Government Financial Support For Childcare Services: A Study Of Regulations In 95 Economies

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This Brief presents new data collected by the World Bank’s Women, Business and the Law project on childcare legislation in 95 economies around the world. It focuses on government measures aimed at making childcare more affordable. The data used in this Brief are based on a conceptual framework that considers both demand and supply-side constraints of the childcare market that limit the uptake and provision of childcare services. The data, current as of October 1, 2021, indicate that only 41 of these economies have policies to encourage the use of childcare by reducing its costs for parents, either through direct financial support to parents, support for private providers, or both. This Brief offers a comprehensive overview of government support strategies to reduce costs and increase the affordability of childcare services; such an overview can guide further empirical analysis to assess the impact of these provisions.

Childcare matters for women’s labor market outcomes and beyond

The COVID-19 pandemic has brought the role of childcare and its effect on women’s labor force participation to the forefront of policy discussions. Typically, women bear a disproportionate burden of unpaid childcare as they are more likely to stay at home, work part-time, or pause their careers to provide childcare (UN Women 2015). As the COVID-19 pandemic unfolded, women were disproportionately affected by job losses: global women’s employment declined by 4.2 percent between 2019 and 2020, while men’s employment declined by 3.0 percent (ILO 2021). This outcome was partly due to women being more concentrated in occupations that were most vulnerable to the economic downturn, such as hospitality and services (Alon et al. 2020). In large part, however, the lack of childcare options during lockdowns and the unequal distribution of care work at home drove women out of the labor force, exacerbating the gender equality gap (Fuchs-Schündeln et al. 2020).

The pandemic has exacerbated existing patterns in the demand for childcare. The unmet demand for such childcare is substantial, with more than 40 percent of children younger than primary school age—350 million children globally—needing childcare and not having access to it (Devercelli and Beaton-Day 2020). Even when childcare is available, affordability of care is a serious concern that influences its use. Net childcare costs can be as high as 30 percent of household income for a couple with two children (OECD 2021). Childcare costs may be a particular challenge for low-income families, especially in the context of rising inflation (indicating lower real buying power) and financial constraints. The combination of rising inflation and financial constraints can lead to working mothers dropping out of the labor force to care for their children, limiting employment opportunities and income, exacerbated by the gender equality gap, and reducing families’ economic security and growth. This impact extends to children, as mothers may resort to substandard childcare settings or rely on older siblings to care for younger ones, which can in turn negatively affect young children’s welfare and education.

As the world emerges from the pandemic, policy makers are increasingly focusing on tackling the childcare challenge. Making childcare affordable for families, especially working mothers, and offering financial and non-financial support to providers are important strategies to encourage uptake and support women’s access or return to the labor market. This Brief presents data collected by the Women, Business and the Law project (WBL), showing that there is ample room for reforms to increase the affordability of childcare services for both parents and providers. It also presents evidence on why childcare affordability matters for women’s economic participation and illustrates examples of government policies tackling the high cost of care for providers and families. The Brief concludes with a discussion of challenges in making childcare affordable and lessons for policy makers on the design of childcare options.
Affordable childcare matters for women’s economic participation

High childcare costs are a challenge for both providers and parents. Because of high operating costs, many providers cannot offer families a low enough price point (Devercelli and Beaton-Day 2020). Childcare costs typically encompass one-time capital investments (such as the construction of childcare facilities) and recurring operational expenses, such as salaries, supplies, and rent. Unless a government sets fees, childcare costs vary depending on the type of services and market rates (Putcha and Van der Gaag 2015). Because of high childcare fees, many families struggle to afford it.

Childcare costs are a major barrier for families

Childcare costs play a crucial role in parents’ decisions to use these services (Moussié 2016) and can be a significant barrier for families in both high and low-income countries. For example, in the European Union, cost is the main barrier to using formal childcare for over 40 percent of families (Cory and Alakeson 2014; European Commission 2016; Mills et al. 2014). Net childcare costs for middle-income two-earner households with two children (aged two and three years) can amount to 17 percent of median full-time earnings; in some economies, such as Cyprus, Ireland, and the United Kingdom, costs consume nearly 30 percent of a couple’s average earnings (OECD 2021).

In low- and middle-income economies, private formal childcare can also be expensive in relation to people’s earnings. For example, in Edo state, Nigeria, expenses can be more than half the salary of someone earning minimum wage (Olubor 2009). Childcare costs in peri-urban areas in Accra, Johannesburg, Lagos, and Nairobi range from one-quarter to nearly half of monthly spending (Bidwell and Watine 2014). In Latin American economies, many of which have significant public-sector childcare programs, expenses can still be over 30 percent of household per capita income in economies like Guatemala (Mateo Diaz and Rodriguez-Chamussey 2016). High childcare costs discourage formal childcare usage and negatively impact mothers’ labor market participation, as shown in Kenya, Liberia, Mozambique, and Senegal (Bhatkal 2014; Clark et al. 2019; Lokshin et al. 2000). In Sri Lanka, lack of childcare support is cited as the main reason why women quit their jobs (Madurawala 2009).

Government support options for childcare: impact on female employment

To reduce the cost burden for families and childcare providers, governments can provide financial (such as subsidies, allowances, reimbursements, vouchers, or one-time grants), non-financial (such as buildings, land, or additional childcare hours), or tax support.

Studies from high-income economies with high childcare costs show that government-subsidized childcare can positively affect women’s employment (Olivetti and Petrongolo 2017). For example, France boosted women’s labor supply by providing low-income families with childcare subsidies (Givord and Marbot 2015), while the Netherlands increased both women’s labor supply and hours worked by reducing childcare fees by 50 percent and extending tax credits for low-income working parents (Bettendorf et al. 2015). Similar positive results were obtained in Germany (Geyer et al. 2015; Haan and Wrohlich 2011), Spain (Nollenberger and Rodriguez-Planas 2015), and the United States (Herbst 2017). However, women’s labor market response to the reduction of childcare costs or its supply also depends on mothers’ preferences and labor market frictions (Kleven et al. 2020).

While most studies are from high-income economies, research from low- and middle-income contexts is growing. Market failures that lead to government interventions in the childcare market, such as household financial constraints and information asymmetries, are more pronounced in low-income economies than in high-income economies (Halim et al. 2021). A review of 22 studies from low- and middle-income economies across Latin America and the Caribbean, East and South Asia, and Sub-Saharan Africa shows that increasing access and reducing the cost of care can improve maternal labor market outcomes, including employment, hours worked, income, productivity, and job type (Halim et al. 2021). For example, in Nairobi, Kenya, subsidies for low-income women increased employment and standard working hours for single mothers (Clark et al. 2019). In rural Colombia, small monthly fees for community-based childcare centers more than tripled women’s employment and increased their work hours by 75 hours per month (Attanasio and Vera-Hernandez 2004). Evidence from Vietnam shows that using childcare increases the probability of women having wage-earning jobs by 41 percent and formal jobs by 26 percent (Dang et al. 2019). Compared to studies from high-income economies, the impacts of childcare in low- and middle-income economies tend to vary more due to the different levels of female labor force participation and cultural differences (Akgunduz and Plantenga 2018).

Insights from the new data can help fill the affordability gap in childcare

The Women, Business and the Law has assessed regulatory frameworks around providing childcare services for children below the primary school starting age (typically three years of age) in 95 economies. This sample includes 30 high-income, 26 upper-middle income, 32 lower-middle income, and 7 low-income economies. As data on such policies are lacking, WBL, in collaboration with childcare experts, designed a new dataset of 21 research questions structured around the three pillars of childcare provision: availability, affordability, and quality. Childcare settings vary widely across economies, including home-based care, center-based care, family, and other informal arrangements. WBL focuses on center-based childcare to facilitate cross-country comparisons and make data collection manageable at a global level—center-based care is a formal and regulated form of childcare, and it is generally more feasible to collect data and monitor quality in these settings.

This Brief presents the findings from nine questions under the affordability pillar (Box 1). These questions focus on regulatory interventions aimed at increasing the affordability of childcare through government-provided free services, and financial and non-financial support for families and private childcare providers, including employers. These measures can be prescribed in childcare regulations, expenditure and tax rules, and benefit provisions, each with distinct objectives and trade-offs.

Despite the complexity of evaluating the net effects of these measures, this Brief provides a comprehensive view of various strategies that governments can pursue to make these costs more affordable for providers and consumers alike. The findings presented in this Brief rely on the WBL methodology for measuring legal frameworks, but not the implementation of related policies in practice, and are current as of October 1, 2021.

There are several strategies that governments can adopt to make childcare services more affordable. The 2022 Women, Business and the Law dataset examines four main measures that could reduce costs and increase childcare affordability: (1) free public provision; (2) financial support for parents and private
According to the WBL childcare data, only 10 of the economies with laws regulating public provision of childcare (58 out of 95) mandate free provision—Angola, Brazil, Georgia, the Republic of Korea, Malta, Mexico, Moldova, Peru, Spain, and Ukraine. Such free services can vary from free education (such as tuition and training fees, school supplies, and textbooks) to supervision and care of children (such as maintenance of facilities, utility bills, and teacher salaries). The extent to which a government provides these services for free depends on the countries’ financial and human resources, implementation capacity, and political commitment.

**Financial support arrangements for parents and providers**

**Financial support for parents.** Governments can encourage childcare uptake by providing financial support to parents. This approach also encourages parents to use private childcare services rather than solely relying on public facilities. According to the WBL childcare data, 26 of 95 economies studied provide financial support to parents for using childcare services (Figure 1). For instance, in Czechia, the Ministry of Labor and Social Affairs provides an allowance to parents with a child in a crèche or nursery school. In Serbia, parents can receive partial financial reimbursement for private childcare costs when public facilities exceed capacity. Financial support to parents is typically targeted and based on family income and parents’ work status. In Vietnam, parents must be contracted employees from areas with a minimum of 5,000 workers in an industrial zone or 3,000 residents in a commune-level town to receive financial support for childcare (Decree 145/2020/ND-CP).

Provision of financial support to parents for childcare services may have some caveats. The amount of support may be inadequate compared to the cost of quality care, resulting in the selection of cheaper but lower-quality options. Moreover, financial support contingent on certain factors may prevent some working parents, especially mothers, from accessing childcare services, reducing the gender gap in labor force participation that access to such services brings (Hein and Cassirer 2010).

**Financial support for private providers.** Governments can also provide financial support to private childcare centers and employers who offer these services for their employees. This is particularly important in emerging economies where providers, including employers; (3) targeted support for low-income families; and (4) tax-system support for parents and private providers, including employers.

**Free public provision**

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**Box 1 Women, Business and the Law legal research questions on the affordability measures for childcare services**

1. Where the government provides childcare services, does the law establish free provision of such services?
2. Does the law establish specific conditions (income, number of children, other criteria) on which cost to parents for public childcare services is determined?
3. Does the government provide some form of financial support to parents for the use of childcare?
4. Does the government provide support (nonfinancial or financial) for the use of childcare services specifically targeting low-income families?
5. Do parents receive tax benefits specifically for using childcare services?
6. Does the government provide private childcare centers with some form of financial support?
7. Do private childcare centers receive tax benefits?
8. Does the government provide some form of financial support to employers for establishing or supporting childcare services for their employees?
9. Do employers receive tax benefits for providing or supporting childcare services?

**Source:** Women, Business and the Law 2022.

**Note:** The sample included 95 economies where data was collected.
households face liquidity constraints and there is an undersupply of privately provided childcare (Halim et al. 2021).

According to the WBL childcare data, over a third of the economies examined provide some form of financial support to private centers or employers, often with specific criteria or conditions (Figure 1). For example, in the Arab Republic of Egypt, subsidies for childcare centers are determined based on several factors, including the number of nurseries in the region, class size, staff qualifications, and quality of services provided (Executive Regulations of the Child’s Law). To be eligible for a subsidy, nurseries must receive an evaluation from the Nursery Affairs Committee in the governorate. In Mauritius, the government provides a One-Off Grant Scheme to centers that have been operational for at least a year. This scheme aims to assist these centers in upgrading their norms and standards so that they can meet the requirements for registration with the Ministry of Gender Equality and Family Welfare. In the Republic of Korea, businesses can receive full or partial compensation for establishing and operating workplace childcare centers (Child Care Act). Under certain conditions, Singapore provides infrastructure support grants to commercial operators who establish new childcare centers at workplaces. Examples of financial support to providers can be found in economies across six regions globally, except for South Asia.

To address the growing demand for quality childcare and private sector development, governments in some economies are exploring public-private partnerships (PPPs) with non-state providers. PPPs allow governments to partner with the private sector to increase childcare availability and bridge funding gaps, while enabling the private sector to provide high-quality services at lower costs (Patrinos et al. 2009). For example, Uzbekistan has established PPPs to finance private childcare centers, providing them with permanent land and material and technical support. Malta has established a free childcare scheme for registered childcare daycare facilities providing a uniform rate per child to cover staff costs and consumables, including stationary (Terms and Conditions for Free Childcare Scheme Childcare Service Providers) (Box 2). In Mexico, private childcare centers are provided with meal supplies and basic utilities, such as electricity, water, and gas, for children aged under 3 years of age.

**Targeted support for low-income families**

The childcare challenge disproportionately impacts poor families, particularly in low-income economies, where nearly 80 percent of children in need of childcare cannot access it. A child in a low-income economy is five times less likely to have access to childcare than a child living in a high-income economy,
highlighting the stark differences in childcare policies in the first place (Devercelli and Beaton-Day 2020). To address this issue in economies with constrained resources, governments could prioritize low-income families for childcare support.

According to the WBL childcare data, only a third of the examined economies across all income groups have support arrangements specifically targeting economically vulnerable families, leaving over 60 percent of the economies with room for regulatory improvement (Figure 2). Because poor households lack affordable childcare options, children can be left unsupervised or cared for by older siblings (Samman et al. 2016).

**Tax-based support**

Governments can reduce the cost of childcare for parents or providers through tax incentives, such as tax credits, deductions, or exemptions, rather than direct financial transfers. Tax relief for childcare expenses has been shown to increase parents’ labor force participation, especially women’s (IMF 2019). Taxation can alleviate or reinforce gender gaps in paid employment, income, and unpaid care work (Coelho et al. 2022).

According to the WBL childcare data, tax incentives to parents are available in 23 out of 95 economies studied. However, none of the economies examined in South Asia or Sub-Saharan Africa offer such incentives (Map 1). In the Sub-Saharan Africa and South Asia economies, nearly 9 out of 10 women work informally or own unregistered firms falling outside the individual income tax net and, therefore, may be unable to benefit from preferential tax treatment (ILO 2018). Refundable tax credits could be an option to help families in poverty and low-income working families get cash to bridge the gap between what parents earn and what they need to support their families. Tax credits reduce the taxes low-income working parents pay and are generally intended to offset the burden of certain expenses. If a tax credit is refundable, families can receive the credit regardless of the taxpayer’s liability (Ullrich et al. 2017).

Before improving a tax code’s treatment of childcare expenses, it is important to understand the financial burden parents face. Some of the benefits may be absorbed by childcare providers rather than passed on to parents. For instance, childcare tax credits in the United States were passed on to childcare providers in the form of higher prices and wages, at about 60 cents on the dollar, with larger pass-throughs observed in urban areas and among higher-income populations (Rodgers 2018).

Tax incentives can also be used to improve the quality of childcare and lower operational costs for providers, encouraging the latter to establish or increase the supply of childcare services. Private childcare centers or employers in about a third of economies worldwide receive tax incentives (Map 2). When we break this number down further, private childcare centers receive tax incentives in nearly one in four covered economies, but employers receive tax incentives for providing or supporting childcare in only one in five economies. Tax incentives to employers could prevent lowering starting salaries for women workers, as seen in Chile, where the cost burden is often shifted onto predominantly women employees, leading to a trade-off between wages and caregiving responsibilities (Prada et al. 2015).

While tax incentives to parents and providers can promote access to affordable childcare, they may fall short of ensuring high-quality care. Hence, government funding using tax revenues can facilitate the provision of high-quality childcare, fostering gender equality and benefiting children’s development. Alternative financing options may also be considered, but the key is to secure sufficient resources for high-quality childcare.

**Challenges in making childcare affordable: lessons from existing literature**

As described above, affordable childcare is critical to support women’s economic potential, particularly in a post-pandemic world where childcare costs are expected to rise. Policy makers can protect families and providers alike through public investment in the childcare sector to support the demand from parents, particularly working mothers, and the supply from providers. Governments can use various options that range from free state-provided care, to financial, non-financial, or tax support. However, implementing these policies comes with challenges, and each economy must consider a set of potential unintended consequences within its specific context. In addition to findings from the WBL data, an examination of the existing literature reveals that there are five main factors that must be accounted for in the design of childcare support options:

- **Suitable regulations with price caps.** Suitable regulations are crucial to prevent providers from capturing public support for themselves without passing the benefits on to parents through lower costs. If left unregulated, providers may accept government subsidies without reducing prices, or even increase fees after receiving public childcare fee rebates, benefits, or tax reliefs. Alongside public support, one

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**Map 1** Tax support to parents

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solution is to incorporate fee caps into existing regulations (OECD 2020). European economies, including Denmark, Finland, France, Norway, Portugal, and Sweden, establish maximum fees for public (and sometimes private) childcare services. Providers are aware that exceeding the established maximum threshold could deter parents from using their services. Fee regulations should be accompanied by well-specified and fully enforced quality standards to prevent providers from cutting back on quality following regulation.

• **Consideration of economic and fiscal conditions.** Each country’s economic conditions and fiscal constraints must be accounted for when considering the trade-offs among various support measures aimed at reducing the cost burden and making childcare more affordable. For example, tax incentives may not be the best policy option in economies with large informal sectors. At the cross-country level, the Women, Business and the Law childcare data and analysis focus on the key instruments that effectively boost women’s participation in the labor market at large, rather than evaluating the trade-offs between them.

• **Terms and level of government support.** Government support and its terms should be sufficient to make childcare affordable for low-income parents and to allow childcare providers to offer quality services. This is particularly important when considering the higher childcare costs for children under three years old. Government support may not generate parents’ demand if it simply substitutes informal childcare options (Havnes and Mogstad 2011).

• **Limitations in labor supply policies.** Policies that boost labor supply may face limitations in economies with a high proportion of female workers. Policy makers should consider pre-reform women’s employment and earnings, as well as compatibility with other social policies, to evaluate the impact of childcare policies on women’s paid work participation. Offering longer paid maternity or parental leave can provide financial support for parents caring for children at home, instead of formal childcare (Devercelli and Beaton-Day 2020). In OECD countries with low maternal labor force participation and low enrollment in formal care (Estonia, Hungary, Czechia, and the Slovak Republic), generous maternity or parental benefits may partially explain these observations. Recent research from Austria also shows that a shared and heavily subsidized parental leave policy and affordable childcare did not reduce gender gaps in the labor market (Kleven et al. 2020).

• **Transferring responsibility to the local level.** Transferring the responsibility of funding and delivering childcare to the local authorities could result in services that better meet local needs. However, this decentralized approach can also present difficulties, especially in increasing disparities in access and quality across regions if municipalities are a significant source of funding for childcare (Hein and Cassirer 2010).

While a one-size-fits-all solution does not exist, these considerations can guide policy makers in developing effective and sustainable strategies to address the challenges of making childcare more affordable.

### The way forward

This Brief has outlined various approaches governments use to make childcare more affordable. These examples can inform policy making and guide legal reforms across the globe. Although governments play a key role in reducing childcare costs for parents and providers, the Women, Business and the Law childcare data show a scarcity of such policies within current regulatory frameworks. The data suggest that close to a third of 95 economies studied have regulations around support mechanisms to reduce costs for parents and spur their uptake of non-home childcare services. There is still scope for policy expansion to lower operating or investment costs for private providers of childcare and increase the supply of services in over half of the examined economies.

This Brief emphasizes the urgent need for reforms around government support measures to reduce costs and make childcare more affordable from both the demand and supply sides. Best practice standards for regulation have yet to be established, with childcare policies becoming a growing priority worldwide and in the context of World Bank policies and operations.
References


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