INVESTING IN FREE UNIVERSAL CHILDCARE IN NORTH MACEDONIA: **POLICY OPTIONS AND RECOMMENDATIONS**

SUMMARY

This brief provides a strong case for government investments in free universal childcare services in North Macedonia. Current provision of childcare in North Macedonia is inadequate, relying mainly on mothers' informal care time and with unequal access. Such investments will bring multiple benefits, both in the short and long run including: human capital development, equal access to all children in formal childcare, reduction of gender inequality in the labour market.

Results show that public investment in free universal childcare provision of high quality is not only beneficial to children and their parents, and to society, but it is also self-funding without having to increase taxation. Improvement in children's social outcomes will also materialise in accrued fiscal benefits in the long term. We propose the Government to set even more ambitious agenda for the expansion of childcare services, as positive effects increase with the generosity of the scenario.

Introduction and aim of the study

Growing recent body of evidence shows that long-term economic benefits of investments in childcare enable the collection of net fiscal revenue that largely repays the borrowing required through an increased employment of mothers, better career prospects for children and reduced social spending on other areas such as health and social assistance (Garcia et al., 2017). Evidence shows that investments in care infrastructure also address an issue of labour demand by creating employment directly and indirectly, in the same way and even more than investing in physical infrastructure.

The evidence from around the world shows that developing accessible, affordable childcare of high quality is essential to achieving multiple policy goals:

- promotes human capital through greater enrolment of children in early childhood learning and development;
- improves employment prospects of mothers by freeing their time and budget constraints for childcare responsibilities;
- reduces poverty by enabling all families to acquire economic resources independently;
- improves employment prospects in the economy overall by creating jobs directly and indirectly;
- generates tax revenue in the long term for government to recoup the original investment and spend on other projects.

In this regard, the UN Women report examines the case for investing in free universal childcare services in North Macedonia as to reach the above goals. This is done through estimation of the costs and benefits (effects) of such investment onto employment and government budget, for different target levels of enrolment rate, up to a full coverage.

The Government has recently pledged to increase the enrolment rate of the children aged 3-6 from 40% to 50% (expanding the capacity of childcare by 7,500 places). Hence the Government borrowed EUR 16 million from the World Bank for expansion of the access to and improving the quality of preschool services.

BOX 1:

Childcare is part of the overall social infrastructure, along with health care, education, and long-term care. These are the public services which create and maintain the social fabric of an economy, without which it cannot function, exactly as does the physical infrastructure of transport and communications.

Background and arguments

There are two main arguments for investing in universal free childcare in North Macedonia:

Poor results of children from North Macedonia in comparative international tests and large disparities based on their socio-economic background lend the *first argument* for investments in childcare. A child in North Macedonia gains relatively low levels of human capital from an early age and this early impediment is compounded over the years. The gap in human capital acquisition (relative to countries at similar level of development) starts with the low enrolment in preschool: only 9% of children aged less than 3 years in North Macedonia in 2016 were in formal childcare, much less than the EU-28 average of 33%. In addition, less than a third of children aged 3-6 were attending formal childcare (Eurostat). The enrolment in childcare declines to 0.3% for the children from the poorest quintile of the population (World Bank, 2018). There are also large rural-urban preschool enrolment gaps. The effect of such lower early accumulation of human capital is exacerbated latter on, in primary and secondary education.

Low enrolment in kindergartens in North Macedonia is a combination of supply and demand factors. On the supply side, there is a limited availability of kindergartens (especially in rural areas) which leads to overcrowding, very high child-staff ratios (above the statutory norms and standards) and waiting lists. All these negatively impact the quality. Affordability (i.e. the price) is of lesser concern. The demand for kindergartens is affected by the options for families for informal childcare (provided by family members and relatives), but also by the parents' perception of the quality of provision.

The *second argument* is related to the low female activity and employment, which can be considered both as a cause and effect of the low enrolment of children in kindergartens. The gender employment and activity gaps are large, over 20 percentage points (pp), much higher than the averages of the EU countries. Mothers of young children are also much less likely to be employed than mothers of older children and childless women. The costs of low activity of the female working-age population are estimated to be high: total national income could increase by 15% by closing the gender participation gap (Cuberes and Teignier, 2015). Family/caring responsibilities are indeed one of the major impediments for female inactivity in North Macedonia. 53.6% of inactive women reported they did not seek employment due to family/caring responsibilities, more than twice the share of women stating this reason in the EU-28. Females in North Macedonia also earn less than males for equal work, by 9.1% which is still lower than the EU-28 average gender wage gap of 16.6%.

Scenarios and costing calculations

We calculate the effects of investments in childcare for several scenarios, using different parameters (i.e. targets) for the enrolment rates and of the quality of provision. The choice of the scenarios is made as to follow the government goals, but also to reflect the Sustainable Development Goals (SDGs) and targets for the childcare, up to a universal provision. Table 1 provides details for four scenarios, besides the baseline (scenario 0).

TABLE 1:

Main enrolment and quality features of the scenarios

Scenarios	0	1	2	3	4
Type	Model baseline	Govern. goal	SDG curr	SDG high	Uni high
No. children 6m-2y covered	13%	13%	50%	50%	100%
No. chi 3-5y covered	40%	50%	100%	100%	100%
Child/staff ratios	current	current	current	statut	statut
Pay levels	current	current	current	teacher	teacher
Qualification levels	current	current	current	high	high

Note: 'Uni' is abbreviation for universal; 'statut' is statutory (official norms and standards); 'Govern' is government; 'teach' is teachers' pay rates. Current refers to current, actual parameters which are in most cases worse than the statutory ones.

Scenarios are then used to calculate the effects. Calculations are detailed and take into account all direct and indirect costs and effects. Effects are subdivided into employment and fiscal effects. Moreover, the scenarios presented in the study are based on a free public provision of childcare, although we also calculate short-term fiscal effects when accounting for a similar scheme of low user fees as in the current system.

BOX 2:

The multiplier effect on the economy from this investment in social infrastructure can be up to 1.8 (in the most generous scenario) compared to the multiplier of 1.2 for an equivalent investments in construction. In other words, for every MKD denar invested, the effect of the economy will be 1.8 MKD denars.

TABLE 2:

Childcare costing

Scenarios	0	1	2	3	4
	Base	Govern. goal	SDG current	SDG high	Uni high
Total gross annual cost (MKD mil.)	2,950	3,528	8,101	14,139	19,579
(in % of GDP)	0.50%	0.60%	1.30%	2.30%	3.20%

Table 2 shows that the variation in gross annual investment is significant between the scenarios and depends mainly on the coverage rate given the current low enrolment in childcare (base), as well as the quality indicators (child/staff ratio and teachers qualifications and pay).[1] Scenario 1 serves as a benchmark for the other scenarios, with an expansion of current provision to the government target of 50% for the children aged 3-5, but with low-quality parameters reflecting current practices. The calculated cost of the government' targeted scenario is 0.6% of GDP per year, but costs raise to 3.2% of GDP in the most generous scenario of universal childcare, free for every child.

Effects of the investments in childcare services

1. Employment effects

The potential employment effects of investments in the care sector in general (including childcare services) are large.

BOX 3:

The employment effects of direct public investment in childcare services are threefold:

- direct creation of jobs in the childcare sector (teachers, nursing staff and administrative staff)
- indirect creation of jobs in industries supplying the childcare sector (such as food industry, agriculture, etc.)
- induced job creation stemming from increased consumption out of the earnings of the newly employed childcare staff and indirect jobs.
- Calculations show that depending on which scenario is followed, the expansion (and quality improvements) of the childcare provision can create between 8,723 and 57,482 new jobs in total (Table 3). Most of the new jobs will be created by direct employment increase in childcare facilities, but there will also be a substantial additional job creation in all sectors related to the childcare. Given the current gender ratios of employment in those sectors, most of the new jobs will be occupied by women, leading to reduction in the gender employment gap of 0.7 to 4.4 pp.

[1] Cost calculations are as detailed as possible. They involve the cost of building new facility, of educating new teachers, etc.

TABLE 3:

Employment creation

Scenarios	0	1	2	3	4
	Base	Govern. goal	SDG current	SDG high	Uni high
Nursing staff	2,676	3,118	7,783	16,600	26,456
Teaching staff	1,907	2,350	4,863	7,842	8,938
Other staff in childcare	1,770	2,112	4,884	4,884	6,294
Other sectors	2,370	2,834	6,509	11,398	15,795
Total	8,723	10,414	24,039	40,725	57,483
change in gender employment gap (in pp)	-0.70%	-0.80%	-1.90%	-3.10%	-4.40%

2. Fiscal effect

Funding public childcare provision requires tax revenue. While it may be possible to mobilize a number of sources for immediate funding, public spending on childcare will ultimately have to be funded by tax. However, the case made here is that the benefits of such provision are large enough to claw back the original (and annual) investment, when considering both short-term and long-term effects, without modification of the fiscal structure (De Henau, 2017a)

Short-term fiscal effects arise from the immediate employment creation and boost to aggregate demand on a year-by-year basis, which yields increased tax revenue (and reduced social assistance, if any). Long-term effects stem from improved lifetime earnings of those children and their parents (mainly mothers)—and thus tax intake—as well as reduced social spending on physical and social protection.

Table 4 reports the tax revenue generated by the new employment for the existing tax system (in 2017). Once tax revenue (from direct and indirect taxes) is taken into account, the net annual funding requirement is reduced by between 42 and 49%. The most generous scenarios are the most expensive but yield the most 'efficient' outcomes (in terms of the ratio net-to-gross cost), owing to larger induced employment effects.

Note that the fiscal effects are measured for a free-at-the-point-of-use scheme, entirely paid for by the state. At the current fee of EUR 25 per month, the self-funding rate increases by between 6 and 11 pp.

TABLE 4:

Fiscal effects (MKD mil. unless otherwise specified)

Scenarios	0	1	2	3	4
	Base	Govern. goal	SDG current	SDG high	Uni high
Gross annual cost	2,950	3,528	8,101	14,139	19,579
(in % of GDP)	0.50%	0.60%	1.30%	2.30%	3.20%
Direct tax revenue	931	1,115	2,553	5,152	7,216
Indirect tax revenue	297	355	813	1,708	2,404
Net funding gap	**1,722**	**2,058**	**4,735**	**7,280**	**9,960**
(in % of GDP)	**0.30%**	**0.30%**	**0.80%**	**1.20%**	**1.60%**
% self-funding	42%	42%	42%	49%	49%
% self-funding with user fee	53%	53%	53%	55%	55%
% increase in GDP (multiplier effect)	0.90%	1.00%	2.40%	4.20%	5.80%

The study calculations show that the remaining funding gap (see Table 4) will be repaid in the future by greater employment probability and earnings of the mothers of small children. These mothers will no longer be constrained to be active in the labour market. Once a mother has worked a sufficient number of years, the tax revenue from her 'regained' earnings will pay for the childcare for her children. We calculate that a mother who will start to work as her children will now be in childcare will repay the cost of childcare provision for her children in 7 to 14 years.

BOX 4:

Our estimates of the government' targeted scenario (50% enrolment rate of children aged 3-6), show that the cost of such expansion will be at 0.6% of GDP per year, that 53% of this costs will be self-financed through increased tax revenues (personal income tax and social contributions) of the new jobs created, but also from the consumption taxes. The remaining financing gap will be closed in 7 years, through greater employment (and respective tax payments) of mothers of small children. 10,414 will be created in total, of which about 8,000 will be occupied by females. GDP will increase by 1% per year. These effects are much higher and positive in case of more generous scenarios.

Recommendations

- The Government of North Macedonia should *further invest* in universal childcare of high-quality. High-quality child-care expansion (Scenarios 3 and 4) will lead to creation of approximately 40,000-57,000 jobs and will reduce the gender gap by 3.1-4.4 percentage points.
- The Government pledge to expand childcare supply is highly appreciated, however the *enrolment targets should be set higher*. Expansion involves large sums of public funds to invest but, in net terms, the annual spending is reduced by almost half when taking into account fiscal revenue from increased earnings and consumption.
- More ambitious goal should be set for increasing the enrollment of children aged 3-6 years to 100% (every child in pre-primary education), and 50% for the children aged 6 months to 2 years. This is in line with scenarios 2 and 3. Such policy will ensure that the country achieves the Sustainable Development Goals (SDGs), whereas scenario 3 also supports quality improvements.
- Quality improvements, through increase of staff/child ratio and raising the qualifications of teachers are paramount to achieving the intended results. In the first instance, *staff/child ratio should be brought at least to the statutory prescribed ones*. This is crucial to achieve the goal of building greater human capital. From employment aspect, raising the quality standards to the statutory ones will bring about 13,000 new jobs and reduce the gender gap in employment by about 1.1 percentage point, with a cost of about 0.7% of GDP and multiplier effect of 1.2%.
- There is a strong case for *universal free* childcare, following the fiscal arguments, but also in terms of meeting the SDG 4: Quality Education, and in particular attendance in early childhood education. Moreover, these policy changes will also positively contribute to progress on achieving SDG 5: Gender Equality.

The policy brief series synthesizes research findings, analysis and policy recommendations on gender equality and women's rights in an accessible format. This brief summarizes findings and recommendations from the study *Investing in free universal childcare in the Republic of North Macedonia - Analysis of Costs, Short-Term Employment Effects and Fiscal Revenue*, authored by Jerome De Henau and Nikica Mojsovska-Blazevski.