

Influence of Credit Rationing on Child Labour in Poor Household in Sri Lanka

(Special Reference to Hulandawa Estate in Matara District)

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Abstract

Children's participation in the labor force is endlessly varied and infinitely volatile, responding to changing market and social conditions. Credit rationing and child labor which are common to the poor community, this study is conducted influence of credit rationing on child labor in poor Household in Sri Lanka in case of the laborer community in Hulandawa estate. Objectives of the study are to identify the factors influencing the credit rationing, to identify the factors influencing the financial difficulties in Hulandawa Estate and to provide the suggestions to reduce the child labor working in Hulandawa Estate. Fifty households selected as the convenient sampling method. Independent variables are the attitude of parents, student education and the influence of the credit market and the dependent variable is the impact of child labor. Based on the descriptive analysis results revealed that all the variables moderately support the system. People access to credit via both formal and informal financial market. The rural bank is the formal lender in the estate while, the informal sector refers to the non-institutional or unorganized financial sources, which consists mainly of moneylenders, traders, pawnbrokers, and landlords. The survey results revealed that financial difficulties are the main reason for not attending school. Normally, female children engage in state work especially picking tea leaves and male children engage in work collecting Katupol.

Key Words: child labour, credit market, poverty

Introduction

Sri Lanka's life expectancy and literacy rate are nearly on par with those of developed countries, and even top the rankings for the South Asian region. The data released by the Department of Census and Statics (DCS) for 2012/13 indicated that the poverty headcount ratio (6.7%) which is the percent of population earning below US \$1.25 a day (PPP) in Sri Lanka declined from a 14% in 2002 to a 7% in 2007 and increased 8.9% in 2009/10 and decreased 6.7% to 2012/13 in all the sectors such as urban,

rural and estate. Among those sectors, a higher poverty headcount ratio can be observed in the estate population.

Literature Review

According to the author Cader, 2009 studied an overview of child poverty issues in Sri Lanka within varied themes. Poverty makes children vulnerable to entering the labor force and the informal nature of the work that children engage in making it easier for them to be exploited. Child laborers suffer multiple deprivations; they are overworked, have little leisure, are denied education, suffered by bad working conditions, subjected to cruel treatment by employers and sexual harassment and underpaid.

Both poverty constraints and income opportunities play important roles in the decision to send children to school or to work (Cockburn, 2001). Cockburn finds that work and school conflict largely but not entirely. Expected returns to schooling are greater than to child work. Income may also encourage schooling and reduce child work by reducing household credit constraints. Moreover, returns to schooling may also increase with household income, through social capital or other employment advantages (Cockburn, 2001). Level of education and unemployment of Parents is the most important factors in determining children's education (Bastos and Machado). According to their study, children whose parents have low levels of education and children whose parents are both unemployed can be affected by their educational level also.

Poverty has been identified as a situation with a potential to create a child labor problem in the country (Rena, 2009). Wherever poverty exists, child labor there prevails and it is one of the most striking issues in the developing countries. It can be defined as an activity with a negative impact on the child (Rena, 2009). Rena said child labor limits the growth of human resources and it is common in households where poverty is inherited from one generation to another. It does not only reduce the individual's education achievements but also reduces the effect and quality of the education system and child labor has redistribution effects on the labor market (Rena, 2009). According to Rena, parents should be aware of the importance of child education and the negative effects of child labor and that they send their children to work for the survival of their families and their children.

Most of these working children help their families at home, on family farms or in family businesses (Edmonds, 2007). This works depend on age, household size, number of siblings and in general, poverty (Ilahi, 2001). According to Ilahi the costs of schooling can influence not just the demand for children's education, but also the time children allocate to housework and outside labor. This study has shown that consumption poverty is the

main cause of child work and that when the inability of the labor market to provide jobs when the child labor needs emerge in the household, land availability generates the work opportunities. Sickness and disease of adults also cause child labor (Ilahi, 2001).

Credit is an essential instrument for improving the welfare of the poor directly and for enhancing productive capacity through financing investment by the poor in their human and physical capital (Okurut et al., 2004; Ghosh et al., 1999). According to Okurut et al. (2004) as a result of constrained access to formal credit, the poor rely almost exclusively on the informal financial sector. Although households apply for credit lenders determine how much credit is allocated to them, based on their perception of the household's creditworthiness. This often results in credit rationing that occurs when loan demand exceeds supply, and some borrowers receive no loans or less than the amount applied for at the prevailing market interest rates (Okurut et al., 2004). Under credit rationing situation where the poor community is unable to find a way to escape from their financial difficulties, a tendency of using the child labor can be expected (Jafarey, S., & Lahiri, S. 2002)

People access to credit via both formal and informal financial market. Commercial banks and other formal financial institutions constitute the formal lenders in Sri Lanka while, the informal sector refers to the non-institutional or unorganized financial sources, which consist mainly of friends and relatives, moneylenders, traders, pawnbrokers, and landlords. Access to the formal financial sector is restricted to a small proportion of the population who can meet their stringent requirements, which include high minimum balances for account opening collateral requirements for loans, and long and costly bureaucratic processes.

Failure of the formal financial sector to serve the poor has forced them to rely on informal finance, as is often the case in developing countries (Okurut et al., 2004). Informal lenders innovatively seek to solve the problems of high risk, high cost and low returns that banks face when serving the poor, e.g. by locating close to their clients, and by speedier loan approvals.

The expected return on the borrower's proposed investment project plays a key role in influencing the lender's credit rationing behavior. If the expected return is less than the principal loan amount plus interest, then the probability of default will be high. In such a situation, the lender's decision will be either to ration the borrower by granting a smaller amount than originally applied for or to completely reject the loan application. In this kind of situation where the poor community is unable to find a way to escape from their poorness, a tendency of using the child labor can be expected. Households do not have access to capital markets, might be

resource constrained and tend to invest the human capital of their children (Guarcello et al., 2003).

Guarcello et al. (2003) studied Household Vulnerability and Child Labor: The effect of shocks, credit rationing, and insurance. Their main results indicate that credit rationing is extremely important in determining the household's decision to invest in the human capital of children. Further, they said that even if it does not directly affect children's labor supply, credit rationing appears to be a very important determinant of children's vulnerability as —idle children are particularly at risk of becoming workers and often face circumstances that are even harder than those of working children.

Problem Statement

The Child Activity Survey (CAS) (2008/09) reveals that 12.9 % of the child population in Sri Lanka is engaged in some form of work like, buying and selling business, production of goods & Services, self-employment activities that could be termed economic activity. It includes children who are involved in some form of economic activity while also attending school or not. This study is conducted influence of credit rationing on child labor in poor Household in Sri Lanka in case of the laborer community in Hulandawa estate.

Objectives

This study addresses the following specific objectives.

- To identify the factors influencing the credit rationing on the Hulandawa Estate in Matara District.
- To identify the factors influencing the financial difficulties on the Hulandawa Estate in Matara District.
- To provide the suggestions to reduce the child labor working in Hulandawa Estate in Matara District.

Research Questions

- What are the significant causes behind the Credit Rationing on the Hulandawa Estate in Matara District?
- What are factors influence on the financial difficulties on the Hulandawa Estate in Matara District?
- What are the suggestions to reduce the child labor working in the Hulandawa Estate in Matara District?

Limitation of the study

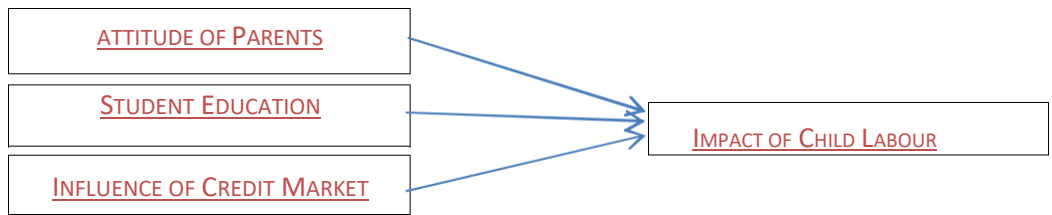
- Many factors cause child labor, only credit rationing were considered for this study.
- The sample selected for 50 households.

Sample

Considering the populations, around 70 households living in this estate, among them 50 households selected as a convenient sampling method.

Conceptual Frame Work

Based on the problem statement, the researcher has formulated the following conceptual framework.



Source-Literature survey

Figure-1 Conceptual Framework

Operationalization

Table-1 Operationalization

Dimensions	Indicators	Measurement
Attitude of Parents	Family status Household's income Employment opportunities	Questionnaire
Student Education	School Attendance Level of Education Activity Status	Questionnaire
Influence of Credit Market	Formal Credit Market Informal Credit Market	Questionnaire

Source: Develop for research purpose

Data Collection Method

This study was carried out based on the primary data, collected through a survey which was conducted in Estate of Hulandawa. Primary data would be gathered using a questionnaire with convenient sampling method. The questionnaire would be distributed among the selected sample of the estate. The sample represents laborers working in Hulandawa estate. This

method was used for collecting laborers' demographic data (age, education level, type of work, income level, etc.) and the research data explains their children school attendance, income sources, financial difficulties and credit demand too.

Methods of Data Analysis

In this research process to analyze the collected data the researcher uses the Statistical Package for Social Science (SPSS). The data were analyzed by the univariate method, the research questions design and taking in to account the variable that was measured Likert scale rating (1-5). Indicators of five-point Likert Scale as Follows.

Strongly Disagree	1
Disagree	2
Neutral	3
Strongly Agree	4
Agree	5

Method of data evaluation

Finally, data evaluation part is described based on following structure.

Method of data evaluation

Decision rule describes the evaluation part of the data.

Table-2 Decision rule

Range	Decisional rule
$1 \leq X < 2.5$	Low level
$2.5 \leq X < 3.5$	Moderate Level
$3.5 \leq X \leq 5.0$	High Level

Data Analysis

Descriptive analysis

Table: 3 Summary of research variables

Variable	Mean	Standard Deviation
Attitude of Parents	3.00	0.35
Student Education	2.70	0.36
Influence of Credit Market	3.56	0.97

Source: Survey data

All the variables moderately support the system. Attitudes of parents,

parent's educations were limited to primary education. They earn their main income by working as laborers in the estate [picking tea leaves, cropping rubber, plucking and collecting —katupoll. Most of the households include income category Rs.10001-15000, as a percentage of 50% and 28% households include income category Rs.15001-20000. That household's children also earn a considerable amount of income from engaging economic activities while attending or not attending school and that cause to the increase in income of that households. Children are engaged in some form of economic activities because of their household's financial difficulties. Apart from their estate work, their children have used to do some other labor jobs as well. That includes working in shops, Boutiques, markets, construction site. Some of them work as cashiers in shops and boutiques.

Considering the students' education also moderately support Estimated child populations, 90% are in the 6-18 age level. Out of total child population, most of the children are not attending school based on the following reasons such as financial difficulties (70%), they are unwilling to study/ weakness in education (12%) and disability or illness (14%) as the main causes for not attending school. The Survey results disclosed that a higher proportion of children in the age group 15-18 of the Hulandawa Estate have reported "financial difficulties" (62%) as the main reason for not attending school. Because financial difficulties arise due to the low-income level of household and their income is not enough to spend their children education and also to save the life or build the well-being of the children. And some of the members of the household have ability and knowledge to engage in self-employment activities. Financial difficulties are a problem for them also. According to the survey findings, these estate children attending MR/Tamil Vidyalaya. It is the only school situated near to this estate for Tamil students. But children are not attending school regularly due to some reasons, financial difficulties, and weak in education or illness because some of the children have the mental disability. This particular community considers the school education as invaluable and as of no use. They are thinking even spending time on the education they can earn some income from working. This statement agreed with some parents also. Parent's education also low level and they do not know the importance of the education. Along with the maturity and being the elders in a family some children tend to carry a part of the financial burden with their parents. Finding of the survey data, children have the attitude; money makes the success of life.

Influence of credit market variable moderately supports to the system. People in this community have a tendency to obtain credit when their income is not enough for their expenditure. They access to credit via both formal and informal financial market for their consumption purpose. Considering the usage of the credit market, the less amount of household used formal credit market for their credit needs. They consider it a costly and troublesome process. Collateral requirements, certification of proper income source and payment installments on time highly affect when they obtaining credit from formal credit markets. According to the survey findings, households do not receive the full amount of credit which they apply from both formal and informal credit market because of their lack of qualification to obtain the loan. They are haven't collateral to obtain a loan and also they are haven't proper income sources to certify their income, because if they engaging work only they can earn only. Due to the monetary settlement, most of the children are working for the estate. Normally female children engage in state work picking tea leaves and male children engage in work collecting "Katupoll.

Conclusion

Children are the future of a nation. Skills and knowledge of them affect the economy of the country in long terms. Child labor deprives their childhood, their dignity, and that is harmful to physical and mental development. The lack of education because of child labor for children is part of what allows for the vicious cycle of poverty to continue, since in the future those children become unskilled workers (Edmonds, 2007).

Fifty laborer households were used as the sample of this research and among them either one member or work as a laborer in Hulandawa estate. All households engaged in some form of labor activities in the estate. Apart from that, in front of the financial difficulties, they try to engage in labor activities outside of the estate to earn some extra money income. Although these people have an ability to access credit market via formal market or informal market, sometimes they had totally or partially credit rationing. Majority of household in this estate used both formal and informal credit market for their credit needs. Finally, because of their difficulties, they have to limit their expenditures to escape from poverty. This situation severely impacts on their children.

Recommendations

Financial market can support by providing credit facility with considering

minimum requirements and under fewer interest rates. Education is a crucial component of any effective effort to eliminate child labor.

Provide awareness programs for children on health, education, etc. Education has to be aimed at the overall development of a child. Rural areas have been the major victim of lack of educational facilities, that where most of the children are deprived of even the basic education. And coming to the urban life it is totally insane. The only way to do it is to change the education system for such children. Let them should have a separate educational system where they are given vocational training in parallel with the basic education. The training will help them earn their livelihood in the future and also education. And there must be a certain age limit after which the person/child will be allowed to carry on his/her independent work in the area in which he/she has been trained until then he/she will have to be under the inspection of the institute providing training.

According to the law in Sri Lanka, providing education up to 14 years that is the junior level of the secondary education is compulsory. Initiative to increase the age of compulsory education to 18 years (at least up to complete secondary education level). Increase the enrolment of estate children in Ordinary Level (O/L) classes and introducing Advance Level (A/L) teaching in schools and upgrading facilities to increase O/L and A/L pass rates. Implementation of social development of the laborer Community. It helps raise the living standards of the community and promote their children's education and wellbeing and create opportunities for formal employment of young adults.

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