994, lack of funds and infrastructure to provide universal and compulsory secondary education did not allow any positive relationship between education expenditure and gross secondary enrolment rate. The regression equation includes three dummies - one for 1986-88, one for

1992-96, and one for 1998. The 1986-88 period followed the economic collapse of the mid-'80s. The combination of low incomes and economic recovery during this period forced many youth of high-school age to opt for work rather than study, thus reducing high-school participation. The 1992-96 period saw much confidence in the Ramos administration, resulting in higher secondary enrolment. During this period secondary public school tuition fees were also removed, encouraging higher high-school enrolment rates. The year 1998 found the Philippines trapped in the East Asian crisis, with economic confidence in the system shattered. High-school enrolment rates dropped more than anticipated, as shown above.

#### *Forecasting the number of children not in school*

The regression equations discussed above provide more than a mechanism for explaining elementary and high-school participation. They can also be used to forecast, given particular economic conditions and educational budget, the number of children who will and will not enrol. In attempting this, the author assumed three possible scenarios for the 1999-2002 period.

- The first was the bleaker, low-growth scenario wherein 1999 was to be just as bad as 1998 (around -2.5 per cent growth in GNP per capita), and 2000-02 would bring stagnant (zero) growth to GNP per capita. The regional crisis, according to this scenario, would prove long drawn, extended perhaps by any combination of the following: (a) China's entry into the crisis and devaluation of the renminbi; (b) Japan's continuing and deepening recession and the failure of economic pump-priming measures; (c) slower growth or recession in developed countries, particularly Europe and the US; (d) more financial turmoil in the world markets, as other countries (possibly East European and Latin American countries) suffered withdrawals of foreign financial capital and experienced serious currency depreciation; and (e) economic and political crisis in the Philippines due to government mismanagement, cronyism, or massive withdrawal of foreign capital, including withdrawal of multinationals.
- The second was the medium scenario, wherein 1999 was to show a moderate, about 2.3 per cent GNP growth which would translate into zero GNP per capita growth. The years 2000-02 would experience slow recovery, with GNP per capita growing from 1 per cent to 3 per cent between 2000 and 2002. These figures are close to the low end of the Government's economic targets as of 1998.
- The third was the high scenario, wherein 1999 was to show a moderate, 1 per cent increase in GNP per capita, while the years 2000 and 2002 would see increasing growth in GNP per capita of 2 per cent to 4 per cent, respectively. This last forecast more or less jibes with the high end of government targets, wherein full recovery would be achieved by 2000.

Table 15 gives us the results of the forecasts summarized in Figure 5. The low scenario substantially reduces elementary enrolment rates, increasing the number of children not in elementary schools from around 240,000 in 1998 to more than 450,000 in 1999 and to more than 650,000 in 2002. This number corresponds to between 3.5 per cent to 5 per cent of children of elementary school age. One important point in our forecast is the fact that the medium and high scenarios do not differ too much from the low scenario forecasts, although forecasted numbers of children not enrolled in elementary school are lower. This is only logical, since our regression equation in Table 13 suggests education expenditure is the main determinant of elementary school participation. In our forecasts, we fixed the real education expenditure per child at the 1998 level.

It is evident the crisis brought on decreasing enrolment in elementary schools. But since in all three scenarios 1998 and 1999 are crisis years (since they yield less than the usual GNP per capita growth rate, thus aggravating the non-enrolment of children), and since education expenditure is the main determinant of elementary school enrolment, improvements in the economy may not be sufficient to get back to pre-crisis enrolment levels. Higher education expenditures and interventions at the family and community levels may be required to effect higher enrolment in elementary education.

Table 15 and Figure 6 also show, given the various scenarios, forecasted high-school participation rates and the number of children not enrolled in high school. In the low scenario, secondary school participation rates deteriorate in the years 1999 to 2002 compared to those of 1998, and the number of children not enrolled in high school increases from 2 million in 1998 to 2.16 million in 1999 and to 2.26 million by 2002. In the medium scenario, 2001 sees improvement but the total number of children not enrolled in high school still number 1.89 million by 2002, much higher than the pre-crisis, 1997 figure of 1.49 million. The forecasts for the high scenario do not differ substantially from those for the medium, except that significant improvement occurs in 2001 rather than in 2002.

With the more serious problem of high-school non-enrolees, then, it seems that speedy economic recovery is vital to reduce the number of children not entering. But it is also clear from Figure 6 that, if we want to reduce this number to pre-crisis levels within a reasonable period, interventions in the fiscal sector as well as at the family and community levels are also necessary.

In summary, the simple forecasts presented above suggest that, if we view children not going to school as symptomatic of the child labour problem, then both economic recovery and interventions at the fiscal, family, and community levels are urgently needed to tackle increasing non-enrolment caused by the economic crisis. The nexus of child labour and educational attainment is discussed in "Educational attainment of child labourers", below. We will discuss intervention policies in Sections 4 to 6.

### **3.3 Child labour participation**

The author applied data from the Labour Force Survey (LFS) conducted by the NSO. The survey includes questions for labour force participants aged 10-14, but processing and publication of the data are not done regularly, since the official working age is 15 years and older. We therefore requested that NSO conduct special processing for this study, and would like to acknowledge their contribution to this research.

#### *LFS regular surveys and the 1995 special survey*

Employment patterns usually display some seasonality, and labour force surveys are conducted annually in January, April, July, and October. The author used the October surveys from 1996, 1997, and 1998 to study the effects of the crisis, since October was the latest available data. October 1998 was also a good month to use because by that time the crisis was affecting the Philippines quite severely. The 1995 special survey for child labour was conducted in July 1995, and, since the sample seasons are different, this makes comparisons with 1995 more difficult. Furthermore, a quick comparison of the 1995 special survey and the regular October surveys from 1996-98 show that the 1995 survey captures a greater number of working children. The total number of working children aged 10-14 in the 1995 special survey totalled 1,263,608 while the 1996-98 October surveys indicate the maximum number of children in the labour force totalled a maximum of only 901,000 (in October 1998). The larger number of child workers in the special survey of 1995 may be due partly to the seasonal differences and partly to the fact that a more focused study (such as the 1995 survey) would capture more child workers than the much broader and less focused regular surveys. Nevertheless, important implications suggest themselves. For one thing, it is evident that regular surveys under-report child worker numbers.

Another problem is that regular surveys capture only child workers aged 10-14 and youths aged 15-17, while the 1995 special survey covered those aged 5-17. The 1995 special survey found that 88.6 per cent of child workers in the 5-14 range were aged 10-14. Trends and figures for 11.4 per cent of child workers - at least 160,000 very young children in July 1995 - are therefore missing.

The 1995 special survey also addresses questions such as school drop-outs and hazardous work that were not included in the regular surveys.

Still, the findings of the regular surveys are consistent with much of the information gathered in the 1995 survey, including the prevalence of child labour in agriculture and the bigger share of trade and service child workers among women and in the service sector. The proportions of male and female and rural and urban are also similar to the 1995 survey. Most trends and rates are similar, even if, as stated earlier, magnitudes are different. It must be pointed out again that, because of the different season and more focused methodology of the 1995 survey, the surveys presented in the following section are technically not comparable with the 1995 survey.

#### *Signs of supply-side push factors towards child labour*

The LFS asks the respondents whether they worked or looked for work in the previous week. If they fall into either category, they qualify as participants in the labour force.

Figures 7a and 7b (and Appendix 1) show labour force participation for all ages, those aged 10-14, and those aged 15-17 based on the October surveys from 1996, 1997, and 1998.

There was a marked increase in labour force participation among children aged 10-14 from October 1997 to October 1998. Total labour force participation for those aged 10-14, almost two-thirds of which are males (Figure 7a), increased from 799,000 in October 1997 to 901,000 in October 1998. This represented an increase in labour force participation for this age group from 9.6 per cent in October 1997 to 10.6 per cent in October 1998. (See Appendix 1 for detailed figures.) The increase in male participation, from 11.7 per cent in October 1997 to 13.4 per cent in October 1998, is more pronounced for this age group. The corresponding participation rate for females increased from 7.4 per cent to 7.6 per cent during the same period. Increase in labour force participation for the 10-14 age group affected both urban and rural areas. Figures 7a and 7b both show that previous growth from 1996 to 1997 decreased the absolute number of labour force participants in the 10-14 and 15-17 age groups. The crisis reversed this healthy trend.

The increase in labour force participation - from 1.53 million, or 29.2 per cent, in October 1997 to 1.61 million, or 30.7 per cent, in October 1998 (Figure 7b) - is less pronounced for the 15-17 age group. The increase in labour participation rates involves males in both urban and rural areas, as well as females in urban areas. (See Appendix 2.) Increases in labour participation rates for the 15-17 age group are stronger in the urban areas, although the actual levels of labour participation are much higher in the rural areas. (See Appendix 2.) Youths aged 15-17 are not strictly considered children. Nevertheless, the Philippines has concurred with ILO policy that youths aged 15-17 should not be involved in hazardous work, and the current study is also interested in labour force participation among this group. The LFS, unfortunately, cannot distinguish between hazardous and non-hazardous work.

The picture that emerges reinforces the intuition that reduced family incomes and lower school participation rates due to the crisis exert supply-side pressures on children to participate in the workforce. Increases in labour force participation rates for children and youths aged 10-17 are larger than the increases in the labour force participation rates for all ages. (See Appendix 1 again.) This points to stronger pressures on younger household members to enter the labour force. In summary:

- Labour force participation among children 10-14 and youths 15-17 has increased, especially in the 10-14 age group.
- The increase is especially marked among young males aged 10-17 in both urban and rural areas, but more young urban females are also entering the workforce.

### 3.4 Contracting demand for labour

#### *Rising unemployment*

Figure 8a (and Appendix 2) shows that, even with the higher labour force participation rates discussed above, unemployment rates for children aged 10-14 as well as youths aged 15-17 increased from October 1997 to October 1998 because of the crisis. This was actually faster than the rise in unemployment rates among older members of the labour force. However, the increase in unemployment rates did not translate into lower numbers of employed children. In fact, there was an increase in both employed and unemployed children aged 10-14 and youths aged 15-17. Comparing the October 1997 data with those of October 1998 shows an increase in employed children 10-14 from 732,000 to 796,000 (males increased from 462,000 to 520,000; females increased from 270,000 to 276,000) and in employed youths aged 15-17 from 1,321,000 to 1,345,000 (males increased from 881,000 to 896,000; females increased from 440,000 to 449,000).

In addition, unemployed children aged 10-14 increased from 67,000 to 106,000 (males increased from 37,000 to 67,000 while females increased from 30,000 to 39,000), and youths aged 15-17 increased from 206,000 to 266,000 (males increased from 113,000 to 173,000; females remained at 93,000).

Figure 8a shows that increasing unemployment rates for young male children aged 10-14 are particularly marked in urban areas. Unemployment rates for males aged 10-14 increased from 17.5 per cent in October 1997 to 31.2 per cent in October 1998. Their female counterparts actually saw their unemployment rate falling during the crisis period - from 21.9 per cent to 20 per cent. The net result in urban areas was that the unemployment rate for male children, who before the crisis had lower unemployment rates than female children, surpassed the unemployment rate of females.

Figure 8b shows a similar picture for urban youths aged 15-17. The male unemployment rate for this age group in urban areas increased from 27.1 per cent in October 1997 to 42.0 per cent in October 1998. The female unemployment rate declined from 26.7 per cent to 24.4 per cent.

Figure 8c shows that, in rural areas, unemployment rates increased among male and female children aged 10-14. Among female children the rise was higher, increasing from 7.3 per cent in October 1997 to 11.7 per cent in October 1998. Among male children aged 10-14 as well, the unemployment rate increased from 6 per cent in October 1997 to 8.9 per cent in October 1998.

Figure 8d shows a similar picture for rural youths aged 15-17. In this category, the male unemployment rate increased from 8.14 per cent to 11.96 per cent, while the female unemployment rate rose from 17 per cent to 17.74 per cent. It should be noted that the female unemployment rate for the 15-17 age group is very high compared to unemployment rates for other rural groups.

In summary, we see a large increase in unemployment rates among young males in both the 10-14 and the 15-17 age groups and in both urban and rural areas. The increase among young males is especially marked in urban areas. An equivalent increase appears in the unemployment rates of rural females, while their unemployment rates in urban areas declined slightly. This will be explained later.

The increased unemployment rates for children and youths simply indicate that, even with the supply-side pressure on children and youths to enter the labour force, the demand for their labour is contracting due to the economic recession and downturn.

These increased unemployment rates for children and youths, particularly evident among males in urban areas, may be an ominous sign that children and young people are now more

vulnerable to entering informal, illegal, and hazardous activities. This is all the more worrisome when we look at the educational attainments of the young unemployed, which indicate a large segment of out-of-school youths.

In summary:

- Unemployment rates for young males aged 10-17 rose in both urban and rural areas, with urban unemployment rates reaching more than 30 per cent.
- Unemployment rates for young females aged 10-17 also rose in rural areas, with rates running about 17 per cent for those aged 15-17. Unemployment rates for young urban females still exceeded 20 per cent, at the time of the survey, but had not risen during the crisis.

#### *Fewer working hours*

Figures 9a to 9d (and Appendix 3) show that a larger percentage of children and youths aged 10-17 were working fewer than 40 hours between October 1997 and October 1998. The proportion of children aged 10-14 working fewer than 40 hours increased from 82.9 per cent in October 1997 to 85.7 per cent in October 1998 (Appendix 3). The percent of youths aged 15-17 who were working fewer than 40 hours also increased from 54.5 per cent in October 1997 to 57.1 per cent in October 1998. Figures 9a to 9d show that the increased proportion of young people working fewer than 40 hours applied in both urban and rural areas and for both males and females, except for rural females aged 15-17.

The decline in those working 40 hours or more is again a reflection of reduced demand for labour due to economic recession and the weather disturbances that affected work in the rural areas. The high percentage of young workers working fewer than 40 hours is a reflection of the fact that many child workers and young workers are part-time workers and may be going to school at the same time.

#### *More work hours among urban female children and youths*

Figures 9a and 9d illustrate other important facts:

- Compared to those in rural areas, smaller percentages of young people work fewer than 40 hours in urban areas. Longer work hours in urban than in rural areas are to be expected, since the bulk of work in rural areas for young people is on-farm agricultural activities, which are seasonal and only supplementary to the work of adults. Work in urban areas, on the other hand, involves longer and more regular hours in trade, services, and the like. This will be discussed further when we look at differences according to economic sector.
- In urban areas, a lower proportion of females in both the 10-14 and 15-17 age groups, compared to their male counterparts, are working fewer than 40 hours. In October 1998, 30 per cent of female workers aged 10-14 worked 40 hours or more in urban areas, compared to 19.3 per cent for their male counterparts. Similarly, in October 1998, 72.6 per cent of female workers aged 15-17 worked 40 hours or more in urban areas, compared to 46.6 per cent for their male counterparts. The higher percentage of young female full-time workers in urban areas indicates a higher proportion of women going into jobs as sales workers and service workers (market vendors, domestics), which require longer working hours.
- In rural areas, the reverse is true for children aged 10-14. One can see from Figure 9b that a much higher percentage of female children in this age group are working fewer than 40 hours, compared to their male counterparts, indicating they are working fewer hours. This is mainly due to the fact that female children are less involved in agricultural activities which dominate rural labour.
- For female youths aged 15-17 in rural areas, the percentage working fewer than 40 hours is similar to the urban pattern, which is less than that of their male counterparts. This is probably because female youths in rural areas suffer high unemployment

(because of the concentration on agricultural activities) and those who are employed in non-agricultural activities (trade, services) require longer hours.

#### *Mixed reaction to additional work*

In the LFS, under-employed workers are defined as workers looking for additional work. Figures 10a to 10d (and Appendix 3) show the percentages of working children still looking for additional work:

- Figures 10a and 10b indicate that, in general, more children aged 10-14 and youths aged 15-17 in urban areas were looking for additional work between October 1997 and October 1998. The increase was particularly marked for female children aged 10-14, where the percentage of this group seeking additional work increased from 6.3 per cent to 11.4 per cent.
- The only exceptions were urban male children aged 10-14, where the numbers and percentage looking for additional work decreased. This is probably due to the bottleneck faced by male children in finding jobs in urban areas. Female children and older youths have more potential to go into trade and services in urban areas, as our analysis will show later.
- In rural areas, a declining number of children aged 10-14 have been looking for additional work during the crisis (Figure 10c). This is perhaps because in rural areas children serve as only supplementary labour in agricultural activities, which have been reduced by the weather disturbances.
- In rural areas, an increasing number of male youths aged 15-17 are actively looking for work, while the number of female youths looking for work has declined (Figure 10d). This is because many male youths 15-17 are solely dependent on agricultural activities (which were reduced by the weather disturbances) and have to seek alternative sources of livelihood. Meanwhile, agricultural activities mainly serve only as supplements for female youths, and a decline in related jobs does not drive them to seek additional work.

### **3.5 Location of child labour, employment, and unemployment**

#### *Rural patterns*

Figures 11a to 11b (and Appendix 4) locate the labour force participants. Compared to those of other ages and to people of similar age but not part of the labour force, labour force participants aged 10-14 and 15-17 are much more concentrated in rural areas. In October 1998, about 77 per cent of labour force participants aged 10-14, and 65.2 per cent of those aged 15-17, were found in rural areas.

Within both age groups, a higher percentage of female labour force participants are found in urban areas than are their male counterparts. (As of October 1998, 26.7 per cent of female labour force participants aged 10-14 and 46.1 per cent of those aged 15-17 worked in urban areas.)

#### *Urban patterns*

The crisis has increased the share, in both age groups, of both males and females from urban areas. This suggests rural-urban migration, especially for young labour force participants. This is illustrated in Figures 11a and 11b, where we see the urban proportion of young labour force participants increased from October 1997 to October 1998 for both males and females of ages 10-14 and 15-17.

Similarly, from October 1996 to October 1998, the percentage of employed children in urban areas aged 10-14 and 15-17 grew, although the absolute percentage is still much higher in rural areas. This is shown in Figures 11c and 11d. The increase in the percentage of urban-based workers is particularly marked for female workers. The proportion of urban employment among urban male workers aged 15-17 declined slightly, reflecting the extensive unemployment among male youths in urban areas discussed earlier.

Figures 11e and 11f show the percentage share of urban location for the unemployed. There has been a marked increase in the share of urban unemployed among male workers aged 10-14 and, to a lesser extent, among male workers aged 15-17. By contrast, between October 1997 and October 1998 the female unemployed became more rural based. Again, the trend is true for the female unemployed, especially those aged 10-14 and, to a lesser extent, those aged 15-17. It appears young female workers are being absorbed in urban rather than rural areas. Young male workers, on the other hand, are increasingly becoming unemployed in urban areas. We shall discuss these important facts again later.

### **3.6 Educational attainment**

The LFS does not directly ask respondents whether they are going to school, but it does investigate their highest educational attainment. We may thus compare educational attainments of child labour participants with those not in the labour force, as well as the attainments of the employed versus the unemployed.

#### *Lower educational attainment*

Figures 12a and 12b(Appendix 5) compare - by gender and location for those aged 10-14 and 15-17 - the highest educational attainment of labour force participants, including both employed and unemployed, and those not in the labour force.

Figure 12a shows that, in the 10-14 age group, most labour force participants have reached grades 1 to 5. The next largest proportion have finished elementary education. Compared to those not in the labour force, a larger percentage of children aged 10-14 in the labour force have no formal schooling. In October 1998, 5.21 per cent of children of this age group and in the labour force were without schooling, compared to 1.35 per cent among their counterparts not in the labour force. Among the younger members of this age group, a larger proportion of those working or looking for work had not had elementary schooling.

Figure 12a also indicates that, for children aged 10-14 in the labour force, a higher percentage has finished elementary education than their counterparts not in the labour force. This implies that a larger proportion of children joining the labour force are those who have finished elementary schooling. But Figure 12a also shows that children aged 10-14 in the labour force, compared to those not, include a lower percentage reaching first- to third-year high school (11.09 per cent and 16.12 per cent, respectively, as of October 1998). We may therefore posit a higher tendency for children aged 10-14 entering the labour force not to go to high school.

As we see in Figure 12b, an even more marked difference appears between the educational attainment of youths aged 15-17 in the labour force and outside it. Again, a higher proportion of those in the labour force have not had any schooling. Furthermore, a much higher percentage of such youths aged 15-17 have completed only elementary schooling (23.77 per cent), compared to those not in the labour force (7.1 per cent). Correspondingly, there is a much higher percentage of youths aged 15-17 not in the labour force that are in first- to third-year high school (65.3 per cent) and that have reached college undergraduate levels (6.52 per cent), compared to those in the labour force (35.13 per cent and 1.99 per cent, respectively). These statistics point to the obvious but important fact that young people in the labour force are much less educated than their counterparts outside it. Again, these trends hold true for both males and females in both urban and rural areas. However, females are

more educated than males, since a higher percentage of females reach and finish high school and go on to college (see Appendix 5).

That children and youths joining the labour force are largely out-of-school individuals is not surprising. From the supply side, school non-enrollees have more incentives and pressures to join the labour force. From the other end, working children and youths face more difficulties in school and eventually drop out (as confirmed by the 1995 special survey).

#### *Increased non-enrolment*

What is disturbing is that for both sets of children aged 10-14 - those in the labour force and those not - the proportion who have finished elementary schooling or have gone through first- to third-year high school fell between October 1997 and October 1998. For those in the labour force (Figure 12c), the proportion of children aged 10-14 who finished elementary school dropped from 19.4 per cent in October 1997 to 18.07 per cent in October 1998. For those not in the labour force (Figure 12d), the corresponding percentages were 15.26 per cent in October 1997 and 14.69 per cent in October 1998.

Again, for children aged 10-14 in the labour force, the percentage reaching first- to third-year high school dropped from 12.02 per cent in October 1997 to 11.09 per cent in October 1998 (Figure 12c). The corresponding percentages for their counterparts not in the labour force are 16.81 per cent in October 1997 and 16.12 per cent in October 1998 (Figure 12d). This points to more out-of-school children as a result of the crisis. The fact that the declines are sharper for those in the labour force than those not in the labour force simply points to the fact that child labour is highly correlated with non-enrolment in school.

#### *More out-of-school youths among the unemployed*

Among children aged 10-14, Figure 12e (and Appendix 5) shows that the unemployed include a higher percentage with no schooling at all (11.3 per cent for the unemployed versus only 4.4 per cent for the employed). In addition, a higher share of unemployed children are found at the higher levels of elementary school graduates and first- to third-year high school. These may be older children who have discontinued schooling (elementary students not going on to high school, high-school students not finishing high school) and who have joined the ranks of the unemployed looking for work.

Figure 12f tells a similar story for youths aged 15-17. The unemployed are comprised of children reaching high school and undergraduate levels, higher educational levels than those attained by the employed. The large proportion of high-school graduates among the unemployed, it is suggested, include youths who finished high school but who are not going to college and are still looking for work.

Figure 12g shows that, for children aged 10-14, the economic crisis also drastically increased the percentage of unemployed children whose highest educational attainment is first- to third-year high school. This large increase is consistent with our earlier analysis suggesting enrolment in secondary levels dropped significantly. This provides additional evidence that the crisis has created a larger pool of unemployed out-of-high-school youths. If one views unemployed children in the labour force as those most vulnerable to illegal, informal, and hazardous activities, then children not enrolled in or dropping out of both elementary and high-school education are those most vulnerable to these activities.

This picture is confirmed by Figure 12h. For labour force participants aged 15-17, the crisis has increased the percentages among the unemployed of those whose highest educational attainment is first- to third-year high school. Appendix 5 shows that the same holds true among employed youths aged 15-17. The increased share of first- to third-year high school students among those aged 15-17 in the labour force in October 1998 suggests that increased non-enrolment in high school contributes to the increasing number of labour force participants among this age group.

Again, the growing share of students among unemployed and employed youths who have not finished high-school is a problem that should be addressed immediately.

### **3.7 Employment by sector**

Figures 13a to 13h (and Appendix 6) give us the LFS results on the economic sectors employing children aged 10-14 and young people aged 15-17 in both urban and rural areas.

#### *Agricultural employment dominates*

The figures show clearly that the majority of employed persons in the 10-14 and 15-17 age groups work in the agricultural sector. This is particularly true in rural areas, where around 90 per cent of male children 10-14 and more than 80 per cent of male youths 15-17 are employed in the agricultural sector. This pattern is seen to a lesser extent even among males in urban areas, where more than 50 per cent of those aged 10-14 and more than 33 per cent of those aged 15-17 work in agriculture.

Females in rural areas are also more likely to work in agriculture, with more than 75 per cent of female workers aged 10-14 and around 50 per cent of those aged 15-17 employed there. In urban areas, however, a lesser proportion of females than males tend to work in agriculture: only 25 per cent of female workers aged 10-14 and less than 10 per cent of those aged 15-17. Female children aged 10-14 in urban areas tend to work more in wholesale and retail trade (more than 30 per cent in October 1998) and services (around 30 per cent). Female youths aged 15-17 are found more in personal services (63 per cent) and in wholesale and retail trade (around 19 per cent).

In urban areas, trade and services also comprise significant shares of employment for male children aged 10-14 (23.7 per cent in trade and 12.9 per cent in services in October 1998) and male youths aged 15-17 (18.26 per cent in trade and 15.5 per cent). Other significant sectors employing young workers are manufacturing (less than 10 per cent in all categories), transportation, storage and communication (around 9 per cent for young male workers aged 10-17 in urban areas), and construction (7.8 per cent to 12.5 per cent for male workers aged 15-17 in urban areas).

#### *Increasing share of wholesale and retail trade*

The figures also show that the crisis has reduced employment in agriculture, manufacturing, construction, and community, social and personal services, while increasing the share of employment of wholesale and retail trade. This increase is especially marked for the 10-14 age group among both male and female workers in both urban and rural areas, and especially so in urban areas. The movement of young people to market vending and street-selling needs careful analysis.

In urban areas, the wholesale and retail trade as well as community, social, and personal services are big employers of children and young people. In urban areas, the wholesale and retail trade in October 1998 employed 23.7 per cent of male workers aged 10-14, 31.1 per cent of female workers aged 10-14, 14.1 per cent of male workers aged 15-17, and 18.9 per cent of female workers aged 15-17. During the same period, community, social, and personal services employed 12.9 per cent of male workers aged 10-14, 30 per cent of female workers aged 10-14, 15.5 per cent of male workers aged 15-17, and 63.2 per cent of female workers aged 15-17. These sectors also absorb a lot of young female workers in rural areas. Inasmuch as these sectors are dominated by informal and underground markets, those concerned about child labour issues should further investigate specific jobs and conditions in these sectors, especially as they affect child workers and hazardous activities. Important occupations absorbing young workers in these sectors include domestics, market and street vending, and a host of other informal and underground activities.

### 3.8 Employment by class of worker

Figures 14a to 14h (and Appendix 7) show the employment of young workers by class of worker.

As expected, many working children aged 10-14 and young workers aged 15-17 are engaged as unpaid family workers (more than 70 per cent for male and female children in rural areas, more than 50 per cent for male and female children aged 10-14 in urban areas, and more than 50 per cent for male and female youths aged 15-17 in rural areas). In urban areas, the share of those working in private firms and private households is much higher, and more significant, than it is in rural areas. Male workers aged 10-17 are more likely to be hired by private firms, while female workers aged 10-17 tend to be hired by private households. This confirms the perception that young males in urban areas may be hired by firms for menial and other work, while young females are hired as domestics and household help.

Figures 14a to 14h clearly indicate that the economic crisis reduced self-employment and employment by private establishments. The share of unpaid workers increased for both male and female young workers in rural areas, and for female children aged 10-14 in urban areas. The share of employment by private households increased substantially for male youths aged 10-14 in urban areas (Figure 14a) and slightly for male and female youths aged 15-17. Employment by private households declined in rural areas. It seems the current economic crisis is seeing a trend towards the absorption in rural areas of young workers as unpaid family workers, or in urban areas as workers in private households, in wholesale and retail trade, or personal services (domestics).

### 3.9 Summary

The Labour Force Survey reveals growing labour force participation among children aged 10-14 and young people aged 15-17. The main factors are (a) supply-side pressures for young people to join the work force during this period of economic difficulty and (b) higher non-enrolment in schools.

At the same time, the economic recession has reduced the demand for labour and has increased unemployment rates among children aged 10-14 and youths aged 15-17. Most seriously affected are young male workers in urban areas. Unemployment rates for young workers in urban areas, both male and female, exceed 20 per cent and run more than 30 per cent for boys aged 10-14 and more than 40 per cent for young men aged 15-17. Rural areas, due to the weather disturbances, have also seen increasing unemployment. Unduly affected are female children and youths. Increasing unemployment among children and youths actively seeking work is worrisome, since they become vulnerable to informal, illegal, and hazardous activities. Out-of-school unemployed youths are also vulnerable to the dangers of drugs as well as juvenile delinquency and other forms of violence.

Most child workers and young workers are unpaid family workers in agriculture. The crisis has increased the proportion of unpaid family workers in rural areas due to the agricultural crisis. This increases the pool of unemployed and underemployed among the youth and reinforces those problems associated with unemployed youths discussed earlier. Furthermore, the crisis has increased the share of children and youths employed in wholesale and retail trade and those employed by private households. This encourages the entry of young workers into the informal sector, with increased possibilities of market vending and street selling. This raises issues concerning the difficulty of monitoring and implementing labour standards with regard to street children and the informal sector.

Female youths in urban centres are more exposed to the trade sector and to community, social, and personal services. These sectors demand longer hours and employ a higher proportion of full-time workers among the young. The LFS also reveals active searching among young females for additional work in these sectors. More information and analyses in

this area are vital, if we are to track the growth and monitor conditions of child labour in the informal sector.

## **4. Responses**

### **4.1 Addressing the agricultural and financial crisis**

The preceding sections show that the economic downturn has reduced school enrolment rates in elementary and, most especially, in secondary schools. Together with increased economic difficulties, this has resulted in increased labour force participation by children and youths. It is essential that these supply-side pressures be eliminated as soon as possible.

It is therefore imperative that conditions leading to increased poverty and reduced incomes are corrected by changes in the macro environment. In this regard, Government and IMF policies have already led to improvements. From the second half of 1998, there has been a shift from contractionary policies - such as high interest rates and fiscal tightening during the latter half of 1997 and early part of 1998 - to policies that increase liquidity and lower interest rates to ease the credit crunch. Higher fiscal deficits have also been allowed to prime the economic pump and to protect basic social services.

Thus, treasury bill rates declined from a high of more than 20 per cent, at the end of 1997 and in early 1998, to almost 10 per cent in late April 1999. This decrease was effected by reducing the overnight borrowing and lending rates of the Central Bank and the required and liquidity reserve ratios from the unprecedented heights of the last quarter of 1997. Even then the credit crunch continued, as of late 1999, due to financial weaknesses, low business confidence, and a stricter rule on capital adequacy ratios (although this had been relaxed).

The national deficit was allowed to grow to around 2 per cent of GNP in 1998. According to forecasts, it was to increase to at least 3 per cent of GNP in 1999. This should have released funds to prime the economic pump and to ensure that basic social services were not adversely affected. The Government had already identified areas - the agricultural sector and basic infrastructure such as farm-to-market roads - where pump-priming would be undertaken. Aside from domestic financing through the issue of treasury bills, the Government is increasingly heeding the call to negotiate soft loans from multilateral agencies such as the World Bank and the Asian Development Bank and bilateral sources such as the Miyazawa Funds and the Organization for Economic Cooperation and Development (OECD) countries.

Reflating the economy simultaneously with those of other countries in the region is a sound though belated decision. On the plus side, at least as of the latter half of 1999, currencies in the region had stabilized and the world financial markets were quiet, devoid of volatility. These developments were expected to renew business and investor confidence. There were already weak signs of increased production, car sales, and investments in February and March of 1999. Falling interest rates and easing of credit and liquidity constraints seemed to be having a positive effect in April, and many businessmen turned more bullish on the economy. On the minus side, confidence had not fully returned, at the time of this writing, with the Philippines rocked by issues of cronyism and significant withdrawals and departures by multinationals. Furthermore, regional and international conditions can still be affected by adverse events in China, Japan, Indonesia, and other financial markets.

The Philippines has been slower than its neighbours to contain the social costs of the crisis. Efforts at rapid appraisal of the social impact of the crisis and targeting groups vulnerable to the crisis have been rather tame, perhaps due to perceptions at home and abroad that the Philippines has not been affected by the crisis as badly as its neighbours.

As of mid-1999, however, the Estrada administration had categorically stated that the budget for education and health would be protected from any reduction or cutback. More so than any budget item, the education budget will not be reduced. From a long-term perspective, the

administration has also committed itself to stronger anti-poverty programmes and to a stronger focus on rural and agricultural development. However, programmes and action plans designed to achieve these goals need to be more concretely formulated.

#### **4.2 Addressing the decline in school participation**

Declining school participation is one of the most important areas where the child labour problem can be directly addressed. A previous section has demonstrated that a high proportion of child labour participants are non-enrolees. We have also noted the sharp drop in high-school participation rates and concomitant growing labour force participation and increasing unemployment among children of high-school age.

Even before the crisis, the Department of Education, Culture and Sports (DECS) initiated a programme to ensure enrolment and retention of elementary school students. The DECS and local governments cooperate to identify families with children of elementary school age. The programme aims at early enrolment, wherein parents are encouraged to enrol their children as early as the end of January. (The school year starts in June.) The programme also includes a policy of not rejecting any child seeking enrolment in elementary education; and teachers are asked to participate in neighbourhood outreach campaigns, including six-year-olds in their recruitment drives. (Until 1995, seven years was the minimum age for grade 1.) The DECS programme needs to be intensified in this period of intense economic difficulty.

The DECS also administers drop-out intervention programmes for elementary school children, but, as of late 1999, these remained in the pilot phase and were being administered only in certain poor provinces. These intervention programmes consist of financial support for lunch, transportation, and other school expenses. They are also coordinated with non-government organizations in the balik-paaralan (Back to School) programme for elementary school children.

The latest scheme, which is still in the planning and initial pilot stage, is the adopt-a-class programme. Here, the DECS tries to secure funds from donors for certain classes in "child-friendly" schools to support a one-student-one-book policy and to provide school kits (including notebooks, workbooks, ball pens, etc.) for elementary school children.

Elementary education in the Philippines is universal and compulsory. Secondary education, on the other hand, has been free for public schools only since 1994 and is not compulsory due to insufficient public school facilities and budget funds. DECS approaches for secondary school facilities therefore differ from those for elementary school children.

To encourage more students of high-school age to enrol in secondary education, even if they cannot be accommodated in public schools, the Government, through Funds for Assistance to Private Education (FAPE), provides funds to private high schools equivalent to what the Government would spend for public high-school students.

DECS has also instituted easy and affordable education programmes and alternative delivery systems to students of high-school age not in school. The out-of-school programme provides an accreditation and equivalency programme parallel to those in actual high schools. The out-of-school youth take validating exams and bridging programmes that make them eligible for college.

The policy for out-of-school youths of high-school age therefore differs from that for children of elementary school age. The policy is less to keep these youths in school or bring them back to formal education than to provide parallel programmes as substitutes for a high-school education.

### **4.3 Monitoring, rescue, and rehabilitation**

The Bureau of Women and Young Workers (BWYW) of the Department of Labor and Employment (DOLE) and their labour inspectors coordinate with local governments, the Philippine National Police (PNP), employers' associations, and trade unions in identifying and rescuing child labourers. The Bureau of Social Protection of the Department of Social Welfare and Development (DSWS) takes temporary custody of rescued children while searching for their parents or alternative families. The children are given educational assistance for non-formal or vocational education and livelihood loan assistance.

The DSWS also has a special programme for street children. It aims to reduce their numbers through coordination with local government units, the PNP, civic organizations, and the private sector. The strategy mainly consists of a public information media campaign emphasizing the responsibilities of parents and pursuing their punishment in cases of child abuse and neglect.

### **4.4 An anti-child labour Magna Carta**

There have been moves to draft a bill, sponsored by Senator Loren Legarda, that details rules and regulations and provides child labour laws with more teeth. This legislation is to include:

- formal institutionalization of the National Committee on Child Labour (NCLC), a coalition of government and non-governmental agencies and organizations that coordinates closely with ILO-IPEC;
- detailing the terms and conditions of employment of child labour and the protection of children's rights; the bill will define more clearly hazardous activities and specify permissible and non-permissible work conditions and undertakings;
- amending current legislation allowing apprenticeship of those aged 14-15 years, which is being abused by some to exploit child labour;
- setting the minimum wage payment for child labour and prohibiting full-time (8 hours a day) work for children below 15 years of age (a maximum of four hours a day might be imposed); the bill will specify a maximum of eight hours a day work for youths aged 15-18, and copies of birth certificates will be required for young workers in formal establishments; and
- penalizing parents and employers for infringements of the child labour law; employers, subcontractors, and the like will be clearly defined in law, making it clear who should bear sanctions and penalties for infringements.

### **4.5 ILO-IPEC initiatives**

The crisis erupted at a time when ILO-IPEC had strengthened the organizational participation of government agencies, non-government organizations (NGOs), trade unions, church groups, and the media. Many plans and policies, including those mentioned above, were the results of programmes and interactions among ILO-IPEC members before the onset of the crisis. Given the current crisis, that group is now aware of the even more urgent need to implement existing plans and policies, as well as to formulate new ones addressing the effects of the crisis on child labour. Group activities gained significant momentum in the months just before the crisis and following. The current situation should thus present a challenge to this group, where there already exists needed organizational structure, institutional cooperation, high morale, and enthusiasm.

Before the crisis, ILO-IPEC had formulated the following key approaches to the child labour problem:

- Mainstream the issue of child labour and child protection as important policy issues at the national, regional, and provincial levels. This should be done via national media and advocacy campaigns, formulation of legislative agendas, strengthening

coordination, social alliances, and capability building directed towards child labour programmes.

- Make intolerable forms of child labour the priority target, identifying and reaching children most at risk.
- Use existing statistics and surveys as well as surveillance, outreach, and investigation, together with a strong reliance on complaints from legitimate sources to accumulate vital information on child labour. Encourage the cooperation of NGOs, trade unions, church bodies, the media, and civil society in general.
- Consolidate and integrate community approaches in prevention, protection, withdrawal, and rehabilitation of child labour. Community organization and capability building are critical in facilitating grassroots response to the child labour problem.
- Work directly with parents and with working children and their organizations.
- Broaden access to education in tackling the child labour problem. This includes financial support for schooling via educational scholarships through NGOs and private foundations, and provision of non-formal or alternative learning programmes for out-of-school children and youths.
- Counter inadequacies in direct interventions and rescues by encouraging NGOs and the private sector to participate in the prevention, identification, and rescue of child labour.
- Target and lobby for legislative and judicial actions and policies to bring justice to children.

ILO-IPEC members, following their programme consultation of 28 March 1998, proposed the following measures to cope with the crisis:

- \* strengthen, broaden, and deepen scholarship programmes, livelihood projects, and self-help schemes;
- \* encourage and reinforce inherent resilience through values clarification and coping psychology;
- \* create and empower community-based pools of implementers;
- \* document and replicate successful programmes;
- \* embark on preventive organizing schemes to anticipate harder times;
- \* mainstream child labour concerns and put child labour on the map of public concern through advocacy;
- \* provide real help through economic activities that directly result in a more stable economic base;
- \* organize and enhance partnerships and networks;
- \* more strictly enforce laws to strengthen existing child labour programmes;
- \* undertake research on various areas of concern related to the child labour issue;
- \* mobilize local resources;
- \* build the capability and capacity of caregivers and institutions to provide care to the most affected;
- \* streamline communication with international donors so that concrete help of the kind needed can be gotten from them, given clear signals of worthiness; and
- \* reinforce donors to counter donor fatigue.

As outlined, of course, these tasks are rather sweeping and various. Initial efforts must focus on key policies and concrete measures.

## **5. Lessons**

### **5.1 Long- and short-term macro level policies**

The Philippine experience shows that economic difficulties and non-enrolment or dropping out among students are closely associated with increased work participation of children. We have seen in the early sections of this paper how the child labour problem has become more serious in the Philippines mainly because this country lagged behind some of its neighbours in terms of growth, social improvements, and poverty alleviation. Thus, the primary objective

is sustained growth and development that effects improvements in social and human conditions, significantly alleviating poverty as part of this. The Philippines have been slow to achieve this aim, as we have seen, not only because of the economic boom-bust cycles, but also because the quality of growth has been inferior, biased towards urban and growth centres at the expense of rural and agricultural areas and hinterlands.

On a macro level, the Philippines is on the right track in rejecting the traditional austere and contractionary policies that were the initial responses to the crisis. The will and determination to reflate and pump-prime the economy and to relax monetary and fiscal policies are the correct responses, if the country is to avoid further declines and deterioration in incomes and employment.

But a long-term perspective is needed here. Especially for the Philippines, which has for too long experienced adverse boom-and-bust cycles, it is imperative that this crisis should not recur. We have seen how each economic downturn causes further deterioration in the child labour situation, something that is very difficult to reverse. Thus, especially in this world of increasing economic liberalization and capital mobility, the Philippines should join the increasing number of institutions calling for a better international financial architecture. Such an architecture would institute rules and mechanisms for orderly debt rollovers and workout arrangements between private debtors in crisis countries and their international creditors. It would also allow countries to tax and control short-term speculative financial flows, stemming undue volatility and excessive inflows and withdrawals.

The Philippine Government should also consider an alternative development strategy, moving agricultural and rural development to the forefront while promoting regional equality, anti-poverty measures, and social and human development. Finally, the East Asian crisis has highlighted the fact that, despite decades of economic prosperity, the other East Asian countries have not come up with social insurance institutions and safety nets for periods of recession and unemployment. The Philippines should learn from this, and begin establishing social insurance mechanisms - particularly unemployment benefits and health and education insurance - so that uncontrollable downturns will not put undue pressures on the families of poor children. Our study shows that child labour (especially increased work participation by children) is a coping mechanism for families during times of economic difficulties. Reducing these difficulties in times of economic slowdown is essential, if we are to eliminate the child labour problem. Social insurance is more easily instituted during times of economic growth and prosperity; and plans for such institutions should be incorporated in alternative development strategies developed by the Government.

## **5.2 Policies to keep children in school**

This paper has presented forecasts for numbers of children denied an education due to crisis-related factors. These forecasts emphasize the fact that economic downturns dramatically increase the number of children not enrolled in schools. It takes a long time to reverse the process, especially in the face of long-drawn crises such as the current one. As mentioned earlier, this requires direct interventions in terms of greater education budgets, as well as interventions to prevent non-enrolment and school drop-outs.

Current intervention programmes for elementary school drop-outs, as suggested in an earlier section, are laudable. But they remain limited in scope and experimental in nature. Institutionalizing funds for such programmes by incorporating them in the regular government budget is a long-term goal; however, with revenues inadequate even by 1997 standards due to declining incomes, short-term prospects are not favourable. We propose measures to deal with this situation in the last section of the paper.

The current parallel programmes for out-of-school youths should eventually be supplemented with schemes to retain high-school students in formal education. Alternative non-formal or parallel programmes are worthwhile, inasmuch as they tackle the loss of education and human development due to non-enrolment in schools. But that is only part of the problem. If one wants to reduce nearly full employment of children below 15 years of age, and to prevent

employment in hazardous activities of youths 15-17 years of age, then one has to supplement this programme by keeping high-school students in the formal education system. Our analysis shows that the current child labour problem is directly correlated with the issue of children and youths dropping out of high school. Again, we will suggest ways of dealing with this problem in the last section.

### **5.3 Monitoring victims in the school, the workplace, and the streets**

Today, with both child labour participation and child unemployment rates rising, children are increasingly vulnerable to employment in illegal, underground, and hazardous activities. Thus, we need increased surveillance and rescue operations by labour inspectors, the police force, local government units, and NGOs. Our study suggests increased surveillance is needed in the informal sector of trade and services, particularly in urban areas. There is also a greater need to cater to out-of-school youths and street children (especially male children and youths where unemployment in urban areas is high), ensuring that they do not become victims of juvenile delinquency, drugs, crime, child abuse, and other forms of violence.

Although the 1995 special survey and the regular LFS surveys show that about 70 per cent of part-time child workers probably remain in school, we must not be complacent, thinking that the child labour problem is less acute. The reasons for these figures are clear:

- As mentioned earlier, the 1995 special survey indicates that working reduces school attendance and performance among children, and increases the chances they will drop out. Thus, there is a close relation between child labour and the low quality of education available to the child labourer.
- Research referred to in this paper proves the crisis itself is reducing enrolment, especially in high school. Given other conclusive correlations between child labour and lower educational attainment (non-enrolment or a discontinuation of schooling), this points to supply-side pressures for child labour.
- Given indications (which need further verification) that unemployed children and youths include a higher proportion of out-of-school children and youths, the problem of street children, juvenile delinquency, hazardous, illegal, and underground activities for children and youths become a bigger problem.
- Lastly, the author's common sense suggests that many of the young workers who are both working and going to school are engaged in agricultural and rural activities. As we have seen, there is still a sizeable share of child labour in other sectors - in wholesale and retail trade, services, manufacturing, transportation, and construction - which probably entail close to full working hours. These sectors should be closely monitored and regulated in their use and abuse of child labour. Even agricultural and rural activities have to be monitored, if we are to ensure that the use of child labour remains within lawful boundaries, presenting (a) no exploitation, overly long hours, or overly difficult work, (b) no exposure to dangerous chemicals or work conditions, and (c) no obstacle to the child's schooling and class performance.

### **5.4 Supply-side and demand-side factors**

The effects of the crisis are two-pronged: (a) as incomes decline and unemployment increases, there is a supply-side push towards child labour participation as school enrolment falls and the vulnerability of the child to labour participation increases; and (b) child labour is often used as a coping mechanism to supplement the family's declining income.

But, as we have seen, demand factors have constricted demand for child labour and caused unemployment and reduced working hours even among child labourers. The reduced demand is strong in the agriculture, manufacturing, construction, and even the services sectors. But we have also seen earlier that the net effect of the crisis is an increase in both the number of employed and the number of unemployed children and youths aged 10-17. Thus the crisis is increasing the number of both working children and youths as well as children and youths looking for work. This is important. Some people might claim that child labour is declining in

sectors such as agriculture and in manufacturing and child employment in ports and other more visible sectors. But the LFS confirms our fear that indeed the net effect on child labour is still positive, as supply-side effects dominate and there are shifts from some sectors to other sectors.

We also discussed the strong shifts in economic sectors and the type of employers that employ child labour. There is a shift from agriculture, manufacturing, and construction to wholesale and retail trade, as well as from employment by private firms to employment by private households in urban areas and unpaid family workers in rural areas. The strong shifts to wholesale and retail trade and to employment by private households, especially in urban areas, merit increased monitoring and surveillance. This is another important point. Child labour may be declining in the more visible and formal sectors (agriculture, manufacturing, construction) but increasing in the more invisible sector (petty trade and vending, employment by private households). Thus the wider scope of monitoring and surveillance becomes more urgent.

In areas targeted by ILO-IPEC as priorities - where hazardous activities and exploitation may be most intense - the effects of the crisis may be mixed:

*Sugar and vegetable production.* This industry was hard hit by the weather disturbances of 1998, which reduced demand for child labour in the Philippines. But, with improved weather conditions in 1999 and depressed incomes among most families, there is reason to expect a surge in child labour employment. Since production in this sector is viewed as hazardous, increased monitoring and surveillance is needed.

*Children in mining and quarrying.* In view of investment and construction cut-backs by most large-scale mining and quarrying firms, given credit and liquidity constraints, there may be reduced child employment in large-scale mining and quarrying. However, due to economic hardships, small-scale and individual mining may step up operations, and close monitoring and surveillance is still needed.

*Home-based work.* At the time of writing, the garment sector remained depressed despite the massive depreciation of the currency, and, since the garment sector is the biggest employer of home-based subcontracted work, child labour here may not increase drastically. However, areas such as furniture and papier mâché may actually pick up. This sort of phenomenon is usually community specific, so improved access to information is vital. In existing home-based work, moreover, the adult woman may be forced to resort to other market activities to counter declining income due to the crisis, passing much of the home-based work to female (and, to a lesser extent, male) children and youths.

*Children victims of trafficking, prostitution, and domestic help.* Here, impacts of the crisis may be mixed. Declining incomes may reduce demand for these types of child labour. However, the increased unemployment of children (especially out-of-school children looking for work) may increase supply, reducing wages in these sectors and stimulating an increase in this sector. Increased tourism may increase child prostitution and related activities. Informal sectors such as these must be carefully monitored and analysed.

*Deep-sea diving and fishing.* Activities here may increase to counter reduced catches and incomes in fishing communities due to the weather disturbances. A close watch is needed in communities engaged in such activities.

*Pyrotechnics.* The demand for fireworks is seasonal, and possible effects of the crisis are unknown at this time.

*Public markets and street vending.* Increased surveillance and monitoring of public markets and street vending are also needed, where children are employed by informal markets or private households.

## **6. Recommendations and priorities**

In the light of lessons outlined in Section 5, we recommend the following measures as urgent.

### **6.1 Rapid identification and appraisal of problem areas and sectors**

One difficulty with this project has been the lack of data defining the extent and intensity of the child labour problem. Indonesia, the Republic of South Korea, and Thailand, also hard hit by the crisis, have requested much funding to conduct rapid appraisal surveys to determine the extent, areas, and sectors that bear the brunt of the economic and social impacts of the crisis. Such endeavours are not being undertaken on a large scale in the Philippines. Given the relatively high levels of poverty and social problems such as child labour even before the onset of the current regional crisis, this should be an urgent priority.

The World Bank, the Asian Development Bank, UN organizations, bilateral organizations, and foreign NGOs all have funds available. The Philippine Government and NGO community should tap these sources. Some government and multilateral agencies - the NSO and the Asian Development Bank among them - are already doing this. It is vital that detailed and pertinent questions concerning child labour be included in these rapid appraisals. In many cases, money can be channelled into existing activities, such as the LFSs, to finance additional special surveys. The NSO also conducts the Family Income and Expenditure Survey (FIES). Again, additional money could be used to commission a special survey of the social and economic impacts of the crisis.

Aside from the standard questions already presented by the LFS, more comprehensive surveys concerning child labour in the informal sector - in trade and services as well as employment by private households - should be undertaken in order to determine the extent and intensity of work and hazards involved. The regular LFSs under-estimate the extent of the informal sector, especially with respect to the employment of children. More focused and more specialized studies of children and youths in the informal sector are essential. For one thing, such research would reduce under-reporting of informal and underground activities. Furthermore, economic sectors should be classified beyond the two-digit levels, permitting surer identification of the type of firms and establishments employing child labour.

### **6.2 Appropriate intervention programmes**

As argued in preceding sections, addressing the child labour problem requires intervention to retain children and youths in school. Prospective sources of funds for such schemes, it is suggested, should include multilateral and bilateral sources as well as domestic civic organizations and the private sector. Long-term and sustained availability of such funds is vital. Inasmuch as such intervention programmes involve local governments, local NGOs, and the private sector, they might be linked with community livelihood and credit programmes, which may involve cooperatives, NGOs, and credit unions. This would enable parent and student support programmes to be linked to income-generating community programmes. Providing families with alternative livelihood and income will no doubt go a long way towards preventing school drop-outs and in reducing incentives for child labour. In designing alternative pro-poor and pro-rural development strategies, means should be sought to link the funding of such intervention programmes and community income-generating projects.

Much non-enrolment in schools and use of child labour stems from income and liquidity constraints. Weather disturbances are temporary, but lack of income and credit sources force many indigent families to withdraw their children from school or send them to work. Thus, it is important to tackle income and liquidity constraints. Two approaches are suggested here. One is to increase credit availability and channel funds for credit to indigent families. The other is to institute livelihood and income generating programmes. The latter approach has obvious advantages. First, there is a shortage of funds and creditors willing to lend to indigent families without collateral. The current situation of many financial institutions, including rural banks, savings and thrift banks, and pawnshops catering to small borrowers, precludes

massive use of credit and credit subsidies to indigent families. Furthermore, many families are already deeply in debt. More credit must be tied to increased capability to pay, and should be tied to alternative livelihood and sources of income.

Programmes geared to generate alternative livelihood and income sources are therefore superior. Furthermore, this approach is consistent with the pump-priming activities of the Government. Construction of infrastructure generates secondary markets for food and miscellaneous items for construction workers. Improvements in the prevailing weather can be utilized to encourage multi-cropping, livestock raising, and the like. Existing cooperatives and family units can often undertake these activities, perhaps with advice on technical, managerial, and marketing matters. Such approaches provide plenty of room for activities on the local community, provincial, and regional levels.

Because of constricting demand, the crisis has reduced child employment in some areas, sectors, and communities. But we should not view this as an improvement in the child labour situation. Indeed, reduced labour demand for both adult and child labour may mean, aside from more suffering in the family, greater chances of non-enrolment in schools and greater chances of going into more hazardous and illegal forms of child labour. Thus, the answer to increased poverty should be the same whether or not the crisis increases or reduces the amount of child labour in a community. Both short-term and long-term alternatives should be provided to affected families.

### **6.3 More accessibility to secondary education**

To increase high-school participation in the short run, while public high schools and public funds are inadequate, considerable money is needed to supplement FAPE efforts. Again, multilateral and bilateral sources should provide the biggest hope for this during times of fiscal distress. Beyond this, universal high-school education should eventually be compulsory. This goal should be part of an alternative development strategy, and would go a long way towards reducing the exploitation and abuse of child labour, which, according to available data, most effect children of high-school age.

Finally, if high-school education is eventually to be universal and compulsory, it is essential to provide more resources for school buildings, public school teachers, and other support. More than simply finding new funds, this may also require re-prioritization of government budgets. In addition, the quality of elementary and secondary education must be improved. Most Filipinos consider public schools to be of dubious quality, inferior to the more expensive private institutions. If education is to be seen as a worthy investment, if we are to encourage families to place a high value on their children's education, it is imperative that the quality of schools, curricula, and textbooks be improved. If families are assured their children can acquire a higher degree of literacy and other skills, allowing them to drop out of school may come to be seen as prohibitively costly.

### **6.4 Increased monitoring and surveillance**

Rapid appraisals and surveys must be complemented by increased monitoring and surveillance. The usual labour inspection of firms should be augmented and intensified. The following activities are suggested:

- monitoring of child labour in agricultural activities to ensure that work hours and work conditions are not excessive, children are not exposed to hazardous chemicals, and school work and performance are not jeopardized;
- increased visual inspection of public markets and street vending during school hours to monitor child labour, out-of-school youths, and non-attendance of schools due to work;
- monitoring and surveillance of working children in school, and ensure that their studies and schoolwork are not adversely affected, and to provide moral and financial support to them when necessary;

- more surveillance of informal, illegal, and underground activities to ensure unemployed and underemployed children and youths are not drawn into these traps;
- more inspection of private households employing minors in the trade and restaurant sectors and as domestics; and
- increased monitoring in urban areas, since this is where the labour force survey shows the greatest rise in child labour.

### **6.5 Coordination with Government, international agencies, and funders**

So far we have focused on important preventive activities against child labour. Other important matters include legislative action, punitive measures, and rehabilitation of child labour. All of these, no doubt, require much funding and coordination among agencies in the Government and the private sector. Concrete action plans and programmes are needed to address these issues, and sources of related funding must be identified. Strong coordination with international agencies and funders is crucial in translating policies and plans into direct action.

### **6.6 Alternative development strategy**

The alternative development strategy discussed in previous sections would include:

- an improved international financial architecture;
- more dispersed regional development that would include rural and agricultural development;
- awareness and channelling of resources to human capital formation (education, health, and social welfare);
- providing alternative livelihood and employment opportunities at local community levels;
- a focused programme for poverty alleviation and social and human development; and
- social insurance and provision of safety nets.

### **6.7 Strengthening institutional capabilities**

All of these recommendations will come to nought if institutions are weak, inefficient, and corrupt. We have discussed the monitoring of child labour, the rescue of child labour victims, their rehabilitation, and legislation in their favour. There are many other related issues that the author chooses not to pursue here. What is important is that agencies that monitor, rehabilitate, legislate, enforce sanctions, and exact penalties be efficient, strong-willed, and incorruptible.

In pushing for policies to solve the child labour problem, a crucial factor in determining the resolve and will of Government is the vigilance and commitment of the private sector and non-government community.

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## **Annex:**

### **- List of Tables**

1. Some Macro Indicators of the Philippines: 1981 - 1998
2. Poverty in East Asia, 1975-95
3. Social Indicators in East Asia, 1970-95
4. East Asian Growth, 1965-95
5. Magnitude of Poor Population and Poverty Incidenceb, 1985, 1988, 1991, 1994, 1997
6. Labour Participation and Employment Rates: October, 1997 and 1998
7. Self Rated Poverty
8. Work Participation Rates for Indonesia, the Philippines and Thailand, by Age and Sex, 1995-96
9. Elementary Enrolment
10. Secondary Enrolment
11. Elementary and Secondary Education Enrolment Rates
12. Economic, Education Expenditure, Enrolment and Non-enrolment Figures: 1982 - 1998
13. Regression Equation for Elementary Gross Enrolment Rate
14. Regression Equation for High School Gross Enrolment Rate
15. Forecasts Using Regression Equations for Elementary and Secondary Gross Enrolment Rates

### **- List of Figures**

1. Gross Elementary Enrolment Rate of Children 6-12
2. Gross Secondary Enrolment of Children 15-16
3. Estimated % Children 6-12 Not Enrolled in Elementary
4. Estimated % Children 13-16 Not Enrolled in High School
5. Estimated and Simulated Number of Children 6-12 Not Enrolled in Elementary Schools
6. Estimated and Simulated Number of Children 13-16 Not Enrolled in Secondary Schools
- 7a. Number of Children 10-14 in Labour Force Oct.1996 to Oct.1998(in Thousands)

- 7b.** Number of Youths 15-17 in the Labour Force, Philippines, October
- 8a.** Unemployment Rate for Children 10-14, Urban(Oct.1996-Oct.1998)
- 8b.** Unemployment Rate for Youth 15-17, Urban
- 8c.** Unemployment Rate Children 10-14, Rural
- 8d.** Unemployment Rate for Youths 15-17, Rural
- 9a.** Percent of Working Children 10-14 Working Less Than 40 Hours, Urban: October
- 9b.** Percent of Working Children 10-14 Working Less Than 40 Hours, Rural: October
- 9c.** Percent of Working Children 15-17 Working Less Than 40 Hours, Urban: October
- 9d.** Percent of Working Youths 15-17 Working Less Than Forty Hours, Rural: October
- 10a.** Percent of Working Children 10-14 Who Are Looking for Additional Work, Urban: October
- 10b.** Percent of Working Youths 15-17 Who Are Looking for Additional Work, Urban: October
- 10c.** Percent of Working Children 10-14 Who Are Looking for Additional Work, Rural: October
- 10d.** Percent of Working Youths 15-17 Looking for Additional Work, Rural: October
- 11a.** Percent of Urban-based Children 10-14 in the Labour Force, October
- 11b.** Percent of Urban-based Youths 15-17 in the Labour Force, October
- 11c.** Percent of Urban-based Employed Children 10-14, October
- 11d.** Percent of Urban-based Employed Youths 15-17, October
- 11e.** Percent of Urban-based Unemployed Children 10-14, October
- 11f.** Percent of Urban-based Unemployed Youths 15-17, October
- 12a.** Educational Attainment of Children 10-14: Comparison between Those in Labour Force and Those Not in Labour Force, Philippines, Oct. 1998
- 12b.** Highest Educational Attainment of Youths 15-17: Those in the Labour Force and Those Not in the Labour Force, Philippines, Oct. 1998
- 12c.** Composition of Children 10-14 in the Labour Force by Highest Educational Attainment, Philippines: October
- 12d.**Composition of Children 10-14 Not in the Labour Force, Philippines: October
- 12e.** Comparison of Educational Attainment of Employed and Unemployed Children 10-14, Philippines, October 1998
- 12f.** Comparison of Educational Attainment of Employed and Unemployed Youths 15-17, Philippines, October 1998

**12g.** Composition of Unemployed Children 10-14 by Highest Educational Attainment, Philippines, October

**12h.** Composition of Unemployed Youths 15-17 by Highest Educational Attainment, Philippines, October

**13h.** Share of Economic Sectors Employing Female Youths 15-17, Rural, October

**14a.** Breakdown of Working Male Children 10-14 by Class of Workers, Urban, October

**14b.** Breakdown of Working Female Children 10-14 by Class of Workers, Urban, October

**14c.** Breakdown of Working Male Children 10-14 by Class of Workers, Rural, October

**14d.** Breakdown of Working Female Children 10-14 by Class of Workers, Rural, October

**14e.** Breakdown of Working Male Youths 15-17 by Class of Workers, Urban, October

**14f.** Breakdown of Working Female Youths 15-17 by Class of Workers, Urban, October

### **- Appendix Tables**

**1.** Population, Labour Force and Participation Rates, by Sex and Age Group Urban-Rural: October, 1996-98

**2.** Employment Status and Unemployment Rate, by Sex and Age Group, Urban-Rural: October, 1996-98

**3.** Underemployment and Underemployment Rates, by Sex and Age Group, Urban-Rural: October, 1996-98

**4.** Percentage of Employed Persons, by Urban-Rural Location, by Sex and Age Group: October, 1996-98

**5.** Percentage of Employed Persons, Unemployed, Labor Force and Not in the Labor Force, Based on Highest Grade Completed, by Sex and Age: October, 1996-98

**6.** Percentage of Employed Persons by Major Industry Group, by Sex and by Age Group: October, 1996-98

**7.** Percentage of Employed Persons by Class of Workers, by Sex and Age: October, 1996-98

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