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**Responding to the Economic Crisis –
Coherent Policies for Growth, Employment and
Decent Work in Asia and Pacific**

Manila, Philippines, 18-20 February 2009

TECHNICAL NOTE

**Impacts of the global financial and
economic crisis on child labour
and youth employment**

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**IMPACTS OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS
ON CHILD LABOUR AND YOUTH EMPLOYMENT**

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This background paper aims to highlight the key issues with relation to the impact of the global economic crisis on child labour in the Asia and the Pacific region and, as a corollary, youth more broadly. Obtaining reliable statistics on the impacts on child labour is especially problematic when it concerns recent economic events of which the effects are only gradually emerging. This notwithstanding, it is increasingly accepted that the current economic slowdown – retrenchments in many formal economic sectors, reductions in working hours and downward pressure on household incomes - is likely to augment the incidence of child labour and youth unemployment and underemployment in the Asia and the Pacific region.

Supply side factors

In assessing the impact of the crisis on child labour, it is necessary to understand the factors affecting both the supply side and demand side and to understand how the economic crisis impacts upon these factors. Whilst household income is an important factor in decisions relating to the allocation of children's time, poverty is not the sole determinant in decisions taken by families to put a child to work. Analysis of the underlying causes of child labour reveal that income levels alone only partly determine the incidence of child labour and that a combination of family income levels, school enrollment, adult literacy, income inequality, structural, ethnic and demographic variables are also supply side factors relating to the incidence of child labour. Some have noted that income has a moderately small effect on the supply of child work and that different groups of households have different propensities to invest in children's education in times of economic shocks¹.

That being said, macroeconomic shocks and political instability have been demonstrated to play a role in determining the supply of child labour and school attendance rates, as was observed during the 1998 Asian financial crisis. A 2000 report² on the crisis observed a drop in enrolment rates and a rise in child labour among 10-14 year-olds in the Philippines. The impact of the crisis was also noted as resulting in increased labour exploitation of girls in Indonesia and Thailand³. Moreover, it was observed that in Indonesia, school attendance dropped slightly after the onset of the crisis⁴. If parents

¹ Guarcello L, Mealli F, Rosati F C: *Household vulnerability and child labour: The effects of shocks, credit rationing and insurance*, UCW working paper (2002), at: www.ucw-project.org.

² Lim J Y: *The East Asian crisis and child labour in the Philippines*, ILO-IPEC working paper, Geneva 2000, quoted in Guarcello et al (2008) p.2.

³ Thijs, Guy and vna de Glind, Hans, *The Asian Economic Crisis and Child Labour with a particular focus on Thailand and Indonesia*, ILO ROAP working paper, March 1998.

⁴ Cameron, Lisa Ann, 2001, *The Impact Of The Indonesian Financial Crisis On Children: An Analysis Using The 100 Villages Data*, Bulletin of Indonesian Economic Studies, Volume 37, Issue 1 April 2001

cannot afford school costs or the loss of the child's potential contribution to household income, children can become more likely to stop attending school and begin work at an early age. It is widely assumed therefore that increased poverty levels and hardship as a result of the economic crisis are likely to augment the supply of child labour.

Furthermore, there is the concern that if the present crisis leads to education budgets being cut, or if international development support linked to education is reduced, more children will not attend school and become available for work. One of the most important factors contributing to recent declines in child labour has been increased efforts to extend education, with abolition of school fees in many countries at primary level and efforts to extend coverage of junior secondary education. There is already a serious concern that the impact of food price increases in many countries has had a negative impact on school attendance leading to increasing numbers of working children. There is also the added gender dimension to the situation; when poor families have to make a choice between sending a boy or girl to school, even under pre-crisis conditions, studies have shown that parents often choose to invest in the education of their sons so as to not lose their daughters' important household contribution.

Demand side factors

While many of Asia's developing economies are likely to see rising unemployment, there may also be a growing share of workers in informal employment, reflecting the significant impact of declining growth not just on the number of jobs but also the quality of employment. The closure of many formal sector businesses will most likely result in workers being forced to seek alternative employment in informal activities and a general growth in the informal economy. Most cases of child labour are to be found in the informal economy, often in the hidden and most hazardous forms of work, including forced labour and slavery".⁵

It is also important to consider the impact of the crisis on particular export-focussed labour intensive industries – in particular garments and textiles – prone to the recruitment of children. This is a serious concern in countries, such as Bangladesh and Cambodia, where rising adult unemployment in certain export-oriented sectors may lead to a spike in child economic activity to support falling household income.

Indonesia

Prospects for economic growth in Indonesia in 2009 are significantly lower than previous years, with growth projections ranging from 3.7 per cent to 5.0 per cent. The Indonesian government expects 2 million existing jobs to be lost in 2009 as a consequence of slowing external demand. Social transfers have been proven effective as a policy response to the crisis. They not only stimulate domestic spending, but also serve the dual purpose of protecting the poor and the vulnerable from the worst effects of the crisis. On December 15 2008, the Indonesian Government announced that in 2009 it will increase its poverty alleviation fund to IDR 78 trillion (US\$7.1 billion), up 50 per cent from 2008. The poverty alleviation fund finances various programmes such as the direct cash transfer programme, or 'Hopeful Family Programme' (PKH) which was launched in January 2009. Under the PKH, each family living with a monthly income under Rp 151,997, will receive direct cash aid of Rp 200,000/year. Transfers are conditional: expectant mothers need to undergo at least 4 medical check-ups during maternity and families with children need to ensure they complete education up to junior high school. A minimum attendance is set to 85% a year. Such short term measures may help to mitigate the effects of the economic crisis on child labour in Indonesia.

Source: Jakarta Post, 24 January 2009

⁵ ILO: *Decent work and the informal economy*, Report VI to the 90th International Labour Conference, Geneva 2002.

Impacts on youth employment

As the number of new vacancies declines, school leavers (graduates in particular) are experiencing increasing difficulties in finding jobs. Youth unemployment is already high in some countries (25.1 per cent in Indonesia in 2007, an estimated 25 per cent in Sri Lanka in 2007, and 14.9 per cent in the Philippines in 2007) and the numbers are expected to rise. Moreover, increases in child labour potentially exacerbate both the supply and demand side of the youth employment problem. Child labour is cheap labour and this often hampers youth employment prospects. Additionally, child labour is a precursor to the youth employment problem – preventing children from obtaining necessary education and skills, and exposing them to various hazards.

In many developing countries in Asia and the Pacific, there is also a segmented youth labour market; that is, the effects of the global financial crisis will impact differently the educated youth as opposed to the young working poor. The educated, more affluent youth in formal employment may experience retrenchments or have difficulty in finding jobs suitable to their qualifications and the less educated, young working poor would continue to be exposed to poor working conditions in the informal economy. For these young working poor who cannot afford to be unemployed and have no means of family or institutional support, the likelihood of them being unprotected against hazards and risks and entering into precarious contracts with few formal employment prospects will likely increase. Furthermore, the difficulties young entrepreneurs already face in starting and financing their business will likely be exacerbated by tighter credit markets and financial austerity measures.

Policy recommendations

Reducing poverty through broad-based economic growth and development and the abolition of school fees that assist families to keep children in school have proven to be critical elements of effective strategies to combat child labour and improve decent employment prospects for young men and women. The current crisis threatens to undermine the recent progress made in raising the standards of living and reducing child labour in many countries in the region. Increased unemployment and increases in prices of basic food items are almost certain to increase levels of hardship. In this context, it is important to consider a variety of policy measures that can mitigate the effects of the economic crisis on child labour.

Short-term policy measures

The importance of safety nets in cushioning families against making

Pakistan

Social transfers have been proven effective as a policy response to the crisis and many countries are implementing new programmes or scaling up existing arrangements. Even Pakistan, a country lacking room for expansionary fiscal policy, has increased its budget allocation for social transfer programmes.

Whilst real GDP growth in Pakistan in 2009 is expected to slow, expenditure on the social safety net will be increased to protect the poor through both cash transfers and targeted electricity subsidies. The fiscal program for 2008/09 envisages an increase in spending on the social safety net of 0.6 percentage points of GDP to 0.9 percent of GDP. Pakistan will also work with the World Bank to prepare a more comprehensive and better targeted social safety net program. In light of fiscal constraints and growing anecdotal evidence suggesting that increasing numbers of children are being removed from school to assist families in Pakistan, there is a need to ensure that the safety nets and social transfer schemes are appropriately targeted and seek to lower both the direct and indirect costs of schooling for vulnerable families in Pakistan.

Sources:

www.imf.org/external/pubs/ft/survey/so/2008/CAR112408C.htm;

<http://www.irinnews.org/Report.aspx?ReportId=82080>

decisions to send children to work in times of economic shocks is well documented.⁶ Measures to support household investment in human capital, by ensuring education and training up until the minimum working age wherever possible is important. For those countries still striving to achieve free basic education, lowering the direct and indirect costs of education can help keep children in school. Support to family health could further mitigate the potentially long-term impact of the crisis.

At the country level, the most effective schemes are those that combine measures to lower educational costs with incentives to parents to keep the children in school. Among the types of short-term measures that governments could consider in the context of social protection schemes would be⁷:

- Conditional cash transfer programmes targeting poor families which require that their children go to school;
- Extending or developing school feeding programmes to reduce indirect costs of schooling;
- Steps to reduce education costs, both direct and indirect (e.g. school fees, transport, textbooks, uniforms, subsidized child care etc)
- Other measures targeting vulnerable families and those with a large number of children.

It is worth noting that government leadership in times of crisis is critical to ensure that there is adequate allocation of resources for the most vulnerable and to send the signal to international and other donors that the government is committed to responding to the multiple challenges of child labour, youth unemployment and underemployment during the economic crisis.

Medium and long-term measures

Whilst the aforementioned measures are critical in the short-term to mitigate risk and support children to remain in formal education, governments should be encouraged to make longer term investments in education and training to work towards a skilled and productive work force and to smooth the school to work transition. Noting the linkages between child labour and youth employment, the experiences of children in their formative years are critical to ensuring decent work opportunities over the life cycle.

Whilst the fiscal constraints facing governments might result in an inclination to roll back efforts to extend free basic education and investment in quality education and training, it is important to take a longer term view of economic and social development. Assisting children to remain in school in times of economic downturn will ensure that children receive the necessary skills and training to equip them to attain decent work opportunities as young adults and contribute effectively to national development post-crisis.

⁶ For example: Guarcello et al (2002): “access to credit markets and to safety nets, especially for poorer households, appear to be among the most powerful instruments for promoting school attendance and reducing child labour. Moreover, the income equivalent needed to compensate for the effects of credit rationing and shocks also indicates that policies aimed at reducing risk are not only effective but may prove to be also cost efficient in terms of use of resources”.

⁷ ILO: “Addressing child labour in the ILO Policy Response to the Financial Crisis”, ILO Technical Note, IPEC HQ (Geneva, October 2008).