Canadian International Development Agency

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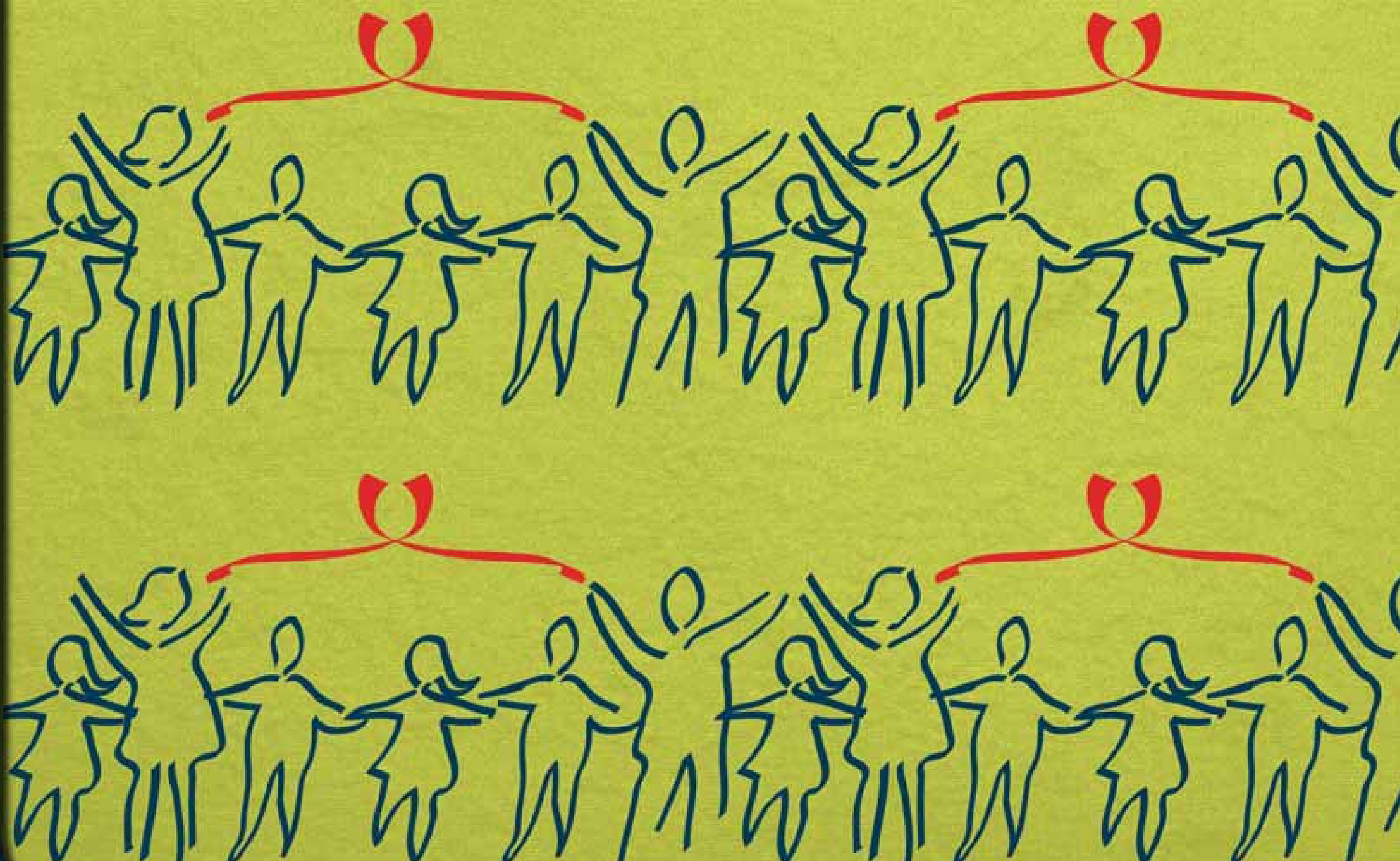
IMPACTS OF MICROFINANCE INITIATIVES ON CHILDREN

Overview of the Study Report



Canada

Impacts of Microfinance Initiatives on Children

Overview of the Study Report

Revised August 2007

Prepared for
Children's Rights and Protection Unit in the Human Rights and Participation

Canadian International Development Agency

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Comments from Study Participants

After I received my loan my business began growing … but now I hardly have time to see my children.

– Mother running a microenterprise

We learn many things through our work, … how to negotiate, how to deal with adults, how to be self-reliant. These skills will help me when I grow up and look for a job … after I graduate.

– Working child

The income I get from my work allows me to continue my education.

– Child operating her own business

I wish we could afford to hire adults so I wouldn't have to work such long hours.

– Child working in a family business

I wish my brothers and sisters could help out more with the business. It's not fair if I have to do all the work.

– Older child working in his family business

The most important use of our income from the business is paying for our children's education.

– Parent operating a microenterprise

Under no circumstances would we allow children to drop out of school to work.

– Group of parents who operate microenterprises

When your children work, even if they have to … to help out in the family business, you feel ashamed in front of the community.

– Mother running a microenterprise

There are some aspects of work that are bad, but work itself is not bad.

– Group of working children

Foreword

This report summarizes the findings of the Canadian International Development Agency (CIDA)-commissioned study, "Impacts on Children from Microfinance Initiatives." The study was carried out by Partners in Technology Exchange Ltd. (PTE) and Mennonite Economic Development Associates (MEDA), in collaboration with the following partner agencies: Pro Mujer in Bolivia, Egyptian Association for Community Initiatives and Development in Egypt, The Concerned for Working Children in India, and Finca Tanzania in Tanzania.

The full report is also available from CIDA and/or PTE and MEDA. The full report includes the detailed results of the study; a more detailed description of the field partner agencies and their programs; the survey instruments used to collect data, including the mapping of children's time usage; and an extensive discussion from the partner agency in India on the effect of work on children's ability to take part in decision-making within their places of work, their families and their communities.

Executive Summary

Microfinance programs have been operating in many parts of the world for more than two decades, and have become a recognized and widely practised means of reducing poverty. By helping poor and low-income families to access credit and other financial services and to apply these resources within productive enterprises, microfinance programs can help families expand their business, increase their income and begin the process of moving out of poverty

As members of families with improved income from the successful management of a microenterprise, children stand to benefit from microfinance initiatives. Children also actively participate in such initiatives, either through work they do in a family business, through employment in a non-family business, or as the owner–operator of their own business.

The Canadian International Development Agency (CIDA) commissioned this study to examine how micro-finance programs affect the lives of children of different ages and levels of involvement in microenterprises in different regions of the world. The study was carried out by Partners in Technology Exchange (PTE) and Mennonite Economic Development Associates (MEDA), in collaboration with partner agencies in regions where there is a history of microfinance programs: Latin America (Bolivia), the Middle East (Egypt), Asia (India) and Africa (Tanzania). The four partner agencies were either microfinance institutions (MFIs) or, in one case, a social development agency with extensive experience with working children. The positive and supportive relationships that each of the partner agencies has with business clients and/or children produced a reliable pool of study participants (totalling 554), who took part in a quantitative survey (formal questionnaire) and/or focus group discussions.

The results of the study showed that when family income improves, the priority areas of spending are generally those that benefit children. Education is the highest priority for spending, followed by health care. Housing and nutrition are other areas of spending that were identified by the study participants.

A significant way that children are affected by microfinance programming is through their own participation in microfinance initiatives. The study found that children were actively engaged in many, if not most, of the microenterprises examined. Study findings suggest that children play an important role in the initial growth of family enterprises that begin to access credit through microfinance institutions. As the business grows, children provide the additional labour required at a time when revenues are not yet sufficient to support the hiring of an adult employee. Because women constitute 80-85 percent of microfinance clients, and are also the primary care givers, children may alternatively be called upon to take on additional responsibilities in the home (care of younger children or chores) so that the mother can be more involved in growing the family business. Study findings show that the time that children spend either carrying out additional chores in the home or working in the business is directly influenced by the size of the business loan received.

There are both positive and negative effects of children's increased involvement in work or chores. On the positive side, engagement in a family or non-family business allows children to acquire new technical, business and life skills that can lead them to a future business career. Such engagement can also complement the knowledge and skills that they acquire through formal education and can be applied to a professional career later in life. The key to the successful combining of work and school is for children to have control over the scheduling of their work so they have time for schoolwork. Children who work in a family business and children who operate their own businesses were found to have more flexibility than those who work in a non-family business. Other benefits to bringing in an independent income include being given a greater role within family decision-making, providing advice to business owners, and providing training to new young workers.

The single most negative aspect of children's work in microenterprises is the amount of time that children spend working, especially the extended time during the initial stages of growth of the business, because it interferes with their schooling and leisure time. There are gender differences in the amount of time girls and boys spend on additional household chores and on work within microenterprises; however, the combined total time spent on chores and work is similar for girls and boys, and that time can become significant, increasing from four to six hours a day for children who continue their schooling to more than 10 hours a day for children who have dropped out of school.

Microfinance institutions are well placed to review children's work schedules with business owners and parents and to agree on reasonable limits for working time so that the requirements for increased income are balanced with sufficient time for school, study and leisure. The fact that children's work days can increase with an increase in loan size also needs to be recognized and monitored by MFIs, who may need to review their loan policies, including size of loans, to help ensure that businesses are able to expand to the point where they can afford to employ adults.

Microfinance institutions can also play a part in supporting older children (those 15 to 18 years old) to have their own business – by providing them with access to credit – so that they have the flexibility to combine work and schooling. In the process, MFIs will be building a new constituency of clients.

Overall, understanding how microfinance programs affect the lives of children will help proponents and practitioners of microfinance to determine how their programming can further contribute to the betterment of children's lives, improve the social impact of microfinance programs in general, and help build a future constituency for microfinance services as working children become working adults.

Introduction

Microfinance programs were initiated with the purpose of serving the poor and helping them move out of poverty, and they have become a recognized and widely practised means of reducing poverty. Such programs encourage the establishment of microenterprises by providing credit and other financial services. Having access to credit and other related services helps people who are living in poverty, especially women, to operate and expand their businesses, increase the family income, and begin the process of moving out of poverty. Microfinance programs also include the provision of loans for non-business purposes (consumption, housing, health and other purposes) and other services such as savings, but for the purpose of this study microfinance refers to the provision of micro credit to support microenterprises.

Children form a significant portion of the world's poor:

> *Of the 2.2 billion children in the world, UNICEF estimates that 1.9 billion live in the developing world. One billion of these children live in poverty and were deprived of at least one of seven amenities that UNICEF regards as basic rights – shelter, water, sanitation, schooling, information, health care and food.*[1]

One billion poor children, therefore, along with their families, stand to benefit from participating in microfinance programs.

The operation of microenterprises is not for everyone; in order to be successful, individuals must be able to manage credit and to compete in the market place. Many poor people, however, are taking on this challenge and succeeding. As of November 2006, more than 113 million people around the world were accessing credit from more than 3,000 microfinance institutions (MFIs),[2] and the number of microfinance programs is increasing. Their ability to reach large numbers of people and bring about positive economic and social change will help reduce the number of children who remain in poverty and influence the type of lives that they live.

> *In a world where more than three billion people lack access to financial services, it is the microfinance industry that is shaping the future of retail banking.*[3]

Children themselves are often active participants in operating microenterprises, either with their parents, with other business owners, or as business owners themselves. For the purpose of this study, all persons under the age of 18 years are considered children; children aged 15 to 18 are referred to as "older children" and individuals aged 18 to 24 are referred to as "young adults." The division in ages is significant when children are involved in work. The involvement of children between the ages of 15 and 18 in safe and appropriate work is frequently considered to be a positive experience that provides both income and work experience. In recognition of these benefits, some microfinance programs now provide direct lending to support children in this age group. The involvement of children below the age of 15 is often considered to be problematic. Children in this age group are often working because of poverty and/or failures in the educational system. In these instances, children must work to help support themselves and their families. The fact that young children are involved in many of the microenterprises that are supported by microfinance programs suggests that the involvement of children in work should be monitored as part of microfinance programming.

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1. *State of the World's Children 2005: Childhood Under Threat*, UNICEF, 2005, p. 20.
2. Microcredit Campaign News Release for the Global Microcredit Summit, Halifax, Nova Scotia, November 2006.
3. Consultative Group to Assist the Poor (CGAP), *Annual Report*, 2005, p. 1.

A number of investigations are underway to determine how microfinance programs are contributing to the Millennium Development Goals (MDGs) by examining the impacts of microfinance on poverty at the global level, as well as on individual clients at the local level.[4] The Consultative Group to Assist the Poor (CGAP) and the Imp-Act Consortium have begun to compile and share examples of these types of experiences.

The study seeks to understand how microfinance programs affect the lives of children of different ages and levels of involvement in microenterprises. The study was carried out in collaboration with partner agencies that are either directly operating microfinance programs (Pro Mujer (Bolivia), Egyptian Association for Community Initiatives and Development, and Finca Tanzania) or that have extensive experience dealing with working children (The Concerned for Working Children (India)).

Gaining an understanding of how microfinance programs affect the lives of children will help the proponents and practitioners of microfinance to determine how their programming can further contribute to enabling children to become active agents in bettering their lives, improve the social impact of microfinance programs in general, and help build a future constituency for microfinance services as working children become working adults. Any changes made to microfinance programming will still need to build on the best-practice standards that have been developed over the past two decades.

4. Housed at the World Bank, CGAP is a consortium of 33 public and private development agencies working together to expand access to financial services for the poor in developing countries. The Imp-Act Consortium is a global group of organizations working to improve the quality of microfinance services and their impact on poverty; its Secretariat is located at the University of Sussex, United Kingdom.

Review of Microfinance Programming

Understanding the ways that microfinance programs can affect the lives of children involves an understanding of two areas of international discussion and debate: the social impacts of microfinance programming and the question of child labour. For agencies running microfinance programs (called "practitioners" in this report) there is a question of whether future programming should attempt to better understand and improve the social impacts of microfinance on the lives of the poor (including children) or whether efforts should focus on expanding the outreach and capital base of current programs. Understanding and improving the impacts of microfinance programs on children in particular will be part of improving the social impact of microfinance in general.

In addition, for those involved in programming with and for children, there are concerns that the types of businesses that are supported through microfinance include those where children work and that such work may be harmful for children and may, in some cases, constitute hazardous child labour. When children are part of the workforce in microenterprises, it will be important for microfinance practitioners to be aware of the issues involved and to be able to ensure that microfinance programs are not inadvertently promoting or supporting labour that is hazardous to children.

Social Impacts of Microfinance Programming

The initial focus of many microfinance programs was on reducing poverty and meeting social development goals, but their practitioners soon recognized the importance of establishing solid technical and financial practices that help in building successful businesses but keep loan losses and the cost of borrowing to a minimum. Permanent and largely self-financing institutions are now applying best-practice microfinance principles as a way of providing lending and other financial services to the poor.[5] The success of microfinance programs has begun to attract the interest of private investors; such investment will expand the future reach of programs.

Through its own work with microfinance institutions, MEDA is increasingly finding that MFIs are no longer expecting future investments to come from government or private donor agencies. Instead, they expect them to come from more conventional investment sources that are expecting some return on their investments. This will allow microfinance programs to reach larger numbers of borrowers but will require MFIs to prepare for and manage these types of investments.

Microfinance is coming of age. The systems for operating and expanding programs are largely in place. Development agencies and financial institutions are directly engaged in providing programming to millions of clients. These institutions have the capacity to expand their microfinance programs. Government policy makers and regulatory bodies are creating the enabling environment for microfinance. Other service providers such as independent auditors and rating agencies are developing their own specialized expertise.

5. Microfinance best-practice principles ensure that the loan portfolio quality is good (i.e. that loans are repaid on time and that there are minimal losses); that the process of lending is efficient (i.e. that the cost of lending to the borrower is as low as possible); and that lending is carried out through microfinance institutions that are sustainable (i.e. that are able to generate their own financial resources and to train and maintain personnel, and that have effective operational and administrative procedures and transparent and open governance structures and reporting systems). There can be variations in best-practice standards across regions, but common standards are becoming more widely established and agreed upon.

As MFIs gain credibility with conventional sources of investment, they will be able to expand their reach to increasing numbers of poor people. With best-practice standards largely in place, it will be possible to place greater emphasis on the social impact of microfinance programs and to further improve the lives of the poor, including children. Improving the social impact of a program on a large scale will, however, be possible only if best-practice standards continue to be met.

CGAP provides a forum for both donors and practitioners of microfinance to discuss issues and develop best practices. Much of the discussion and debate centres on the technical questions and themes that challenge MFIs. One major challenge is the need to balance the focus that is placed on social and economic development goals (poverty reduction) with the practical realities of running a business. For microfinance programs to be effective in assisting large numbers of poor people, MFIs must be self-financing, loans must be repaid, and businesses that are supported must be viable. In some of the early microfinance programs, an emphasis on social needs resulted in problems both for individuals and for the MFIs that were attempting to provide support, because insufficient attention was paid to promoting solid business practices. As a consequence, many MFIs and practitioners have become wary of linking social objectives with microfinance programming. At the same time, CGAP and the microfinance community acknowledge that the primary beneficiaries of microfinance programs can and should be poor people and that it is important to be able to measure and monitor programming results to ensure that the lives of poor people are improving.

In order for MFIs to carry out program measurement and monitoring, CGAP, in collaboration with the Imp-Act Consortium, is developing impact assessment tools and documenting the results of studies. Results are increasingly being defined in terms of their capacity to meet the MDGs and effect change in people's lives. Several studies have demonstrated direct connections between microfinance programming and progress towards meeting the MDGs and have demonstrated direct benefits for children through reduction in poverty, increased access to education, better health care, and gender equality for girls and boys, as well as men and women.[6] CGAP and Imp-Act acknowledge that carrying out impact assessment studies can be time consuming and costly and therefore difficult for many MFIs to afford when they are trying to manage challenging programs and maintain good portfolio quality, high-lending efficiencies, and institutional sustainability. MFIs will therefore likely continue to rely on donor support to finance social impact studies and subsequently develop responsive microfinance programs based on the results of these studies.

The Question of Child Labour

A significant way that children are affected by microfinance programming is through their own participation in microenterprises that are supported with microcredit. This participation can be either work that they do in a business run by their own family, work in a business run by another business owner, or work in their own business. Children's work continues to be a controversial issue and can be a sensitive topic for discussion with business owners who employ children, as well as for microfinance institutions that support microenterprises.

Under some circumstances, children's work may be considered to be child labour. The reasons for children having to work usually stem from poverty and the failure of educational systems. In cases where per capita income levels are low, children may have to work to support themselves and other family members. Children may not enrol in or continue in school as a result of problems with the formal education system that include, but are not limited to, costs associated with education, inappropriate curricula, poor quality of teaching,

6. As a significant contributor to microfinance programming, the United Nations has documented detailed linkages between the MDGs and microfinance. See the *Microfinance and the Millennium Development Goals* factsheet published by the UN Department of Public Information and the Year of Microcredit Secretariat, available at www.yearofmicrocredit.org/docs/MF_MDGs.pdf.

mistreatment of students, and difficulties in finding employment after formal schooling. The difficulties in eliminating global poverty and in achieving effective educational reform mean that in many parts of the world the underlying causes of children having to work will remain unresolved in the near future and children will, as a consequence, continue to work.

While there is increasing recognition that the employment of children will remain a reality, there is also general agreement that children must not be harmed through the work that they do. There are different interpretations of what this means in practice; there are those who believe that children should not be involved in any type of work, while others believe that children should be allowed to work provided that they are not harmed (physically, mentally or morally) through their work and that they are able to continue their education. Through its discussions with working children, CWC found that children themselves often define their work as "something we would not normally like to do."[7] This definition includes tasks carried out within their own home if the time involved is excessive. Efforts to ban all forms of children's work have generally not been successful, mainly because the underlying causes of children having to work remain. The focus is now on removing children from the most harmful forms of child labour, as set out in the International Labour Organization (ILO) Convention 182.

Children's work can be categorized into the following:

- ❖ *work that is benign:* children may work and continue their education, and learning opportunities derived through work can be enhanced;
- ❖ *work that is currently hazardous but where hazards can be mitigated:* children may work provided that hazards are mitigated and that children are able to access formal or non-formal education programs; and
- ❖ *work that is inherently hazardous:* children should not be involved in this type of work under any circumstances.

Techniques are being developed to assess the hazards within the types of enterprises that are part of microfinance programs.[8] While microenterprises do employ children, most do not involve children in inherently hazardous work. Businesses such as quarries and brickyards that do employ children in inherently hazardous work typically operate on a larger scale than microenterprises do, and they do not access credit or other services through MFIs.

While there is a need to protect children from harmful work, there are benefits to children working. Through work, children can improve their economic condition and learn technical, business and life skills that lead to future careers and income. Work can provide other positive experiences for children, such as helping them to develop increased self-confidence and social status, as well as providing them with opportunities for greater social contact with other children.

Mitigating workplace hazards and improving the positive aspects of children's work could be an area of engagement for microfinance programs. MFIs have positive and supportive relationships with business owners and are able to provide the financial means (through loans) to change and improve both business operations and the working conditions of children. Because they are self-financing, MFIs can continue to provide services over the long term and can reach large numbers of children and workplaces. The ways that MFIs are able to intervene will, however, need to continue to be shaped by best practice standards.

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7. From a conversation between Nandana Reddy of CWC and the author.
8. An example of this type of classification system appears in the full report.

In order for MFIs to provide support to working children, neither they nor their business clients should be sanctioned because children are working (provided that children are not being harmed through their work). International agencies that support microfinance programming can influence international attitudes towards children's work. A new consensus is starting to develop among international organizations that it is not in children's best interests to attempt to ban them from all work. Continued efforts in this direction will make it easier for MFIs to improve the effects of their programming on children.

Methodology

The study was carried out in different regions of the world where there is a history of microfinance programs and where MFIs have been following best-practice principles for some time. The geographic breadth of the study, encompassing Latin America, the Middle East, Asia and Africa, meant that insights into the effects of microfinance programming on children would reflect the diversity of programming in various parts of the world and that any regional differences could be identified.[9]

Because some of the information gathering was to touch on the sensitive subject of children's work, MFIs in countries located in the four regions were asked to be directly involved in the collection of the data. It was considered that their positive and supportive relationships with business owners would elicit more reliable information than external researchers could.

The sample selection process was intended to provide insights into how microfinance programming affects specific groups of children who have specific relationships with businesses and business owners. Those adults taking part in the interviews and focus groups were generally active clients that had a positive relationship with the MFIs and were ready to share sensitive information with the survey team. Additional studies will be required to cover larger numbers of respondents and provide more generalized set of results.

PTE and MEDA identified prospective partner agencies in the relevant regions. The agencies selected were Pro Mujer in Bolivia, the Egyptian Association for Community Initiatives and Development (EACID) in Egypt, Finca Tanzania in Tanzania, and The Concerned for Working Children (CWC) in India. The first three agencies are themselves MFIs that are actively involved in providing credit services. The fourth agency, CWC, is a social development agency that engages with working children and has considerable experience with children's participation in the survey process. In turn, CWC collaborated with the Shree Kshethra Dharmasthala Rural Development Project (SKDRDP), a local development agency that supports rural communities through economic and social development programs, including microfinance programs.

The field staff of the microfinance agencies identified business owners, who in turn identified working children. The study was then carried out with those business owners, working children, and families who were willing to participate and provide their responses to the questions asked. Within the context of the study it was not possible to independently verify the information provided by the respondents.

The study methodology consisted of a quantitative survey (formal questionnaire) and focus group discussions. Groups of adults participating in the survey were divided into the following categories:

- parents who were operating microenterprises whose children did not work either in the family business or elsewhere;
- parents who were operating microenterprises whose children worked with them in the family business; and
- business owners who were operating microenterprises and who employed children not related to them (non-family businesses)

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9. The geographic breadth of the study also limited the depth of the information that could be collected in each region. More detailed, geographically focused studies would provide more rigorous substantiation of the initial findings.

The groups of children participating in the survey included:

- children who worked with their parents in a family-run business;
- children who worked in a non-family business; and
- children who operated their own business and had received some support through an MFI.

The groups were selected to ensure that sufficient numbers of respondents, both adults and children, would be included in each sub-group of interest. There were approximately 30 respondents per sub-group. While most of the children taking part in the study were literate, many of the adults were not and therefore all questionnaires were completed through interviews with respondents.

In addition, focus group discussions were held with the following groups:

- parents who were operating microenterprises whose children did not work either in the family business or elsewhere;
- business owners who were operating microenterprises and who employed children not related to them (non-family businesses); and
- children who worked in a family or non-family business.

The core set of data collection instruments (questionnaires and focus group discussion guides) was prepared in advance for partner agencies to use. However, some adaptations to questions were made to allow additional information to be collected when requested by the partners. In the case of The Concerned for Working Children (CWC), it was not possible to collect information from business owners who employed non-family children, given that CWC operates mainly through its connection with children and their families. In addition, the process of collecting the data was modified since the CWC has extensive experience in carrying out field research through participatory programs with children themselves. In the case of Bolivia, sensitivities regarding children working in non-family businesses meant that data on this topic were not available.

The questionnaires were developed by PTE and MEDA and revised and adapted in collaboration with the partner agencies.[10]

Organizational Profiles of MFI Partners

The partner organizations selected for this study are either directly involved in microfinance programs themselves or are (in the case of CWC) working with other microfinance agencies as part of their social development work. In addition to their core work, each of the four agencies is involved in innovative programming designed specifically for children. Pro Mujer in Bolivia and Finca Tanzania are developing new loan products and piloting direct lending programs for older children and young adults. In Egypt, EACID is developing and implementing an innovative microfinance program that uses the lending process with business owners as a vehicle to improve the working conditions and learning opportunities for working children. The program has placed a strong emphasis on children's rights and children's participation. In India, CWC is collaborating with agencies that manage microfinance programs, but CWC itself has many years of experience in programming for working children and in involving children in the research process itself. The following are short profiles of each of the four partner agencies.

10. Generic versions of the instructions to partner agencies, questionnaire format, and guide for the focus group discussions, as well as the modified format used by CWC in India, are included in the full study report.

Pro Mujer (Bolivia)

Pro Mujer was established in 1990 to serve the needs of poor women in Bolivia who were operating micro-enterprises but were unable to access credit or other forms of business support. Pro Mujer has since expanded its programming to women in Nicaragua, Peru and Mexico.

As a women's development organization, Pro Mujer has a mission to empower women to improve their social and economic status: "a small amount of money in the hands of a creative, confident, entrepreneurial woman can make a big difference in a family's life."[11]

Because good health and high self-esteem directly contribute to a woman's ability to earn income and care for her family, Pro Mujer also provides health and human development programs and links women and their families to a range of health and other support services.

As of September 2004, Pro Mujer—Bolivia was serving more than 47,000 clients who were both borrowers and depositors and an additional 13,900 clients who were depositors only. Pro Mujer employs 273 microfinance staff.

The overall loan portfolio is US$5.9 million, with the portfolio at risk (arrears greater than 1 day) of 1.2 percent. The mean loan size is US$124. The types of businesses supported include manufacturing (8 percent), services (16 percent), and commerce (76 percent).

Some loans are being provided to young women below 18 years of age if they are married and/or have children. Pro Mujer has also been experimenting with providing loans to older children and young adults who operate their own businesses. The effect of this type of lending program on this group of borrowers was examined as part of the study.

Egyptian Association for Community Initiatives and Development (Egypt)

The Egyptian Association for Community Initiatives and Development (EACID) is a MFI in its tenth year of operation in Upper Egypt. EACID's original focus was on developing the self-employment and entrepreneurial capacities of low-income women in the start-up and expansion of micro and small enterprises. Discovering that children work in about half of the businesses it supports, EACID has recently begun to introduce a series of new loan products that assist working children while also promoting the growth of the businesses where they work. A code of conduct for working children, educational support programs, and other interventions are being introduced through a participatory and collaborative process with both working children and business owners.

EACID has developed a number of innovative loan programs under Egyptian law; however, MFIs in Egypt are not formally regulated and are not permitted to accept savings deposits; therefore, EACID cannot offer savings services to its clients. EACID's overall portfolio is US$0.65 million, with a portfolio at risk (arrears greater than 1 day) of 1.1 percent. As a consequence, EACID's client base has remained relatively small. As of January 2005, EACID was serving 1,696 active clients (borrowers), with a staff of 45 (17 loan officers).

The average loan size is US$2,145. The types of businesses supported include manufacturing (6 percent), services (27 percent), and commerce (66 percent).

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11. From Pro Mujer's "Mission" webpage, at www.promujer.org/mission.html.

EACID's overall portfolio continues to focus on women, who constitute 85 percent of clients. Loans are currently being provided to individuals aged from 21 to 55 years, although a few loans have been provided through parents to support child-managed businesses. EACID will explore the possibility of supporting child-managed businesses through direct lending to children in future.

Finca Tanzania (Tanzania)

Part of the international family of Finca MFIs, Finca Tanzania was formed in Tanzania in 1998. Finca provides financial services to poor families so that they can create their own jobs, increase their household incomes, and improve their standard of living. Finca Tanzania has achieved rapid growth since its inception. Through its village banking system constituting more than 1,500 village banking groups, it provides both savings and credit services. As of April 2005, the number of active borrowers was 45,608. The vast majority (98 percent) of Finca's clients are women drawn from both rural and urban areas.

Finca Tanzania also provides business training and offers insurance to its clients. One of the unfortunate challenges that Finca Tanzania is facing is the effect of increased mortality from HIV/AIDS among its clients and the related increase in loan losses. Finca provides AIDS education to its clients and is considering introducing a life insurance system that would cover outstanding loan repayments in the event of the death of an active borrower.

As of April 2005, the total loans outstanding amounted to US$5,983,320. The portfolio at risk (arrears greater than 1 day) is estimated at 1.9 percent, but the on-time repayment rate is 97.1 percent. The majority of businesses supported are commercial, although there are some in the service and manufacturing sectors (precise figures were not available). Finca Tanzania employs 180 microfinance staff.

Finca Tanzania currently provides three types of loan products. Loans are also provided to those below 18 years of age if they are married and/or have children. In collaboration with Finca International, Finca Tanzania has been experimenting with providing loans to older children, with a particular focus on those who lack family support and need to support themselves and, in some instances, other dependants.

The Concerned for Working Children (India)

Established in 1980 to critique and understand the issue of working children, The Concerned for Working Children (CWC) recognizes the importance of working with children and listening to what they have to say. CWC has become a leader in developing participatory programming with children, including involving children in research programs. It is this expertise that CWC brings to the current study.

In the study area (rural Karnataka), CWC collaborated with SKDRDP to identify business owners, working children, and families to carry out the survey. SKDRDP helps women (who constitute 95 percent of its clients) and men to gain access to credit for micro-finance initiatives, but does not directly manage the loan portfolio. Instead, SKDRDP plays the role of an intermediary, assisting in forming and training community-level groups, which are then provided with loans through a local commercial bank. Individuals wanting to borrow money must form a group of 10 or more individuals (groups typically have 20 to 25 members), who are collectively able to borrow from two to five times the level of collective savings of the group. The group negotiates a longer-term loan (nominally three years) with the bank, at an interest rate of 9 to 11 percent (declining). It then lends to individuals, but responsibility for repayment of the loan rests with the entire group. Repayment history has been good (greater than 95 percent). Because SKDRDP is not an MFI, details on individual loan products and portfolio performance data were not available.

Data Collection and Sensitivities Regarding Children's Work

There were concerns that the collection of data would raise some sensitive issues, particularly related to children's work. In three of the survey categories, children were assumed to be active participants in the microenterprise activities, either with their parents, with another business owner, or on their own. This meant that children's work had to be acknowledged both by the business owners (whether or not they were the parents of the children) and by the microfinance agency. The collection of information in these cases had to take into consideration that business owners, families, and the working children themselves might be reluctant to share information that was related to children's work.

For EACID and CWC, carrying out the study with working children did not raise new or sensitive issues. EACID had prior experience in programming that relates the work of children to microfinance initiatives, while CWC has extensive experience in providing programming for working children.

Pro Mujer and Finca Tanzania were each aware of the sensitivities regarding children's work at both national and international levels but agreed to take part in the study, believing that the results could assist them in improving the developmental impact of their own programming and in benefiting children.

Pro Mujer considered that it would be difficult to undertake the part of the study that looked at children working in non-family businesses and therefore did not carry out this part of the study. Instead, the agency expanded the study to examine the effects of both its microfinance and non-financial programming on children, including instances where children worked with their parents or where older children (those 15-18 years old) worked in their own business.

Finca also raised some concerns regarding the collection of information about children who worked in non-family businesses, but decided to include this part of the study. Under the circumstances, Pro Mujer and Finca are both to be commended for participating in the study.

Presentation of Study Results

The findings presented in the following section (Study Findings) are drawn from both the focus groups and quantitative survey (formal questionnaires). A total of 474 respondents in all four countries took part in the quantitative survey, while approximately 80 people took part in the focus groups. For some of the study findings, the results of the questionnaires and focus group discussions are presented in tabular format to facilitate comparisons among the countries and microfinance programs. A summary of key themes arising from the responses to the questions and from the focus group discussions follows each table.

Equal numbers of respondents were selected for each of the identified categories described in the section entitled Methodology (p. 7). The results therefore provide insights into these groups, rather than into the statistical composition of the overall portfolio of the microfinance partners. A different type and scale of study would be required to provide this type of information.

Study Findings

Children (persons below the age of 18 years) are actively engaged in many, if not most, of the microenterprises that form the typical client base of microfinance institutions. While older children are part of this workforce, many children below the age of 15 years also work; in fact, many children begin their work in microenterprises between the ages of 5 and 12. Children contribute to and benefit from microenterprises that are operated by their own families, by other non-family business owners, or by the children themselves. Children are directly affected when microenterprises begin to access credit and other microfinance services. When family incomes improve, the priority areas of spending are generally those that benefit children, especially children's education. Spending on improved health care, housing and nutrition were also noted.

Children most often work within their own family businesses. As credit becomes available and the family business grows, children are often drawn in to provide the additional labour needed because the limited scale of the microenterprise cannot yet support additional adult employment. Alternatively, children may be called upon to take on additional responsibilities in the home (care of younger children or chores), so that their parents (usually mothers) can be more involved in the business. The increased involvement of children means they have less time for schooling or recreation, but it gives them additional skills and abilities. The additional labour provided by the children allows the business to grow to the point where adults can be hired and the need for the children to work is reduced.

Children also work in businesses outside of their own families. The hiring of children who are not related to the business owner occurs less frequently than the involvement of children within their own family business, but is still a common pattern in the types of microenterprises supported by MFIs. Non-family businesses often include the technical types of workshops (mechanics, woodwork, metal work, etc.) that generally employ boys, but also businesses in other sectors such as textile businesses that employ both girls and boys. Children working outside their families are also found in the typical trade and service businesses whose owners may not have their own children to provide the required labour. This type of business owner includes widows, divorced women, and older women who head their own households.

The patterns that have emerged through the study are quite similar for children across the four participating countries and microfinance agencies.

Patterns of Children's Time Engagement in Microenterprises

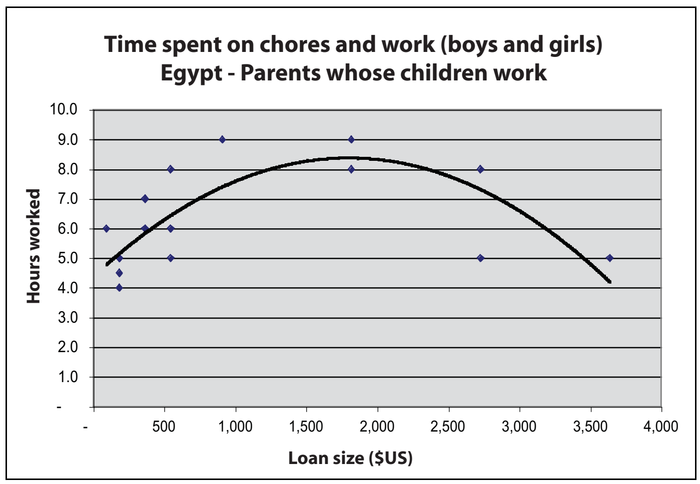
The first group included in the study were parents who were operating a microenterprise whose children did not work. While it was originally expected that this category would apply to the majority of children and families (i.e. that most children would not be actively working), once discussions began it became evident that some of these children who were classified as not working did "help out" within the family business. In fact, within each of the microfinance programs, it was common to find children working in their family business. From the children's perspective, the length of time spent working was more significant than whether they were paid for their work. The length of time varied from one or two hours per day (in which case the term "helping out" might be considered to be an appropriate description) to more than eight hours per day (in which case "working" or "employed" would more accurately describe the children's involvement in the business).

Examination of children's working time from both the children's and parents' perspectives provides useful insights into the way the operation of a family business affects children and the various roles that children play. When children do not work in the family business directly, they can and do still play an active role in supporting the business activities of their parents by taking on greater domestic roles within their own homes (performing chores). Children's ability to take on more of the chores at home (including the care of younger siblings) allows parents, especially mothers, to become more involved in their business. The time that children spend on additional chores is in many cases directly influenced by the availability and scale of credit (loan size) provided to the family business because the increase in credit allows the business to grow and increases the demand for labour. Both girls and boys take on increased levels of domestic chores to support their parents.

Estimating How Children Spend Their Time (Parents vs. Children)

The mapping of children's time over the day constituted an important part of the data analyzed in the study. Most of this information came from parents. There was some concern that parents might underestimate the amount of time that children spend at work or in performing additional chores. However, in cases where it was possible to compare estimates of time given by both parents and children, the differences were relatively small, and parents' estimates were generally higher than the estimates given by children. This suggests that parents were not biased or trying to hide the work of their children. For the purposes of the study, the estimates of children's time usage given by parents are assumed to be accurate.

Children's Contributions to the Growth of Family Businesses



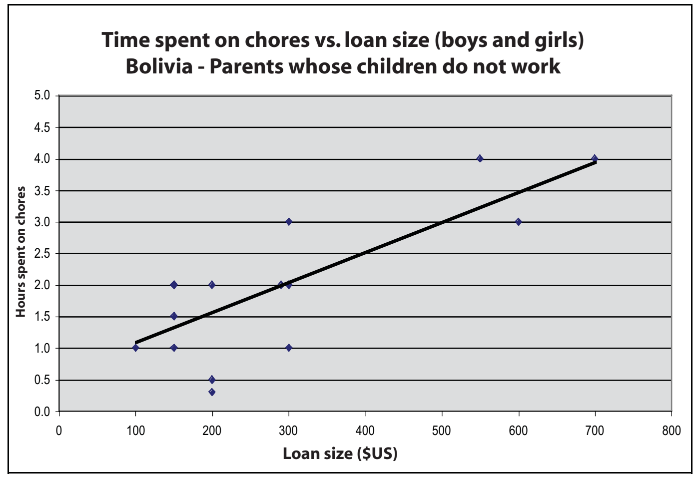
Study findings suggest that children play an important role in the initial growth of family enterprises that begin to access credit through MFIs. The time that children spend either replacing their parents (often mothers) within the home by carrying out additional chores or working in the family business is directly influenced by the size of the loan provided. As the business begins to expand, children provide the additional labour required by the business at a time when business revenues are not sufficient to support the hiring of an adult employee. The contributions made by children allow the enterprise to grow while maintaining income within the family. Outside the business, children contribute by taking on increased levels of chores within the family.

The charts reproduced here show the effects of loan size on the time that children spend on work and on chores in Egypts (for children who were working in their family business) and on the time that children spend on chores in Bolivia (for children who were not working in the family business).[12]

Egypt was the only country in the study in which the use of some of the loans created adult employment – this is because Egypt is the only country in which larger-scale loans are available to clients, who can then afford to employ adults from outside the family. When adult employment was created within the microenterprise, the length of time worked by children decreased.

12. The full report includes additional data from Bolivia and Egypt, as well as from Tanzania, where similar trends emerge. The data collection process used in India did not permit this type of analysis.

The length of children's workdays was also found to be affected by the purchase of new production machinery that reduces the need for labour and results in shorter workdays for children. In family businesses, the increased income generated as a result of the purchase of the machinery remains with the family and the child is therefore better off, but in non-family businesses that purchase production machinery, the result is more likely simply that the child employee's income will decrease.



The time that children spend at work in the family business increases initially as larger loans become available to grow the business. While there are significant variations among individual businesses and families, the overall length of a child's work day can become significant, increasing from one to two hours per day up to four to six hours per day for children who continue their schooling. The time can further increase to more than 10 hours per day for children who have dropped out of school. It is this extended working time that appears as the single most negative aspect of children's work in microenterprises because the increased time spent at work interferes with children's education and their ability to live out a normal childhood.

The fact that the children's work day can increase with an increase in loan size needs to be recognized and monitored by MFIs. It may be necessary for MFIs to review their loan policies, including the size of loans that are available to microenterprises, to help ensure that businesses are able to expand to the point where they can afford to employ adults and thus reduce the need for extended work from children.[13]

Influence of Children's Work on Family Income/Loan Size

While it is evident that microfinance programs affect the lives of children in a variety of ways, the involvement of children in microfinance enterprises also helps these businesses grow. A family is able to manage larger loans more successfully when the children work in the business than when the children do not work at all. This result was the same for business clients of the partner agencies in all four countries. The contribution, therefore, that children make through their work within the family business appears to improve business earnings and family incomes, which in turn benefit the children. The following table compares the average size of loans in family businesses that do not employ children with those in family businesses that do employ children.

13. The apparent correlation between micro-credit for parents and children's increased involvement in household chores has some parallels in the agricultural sector. The Food and Agricultural Organization (FAO), along with ILO and other researchers (i.e., S. Bhalotra and C.Heady, Economics Department, University of Bristol, U.K.), have been investigating the effects of the size of agricultural land holdings (farm size) and child labour. Increased farm size means that more family labour is needed to operate the farm, and therefore children are increasingly drawn into longer periods of agricultural labour. Once farm size becomes large enough to generate sufficient revenues to support adult labour, the involvement of children can be reduced. The initial expansion of microenterprises demonstrates a similar pattern, in which the initial growth in the business is supported through additional family labour provided by children. This will apply whether the children work directly in the business or replace the parent (mother) within the home.

Relation between loan size and the work of children within family businesses

Status of children's work	Average loan size in $US			
	Bolivia	Egypt	India	Tanzania
Children not working in the family business	272	733	385	156
Children working in the family business	312	840	406	188
Ratio: Loan size when children work vs. loan size when children do not work	1.15	1.15	1.05	1.21

When children work in non-family businesses, there is an even greater increase in the size of loans that are successfully managed by the businesses. This increase is probably a result of the longer hours that non-family children spend at work. The table below compares the average size of loans in non-family businesses that do not employ children with those in non-family businesses that do employ children.

Relation between loan size and the work of children within non-family businesses

Status of children's work	Average loan size in $US			
	Bolivia	Egypt	India	Tanzania
Children not working in the non-family business	272	733	385	156
Children working in the non-family business	n/a	1190	n/a	339
Ratio: Loan size when children work vs. loan size when children do not work		1.62		2.17

To the extent that larger loans support increased levels of business and family income, the ability to successfully manage larger loans may allow families to move out of poverty more quickly and reduce one of the major causes of children having to work. It is important to note that the availability of family labour can support the growth of microenterprises in which the ability for growth (ability to serve an expanded market and ability of the business owner to manage a larger business) already exists. The benefit of children's work in helping families to move out of poverty is limited to those cases where children work in their own family business and business earnings are available to the family.

Flexibility in Work Schedule

Having control over the scheduling of their work makes it easier for children to combine their work with their schooling. Having control over working hours is easier for children who work within a family business and whose parents support their pursuit of education. Control over working hours is also easier for children who operate their own business while continuing their education. Children who work in non-family businesses generally have the least flexible work schedules. These children may be better able to combine education and work, and thus gain more control over their schedules, if they are able to change to operating their own businesses. MFIs can play a part in supporting older children in their own business so that they have the flexibility to combine work and schooling (see section Implications of children's Work on Microfinance Programming p. 21).

Education and Learning

The study found that education is the greatest priority for spending from the additional family income that results from access to credit for microenterprises and subsequent expansion of the business. In addition, the earnings that children derive from their work are also used to access education; however, the study found that the time that children spend at work could jeopardize their ability to perform well in educational programs.

The parents and business owners employing children and the working children who participated in the study recognized the value of formal education and saw the combining of education and work as a reasonable compromise (earning and learning), given the need of children to earn income for their families, to gain both academic learning and practical skills, and to prepare for a future career. Parents also stated their awareness that not all schools provide good-quality education and that even if a child succeeds in school, there is no guarantee that this academic success will result in future employment and a decent level of income. Children taking part in the study voiced their view that working in a business gives a child additional skills and experience that can result in alternate or additional sources of work and income later in life.

Many of the working children, parents and business owners indicated that while skills learned through work can be useful in formal employment, a formal education can also give the operators of micro and small enterprises knowledge and skills that will allow them to better operate and expand their businesses.

In some instances, children do decide that it is more advantageous to withdraw from formal schooling to become full-time workers, although this was not the norm in the microenterprises examined through the study.

Benefits of Work on Learning and Skill Development

When children work in a family business, they are able to learn a variety of useful technical, business, and life skills. Many (though not all) children and parents surveyed saw this aspect of operating a family business as a way of providing a broader education for children that either can be applied as part of a professional career after formal education is completed or can help children operate their own business if formal employment is not possible. Business and life skills were cited as important areas of learning more often than technical skills were, although technical skills were also valued.

Negative Effects of Work on Education and Leisure

The study findings revealed some negative effects on children's ability to learn through formal education when they are also working. As adults gain access to microfinance and begin to expand their business, they may require their children either to help out in the business or to take on more of the parental duties or chores within the home. In either case, there is a negative effect on children's ability to perform in school since time for homework and extra study is reduced. Children's leisure and play time is also negatively affected.

Children as Trainers

Children learn from adult business owners as they work, but they also learn from other children. In businesses in which there are children of different ages, older children train younger children. About one-third of the Tanzanian children participating in the study who were running their own business reported that they learned how to operate their business from other children. The role that working children play as trainers and mentors for other working children needs to be acknowledged as an additional benefit that can come through children's work.

Gender Issues

Difficult Choices for Parents (Mothers)

In all of the participating countries, women represent the majority (80-85 percent) of the clients of microfinance institutions. In addition, women in these countries carry the primary role for child and home care. Starting or operating a microenterprise increases the work load for most women, and child-care facilities are rarely available. Operating a limited microenterprise may be combined with caring for a family, but as the business grows (through access to credit or for other reasons), women face a difficult choice. They must either withdraw from the family and turn over the responsibility of family care to their older children or bring their children into the business to help out. In the process, they lose a significant amount of contact with their children, and both mothers and children suffer from the loss of parental role modelling within the home.

In some instances, parents are able to operate their business from their home and thus reduce the time away from their children, but this type of situation appears to be the exception within the samples in the present study.

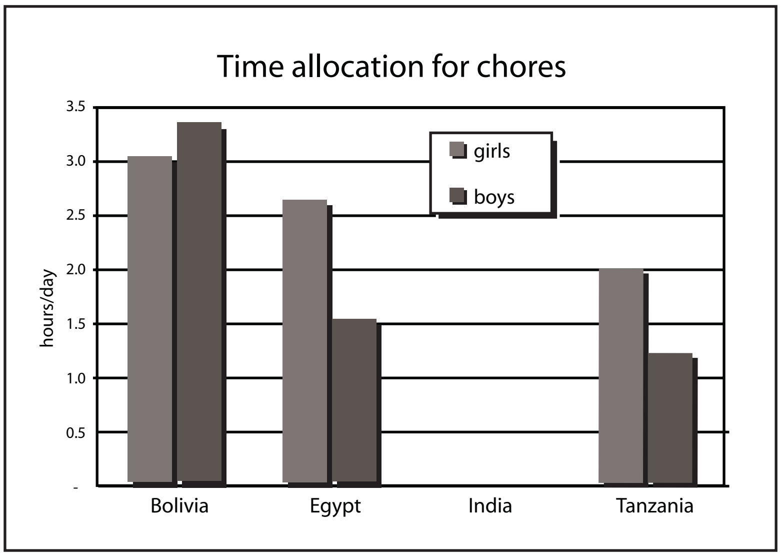
Overall, the decision to have children work reflects the need for poor families to balance the requirement for increasing the family income (to support children's education, as well as other rights and basic needs) with a child's ability to enjoy a normal childhood (including the right of children to education, play and leisure). Parents and children are generally aware of the types of choices that they are making, and parents are attempting to act in their children's best interests given the situations that they face.

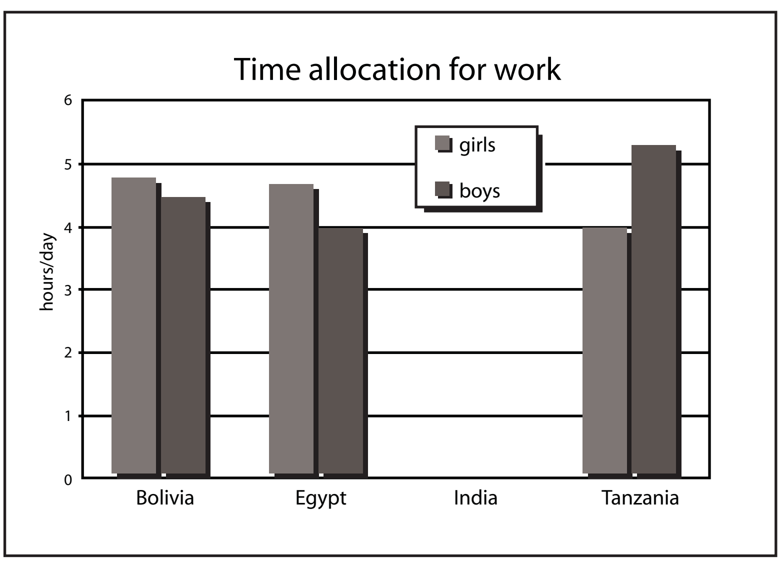
At the same time, women are trying to determine ways of easing their business work load so that they can achieve a greater balance between work and caring for their family. Some women surveyed suggested that reducing the time required for processing loans would contribute to an overall reduction in workload and allow for more family time. The women made a number of practical suggestions, including having longer loan terms and monthly instead of weekly repayment periods. MFIs may be able to review their lending policies to determine the extent to which changes could help women reduce their overall work time. However, while a reduction in repayment meetings might help reduce work time, many women also reported that weekly meetings provide positive benefits – specifically opportunities for social interaction with other business women and (in the case of those working with Pro Mujer and Finca Tanzania) access to health and education programs. MFIs will need to review potential options with women clients to determine the extent to which overall work time could be reduced by streamlining the lending process and how this should be carried out.

Children's Work/Chores

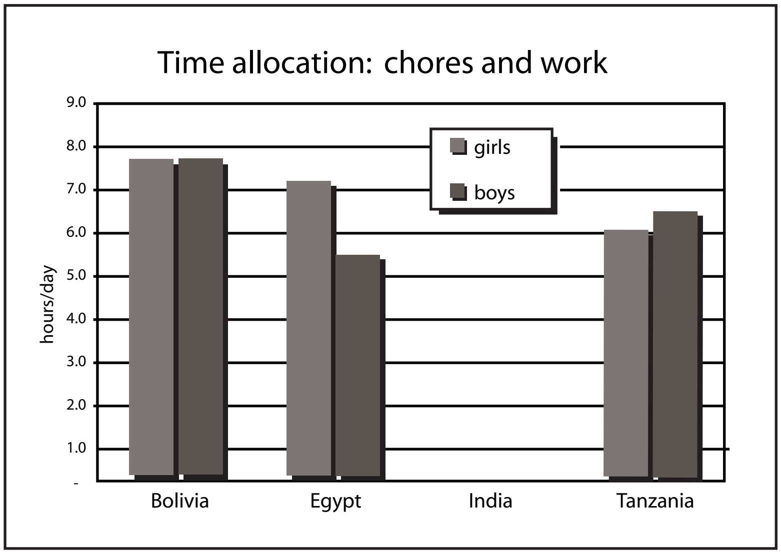
In examining the patterns of how children allocate their time for chores and work, it becomes apparent that there are both similarities and differences by sex. Both girls and boys can be involved in work in the family business and in carrying out chores within the family. However, there are differences in the time spent on work and on chores by boys and girls in different countries.

The graphical presentations of the results of hours/days children reported working in a family business are reproduced here for Bolivia, Egypt and Tanzania. (The data collection procedures used in India did not permit this type of analysis of the data.) The three graphs show the sex-differentiated allocation of time spent on chores, on work, and on chores and work combined.





The top graph shows that in Bolivia boys spend slightly more time than girls do on chores, while the reverse is true for boys and girls in Egypt and Tanzania. The middle graph shows that in Bolivia and Egypt girls spend more time than boys do on work, while in Tanzania the reverse is true, with boys spending more time than girls do on work. The lower graph shows that when chores and work time are combined, the gender differences are reduced in all cases. While there can be significant variances by sex when chores or work are examined separately, the overall load carried by girls and boys in supporting their families is shared fairly evenly.



Children's Education

The ability of families to increase their income through access to credit for their microenterprises could reduce the financial pressures that force families into making the difficult choice of whether or not to have a child attending school. To the extent that gender influences this type of decision, improving family income should help girls, who are disadvantaged when it comes to gaining access to schooling. While increased access to schooling will benefit girls more than boys (because girls are generally more often the ones not accessing school in the first place), the time spent in supporting the microenterprises of parents may negatively affect boys more than girls because it is boys who are at higher risk of dropping out of school to work.

Skills Training

There are gender differences in the type of work carried out and the types of technical learning that occurs through work carried out by boys and girls. The technical trades (metal work, mechanics, woodworking, etc.) provide opportunities for technical skill training, the potential for skilled employment, and reasonable levels of future income, but these types of jobs are available almost exclusively for boys. Girls are less often in a position to learn technical skills through work, and when they do, the level of future earnings in the technical trades sector is less than that for boys.

Health and Housing

After education, spending on health is seen as the major priority for the allocation of increased family income. Some parents/families surveyed indicated that better housing and improved nutrition are also priority areas for increased family spending.

Among the microfinance partner agencies taking part in the study, Pro Mujer is the only one that provides direct health services alongside its microfinance program. The female clients of Pro Mujer who participated in the study rated the agency's health clinics and health education programs as valuable for both themselves and their children. Given the nature of family businesses, the ability of the mother to operate the business and maintain loan repayments weakens if either she or a child becomes ill. By developing complementary health programs, Pro Mujer helps improve the quality of life for its clients while reducing the risk of business failure and loan defaults.

Work-Related Injuries and Illnesses

While increased levels of family income derived from a microenterprise can help children and their families access more and better health care services, children's involvement in work also exposes them to work-related illness and increased risk of injuries.

While there are variations across regions, up to half of the children working in family and non-family businesses reported that they have suffered from work-related illnesses or injuries. In family businesses, parents provide care for their children, but care is not always available from non-family business owners.

Improving the awareness of business owners and working children about the types of health and injury hazards that exist in workplaces could help reduce the incidence of injuries and health problems that affect children through their work. The code of conduct being developed by EACID in Egypt includes training for loan officers, business owners and working children on workplace hazards and mitigation measures.[14] Once the code of conduct has the agreement of business owners, adherence to the code becomes part of the loan contract, and access to additional loans is linked to compliance with the code. Other MFIs could consider developing similar approaches with business owners.

Other Social Development Considerations

There are a number of other ways in which microenterprise programming can affect children's lives, both within the business itself and within children's lives as part of families and communities.

Decision-Making Within Business, Family and Community

Children's ability to earn income contributes to their ability to take part in and influence business decisions and, to some extent, family decisions. The detailed interviews carried out by CWC in India show that children who are attending school and not working are generally excluded from family decision-making.

Children who work in family businesses are often consulted about business decisions because in many instances they have knowledge and experience in matters such as purchasing, marketing, customer relations, and other business-related matters. However, these children are not considered as providing the family with additional income (although their labour supports the family income from the business), and therefore their participation in business decision-making does not always translate into participation in decision-making regarding family matters.

Children who work in non-family businesses or who operate their own business and bring an independent income to the family are more frequently allowed to participate in the family decision-making process. The study found that both boys and girls are more involved in family decision-making when they earn an independent income; their ranking in the decision-making process is a function of the level of income they earn outside the family. While girls improved their rank in decision-making through their ability to earn income, they ranked lower than boys for the same level of earnings.

14. These measures are described in the full study report.

The study also found that earning an income is not in itself sufficient for children to become part of decision-making at the community level. Participation in community-level decision-making occurs when children are able to take part through recognized children's organizations. In India, CWC has been successful in helping children form their own advocacy and support organizations, which have been able to gain credibility with adults and thus positively affect children's interests in the workplace and in their lives beyond work.

Giving Children a Voice

When given the opportunity to express their opinions, working children are often able to articulate the types of problems that they are facing through their work and to provide reasonable, practical suggestions for improving their working conditions given the limitations of the business. Encouraging working children to take part in improving the business where they work can be a sound business practice and can also be incorporated into the overall improvement of microfinance and other development programming with and for children.

Children's Future Plans

Most of the working children taking part in the study indicated that they see their work in a microenterprise as a way of earning income and learning technical and life skills that will contribute to a future professional or other type of career. Continuing to operate a microenterprise or the same type of business is the first choice of only a small number of children who participated in the study. At the same time, many children recognize that finding formal sector employment is difficult in all of the participating countries, and that the ability to operate a microenterprise can be either an alternative or supplementary source of income to formal sector employment.

The documenting and publicizing of case studies that show how working children have been able to combine education and work in a microenterprise and have gone on to become successful adult entrepreneurs could help encourage other working children to continue their education as long as possible and to aspire to future business careers.

Family Size in Relation to Children's Work

In some discourses about child labour, parents are seen as deliberately choosing to have large families so that their children provide a labour force to support them. There was no evidence of this type of practice in the present survey. The study showed that the family size of the parents who operate a microenterprise is at or below the national norms for each of the countries. Parents themselves stated that they chose to start or continue their family business to provide family income so that they would be better able to care for their children and meet basic family needs, especially the costs associated with children's education. Parents stated that they have involved their children in work or in additional family chores only when necessary.

Implications of Children's Work on Microfinance Programming

It will be important for MFIs and agencies supporting microfinance programming to recognize the kinds of impacts that microfinance has on children's lives, to monitor the effects of their programming on children, and to make adjustments when necessary to ensure that children benefit.

The effect of loan size on children's work time is one of several areas of microfinance practice in which policies need to be examined. MFIs have often kept loan sizes small as a way of ensuring that low-income and poor clients are targeted through their programs. However, if loan sizes remain small, the microenterprise may not be able to grow to the point where additional adults can be employed, and the business remains viable only because children are providing the additional labour required. Adjusting lending practices to support business growth that will subsequently benefit children is one example of the type of improved social performance management that is now being discussed among MFIs and support agencies. Collecting information on the amount of time that children spend on work and chores can be done relatively easily and can give MFIs an indicator of the social impact of their programming on children and their families.

Microfinance institutions could also consider expanding their programs to provide older working children with access to credit and business advisory services. Such programs could assist children in maintaining control of their working schedules and in improving their ability to continue higher education while they work, as well as help MFIs to expand their services into a new and potentially growing market. In the present study, the lending programs carried out by Pro Mujer and Finca Tanzania for older children were relatively small; however, lending to children in the 15-18-year-old age range is becoming more common, and experience is growing with respect to serving both this group and young adults. MFIs that have begun to serve this new young people's market suggest that young people are viable microfinance clients. For example, a study funded by the United States Agency for International Aid (USAID) indicated that:

> *A majority of organizations serving youth with micro-finance do not believe that administrative costs for youth are higher or that repayment levels for youth are lower.*[15]

The results of the present study provide other insights into how microfinance programming can positively or negatively affect children. There are both obligations and opportunities for MFIs. MFIs can act to identify and monitor the impacts on children within their programs and then adjust their lending and programming practices to improve the benefits for children. In doing so, MFIs will be able to improve their overall social performance while maintaining microfinance best-practice standards.

15. Michael McNulty (Chemonics International, *Serving Youth with Micofinance, Perspectives of Microfinance Institutions and Youth Serving Organizations,* USAID microREPORT #30, September 2005. Accessed from www.microlinks.org/ev02.php?ID=9589_201&ID2=DO_TOPIC.

Conclusion

Microfinance programs have significant and wide-ranging impacts on the lives of children because they help low-income and poor families gain access to credit and other financial and, in some cases, non-financial services. The financial assistance in turn helps families succeed in operating and expanding their microenterprises, which leads to improved family incomes. The additional income is used to support children's rights, children's education, provide better health care, nutrition and housing, and meet other basic family needs.

Children are also active participants in microenterprises, whether these are run by their parents, by non-family business owners, or by the children themselves. Through the provision of labour, children help family or non-family microenterprises to grow in the initial stages when external adult labour cannot be afforded. Children also participate by providing advice to business owners and by providing training to new young and child workers. Even when children do not appear to work in the family business, they frequently play a supporting role for their parents. By taking on increasing levels of responsibility within their own home and by spending longer time on household chores, children allow their parents, especially their mothers, to become more engaged in growing the family business.

Engagement in a family or non-family business allows children to acquire new technical, business and life skills that can lead them to a future business career. Such engagement also complements the knowledge and skills they acquire through formal education and can be applied to a professional career later in life.

When children bring an independent source of income to the family, either through their work in a non-family business or through their own business, they are given a greater role in family decision-making. However, the ability of working children to engage in wider community-level decision-making processes occurs only when they are able to form their own organizations that are recognized by the community.

Children can successfully combine work and education. The income children earn through their work contributes to the cost of their own education. The length of time that children work and spend on chores, however, can reduce their ability to perform well at school.

There are gender differences in the amount of time girls and boys spend on additional household chores and on work within a microenterprise; however, the combined total time spent on chores and work is similar for girls and boys. It is this combined total that is most significant for working children. There is a need to balance the requirements for increased income with sufficient time for school, study and leisure. Children themselves should be involved in determining an appropriate balance. Work within a family business or in their own business gives children greater control over the scheduling of their work than does work in a non-family business, and contributes to their ability to perform well at school.

The microfinance practitioners and support agencies that took part in the study were originally not aware of the role that children play as workers within microenterprises, the positive and negative aspects of children's involvement in microenterprises, or the ways that microfinance programs can adjust their programming to improve the impacts on children. An increasing number of programs are beginning to provide microfinance services for older children, who are becoming young entrepreneurs and owner–operators of their own businesses. This is a positive development for children.

More attention to children working in microenterprises is warranted by MFIs. Their current lack of engagement with working children may in part be influenced by the stigma associated with child labour. However, the general perception of the work performed by children is changing. The present study shows no evidence that children working in the microenterprises surveyed are engaged in the worst forms of child labour. Many working children will continue to work, but there are many improvements that can be made. Without jeopardizing the generally accepted best-practice standards that are now in place, microfinance institutions and support agencies are well placed to engage in a process of helping to improve the lives of working children; to develop and document good practice and experience; to share lessons learned; and to build a constituency among the microfinance community that is ready and able to improve the social impact of microfinance programs on children.

Recommendations for Microfinance Practioners

1. Microfinance institutions and support agencies need to develop a greater awareness of the roles that girls and boys play as active participants within microenterprises and the impacts of microfinance programs on the lives of children.

2. Additional surveys on the effects of microfinance programs should be designed and carried out to:

   ❖ verify that the current findings can be generalized to reflect the situations of other microfinance programs in other geographic regions; and

   ❖ gather and analyze additional information that was not possible to cover under the present survey, including the incidence of children's work in microenterprises that are supported by MFIs.

3. A separate study should be carried out to determine the impacts of private-sector development programs (involving small and medium-sized enterprises) on children.

4. Children (girls and boys) should be able to participate in any new or additional studies being carried out and in any decisions made (in age-appropriate ways) based on the results of such studies that affect their work, their lives, their human rights and their best interests.

5. International financial institutions should be encouraged by microfinance support agencies (donors and technical assistance providers) to:

   ❖ develop innovative ways to improve the effects of their programming on the lives of children in general and on the lives of children who work in microenterprises in particular;

   ❖ document the results of such innovation; and

   ❖ share experience and learning.

6. In collaboration with business owners and working children, MFIs should develop codes of conduct that establish agreement on the conditions under which children are able to work, and these codes should become part of the lending process.

7. MFIs are well placed to review children's work schedules with business owners and parents, to agree on reasonable limits for working time, and to ensure that children do not end up working for longer periods of time as a result of business owners gaining access to credit.

8. MFIs should review the design of their loan products and policies to ensure that by having access to credit, microenterprises are able to grow to the point where they can support the creation of adult employment rather than rely on the permanent employment of children working long hours.

9. The international community needs to recognize that children can and do work, and that it is not in children's best interest to attempt to remove them from all work. There should be no stigmatization of children who work under appropriate and safe conditions, business owners who employ children, children's families, or institutions that support working.

10. Social performance management systems and systems for rating the performance of MFIs should reflect the impacts of microfinance programming on children and the ability of MFIs to positively affect the lives of children.

11. Education programs should accommodate children exercising their right to education so that these children can remain in school as long as possible and can perform at their best possible level.

12. Learning that takes place within workplaces and through the work carried out by children should be examined, and complementary educational programs should be developed and provided alongside work so that children who do work are able to acquire as complete an education as possible.

13. Microfinance practitioners should identify, document and publicize case studies that show how working girls and boys who have been able to combine education and work have later become successful adult entrepreneurs who have been able to apply their formal education in a business career.

14. Microfinance programs should explore the possibility of providing loans to older children who are interested and able to operate their own business so that they are able to maintain more control over their working hours and are better able to combine education and work.

15. Working children should be encouraged and supported to form their own advocacy and support organizations and to develop the ability to act in their own interest.