

# **FINANCING EARLY CHILDHOOD DEVELOPMENT**

**A LOOK AT INTERNATIONAL EVIDENCE AND ITS LESSONS**

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# 1. INTRODUCTION

Why should governments think about financing Early Childhood Development (ECD)? Because the private market for ECD usually fails, and this for two major reasons:

- (i) information asymmetry. Parents usually have trouble judging the quality of childcare adequately, so their inclination to pay for it does not reflect the resources needed; and
- (ii) the fixed costs of childcare are high (personnel, premises) and require high capacity utilization for profitability. In reality, varying densities of population often generate a discrepancy big enough to consider ECD facilities natural monopolies at best, or not economically providable at worst.

There is a variety of options to finance Early Childhood Development (ECD), and nearly every country has devised its own approach. Financing models differ in the extent to which they fund via the supply (premises, staff) side or the demand (parent) side, and according to the role which public, private and voluntary sector partners play in delivery and funding.

For the sake of illustrating the options, this note will study the real cases of five quite distinct financing models, which range from pure public supply side funding to pure demand side funding, and are present in France, Sweden, the USA, England and New Zealand. Our focus will be on pre-school provision for the 3-6 year olds. Care for the under 2s will be treated in passing.

We label the five funding models we study

- Central public supply. This means that the central Government supplies childcare directly, by renting buildings and hiring staff etc. (E.g. France)
- De-central public supply: This means that the Government supplies childcare by paying municipalities to do it, through block funding with or without earmarking the funds. (E.g. Sweden, Germany).
- Public incentive-based financing. In this model, central Government pays providers for childcare, in block or by child. The reimbursement rates are tiered by the quality achievement of the kindergarten, e.g. kindergartens achieving a higher national accreditation get more. (E.g. some US States.)
- Mixed model and market making. The Government stays out of ECD provision as far as possible, and also lets parents and NGO finance most of it. However, it provides supplementary services, e.g. to bridge the information asymmetry, and to match open places with parents. E.g. through information, advice and guidance,

and a generous transport system. (E.g. England provides much market making, next to other financing models)

- Demand side public subsidy, private provision. The Government gives generous means-tested subsidies to parents (as voucher or entitlement) so they can pay private and third sector childcare. If the subsidy is generous enough, it allows private providers to be profitable. (E.g. New Zealand.).

In the following, we present the financing system for each of the selected countries. We will briefly examine the management, ownership, funding and governance of ECD, and show the extent of public, private and voluntary shares in each of these categories. The case studies will also highlight the advantages and disadvantages of the respective system, and the local circumstances that favor or preclude it. We finish with a matrix that summarizes the results and drivers of all five models.

## 2. MODELS OF ORGANIZING AND FINANCING CHILDCARE

### CENTRAL PUBLIC SUPPLY: FRANCE

“Pre-elementary” education, according to the term used in France, corresponds to the first cycle of schooling, called “basic learning cycle”. It is part of primary education, the first degree of the French education system. Pre-primary education is given in an *école maternelle*, which admits children from 2 years old onwards. While 3-6 year olds have a right to a place, 2 year olds are admitted depending on the number of available places (giving priority to working parents). Coverage is near universal for 3 year olds, with 98.7% in pre-school, while it varies widely by region for the 2 year olds (23.4% on average, with cities more constrained; 2006, Eurybase). France is a generous spender on education, dedicating 7.1% of GDP to all levels.

In French pre-school, ownership, management (including hiring of staff and renting of premises), financing, and, to a large extent, facility governance, are all public.<sup>1</sup> The municipality owns and manages pre-school premises, including construction and maintenance, and the Ministry of Education, through its departmental *inspecteur d'éducation*, hires, fires and pays staff, opens and closes teaching posts or classes and finances all pedagogic materials. The inspector also has the power to inspect pre-schools regarding teaching quality.

The Ministry postulates a modern and competency-based curriculum, which is nationally compulsory in all public maternelles, and descriptive up to the use of hours, revealing a strong national desire for uniform and high quality. In other words, provision of childcare is public and direct; the state directly provides and controls all the inputs.

Pre-school for 3-5s is completely free, there are no parental co-payments. In addition, parents can receive allowances for childminders, nannies, and parental care of the child, in function of their income, number and age of the children. These allowances are payroll-financed via the Caisse d'Aide Familiale (CAF).

Parents have a well-defined role in both co-provision and governance of ECD services. Their involvement is substantial in the co-provision of care (i.e. in receiving and responding to feedback on their children, and in participating in regular information days and other activities of the maternelle.) Their involvement is more limited in the governance: each maternelle has a school council with mandatory parent representatives, equal in number to classes in the school. However, the council also comprises the departmental delegate, the mayor, and the school director as president of the council. In the presence of these powers, it is conceivable that the parental role is limited.

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<sup>1</sup> 99% of all maternelles are public (Eurydice, 2008).

Parents are not supposed to choose between public maternelles. The mayor can divide the municipality into sectors if needed, and children have to attend the maternelle of the sector in which they live. This is consistent with a model that postulates high and equal quality everywhere, so that choice would not bring a change of quality.

The French model of direct provision has several benefits. It allows the direct governmental control of quality, and ensures 100% governmental influence on provision. In this way, it does not discriminate between rural and urban regions, as the full bill will always be footed by the government, whether a region has high or low density of families. Therefore, this model can most easily achieve universal coverage.

On the other hand, this model can also lead to high and growing costs, because there are limited incentives for pre-school facilities to contain their budgets. They are not in competition and do not face any mandates other than providing childcare of a high quality and a certain quantity. Unless costs are also strictly controlled at the center (for example through yardstick competition of various facilities) they may become an issue. Something similar is true for the quality at the facility level. Without competition and without empowered clients (parents) who can influence quality, there will need to be a strong quality supervision to maintain or improve the standard and to ensure the application of the curriculum.

In summary, the French model is most adequate for situations where the highest capacity to judge and implement childcare is with the public hand, and at the center. It is also appropriate when there is a strong national desire for uniform quality across regions, and low tolerance for variation. It can be useful for regions with low population density which, for lack of ‘clients’ could not easily support private provision. It is less adequate if public budget containment is an issue, or if capacity to judge the quality of childcare is stronger at de-central level or with parents. Overall, the French model assumes that the failure of the market for childcare is high, i.e. parental information-asymmetry is high (requiring constant inspection and oversight by experts), and the natural fixed costs of childcare are high (leading to constant under-filling of capacities relative to costs, i.e. natural monopolies.)

**Table 1: Overview: French Model – environmental success factors (“this model works if...”)**

	<b>Locus of capacity</b>	<b>Tolerance for quality variation</b>	<b>Parental knowledge</b>	<b>Parental power</b>	<b>Importance of budget containment</b>	<b>Population density</b>
<b>French Model</b>	Central, public	low	low	Voice	low	Low

#### **DE-CENTRAL PUBLIC SUPPLY: SWEDEN**

In Sweden, pre-school activities for one to five year old children are organized in pre-schools, family day care homes (childminders who care for children in their homes) and

open pre-schools (open premises with pedagogic material that can be used by childminders or parents with their children).

While the central government still funds the bulk of provision, it effectively pays municipalities to implement it. About 96% of all pre-schools are in municipal ownership and management.<sup>2</sup> The Education Act requires municipalities to provide pre-school activities for children aged one to five whose parents are employed or study or for children with special needs.<sup>3</sup> Four- and five-year olds have the right to universal pre-school, free of charge. As a consequence, 97% of 4-5 year old enrolled, and 75% of 1-3 year olds, see Table 2.

**Table 2: Sweden, share of children enrolled in pre-school activities, 2006**

**Share of children enrolled in pre-school activities 2005, as percentage of all children in the population, divided into age groups.**

	Share of all children in the age group enrolled (%)				
	1-3 years	4-5 years	6-9 years	10-12 years	1-12 years
<b>Pre-school activities</b>	75.3	96.3	0.5	-	33.0
- pre-school	69.3	90.2	0.5	-	31.5
- family day care homes	6.0	6.1	-	-	2.5
<b>School-age childcare</b>	-	0.3	77.2	10.8	27.2
- leisure-time centres	-	0.3	76.4	10.6	26.9
- family day care homes	-	-	0.8	0.2	0.3
<b>Total</b>	75.3	96.6	77.7	10.8	60.2

Source: Skolverket: Beskrivande data om barnomsorg och skola 2006 ( Swedish National Agency for Education: 2006 Statistical data on compulsory education, upper secondary education, special education and adult education.)

Overall, the childcare is financed partly by central government grants and partly by municipal tax revenue and parental fees. The government grants are not specifically earmarked for childcare but block-allocated to municipalities. Childcare makes up about 15 per cent of the municipalities' total costs. Parental fees account for just under 17 per cent of the gross cost.<sup>4</sup> Fee scales are usually means-tested and decided by the

<sup>2</sup> This is the result of a gradual 'municipalisation' of childcare, which, before the 1960s, was largely privately operated. This move was motivated by a call for uniform and universal quality, and security of staff positions, see Sweden (2007).

<sup>3</sup> Those with parents that are unemployed or on parental leave, have the right to pre-schooling for at least three hours a day or 15 hours a week.

<sup>4</sup> Eurybase, quoting administrative figures from 1998.

municipalities themselves. They can vary considerably from place to place. The can, however, not exceed the municipality's actual costs, nor exceed a maximum fee.<sup>5</sup>

If they wish, municipalities can now fund also non-public childcare (e.g. a parental initiative or a private chain) if it complies with regulations and does not unduly deviate from the fee scale. This has risen mostly in areas of high population density such as cities and their suburbs.

Regarding management, municipalities have a pre-school and school board which can hire, fire and pay early childhood personnel, and determine the level of salaries. It can also make autonomous decisions on pedagogic practices and construction and maintenance of premises. A striking feature of school boards is that, apart from municipality officials, they comprise parents, teachers and pupils, with Upper Secondary Pupils forming the majority.<sup>6</sup>

Central quality regulation is light-handed. There is a national curriculum which applies to all three types of pre-school mentioned, but it is rather a framework, without a specific syllabus, let alone hour requirements. School boards draw up local pre-school plans in accordance with the national curriculum, sometimes with highly specific goals for learning and care, and make final decisions.

There is no national regulation determining the number of children per employee or the number of children in a group, only a general guideline of 5 kids per staff. In reality, the number of children per annual worker in pre-schools has increased over recent years and stabilized at about 5.2 children (2005). A national evaluation showed that staff-pupil ratios vary widely across municipalities, according to availability of staff and premises.<sup>7</sup>

Parental power is ensured both through a Voice on the school board and through their free choice between pre-schools. There are no school sectors or fixed allocations to pre-schools.

The Swedish model allows for variation in childcare according to local needs and parental choice, while guaranteeing a basic quality and provision everywhere. Through the separation of funding and management, through parental co-funding, and through some competition between facilities, it has a few mechanisms for budget containment. Still, a block allocation to municipalities without earmarking may not set the right incentives to enroll many children, and for many hours.

The Swedish approach requires some tolerance for regional quality variation and the belief that parents and citizens have the capacity to ensure high quality, mostly through Voice via the school board, but also through Choice between facilities.

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<sup>5</sup> For preschools, the system means that families are charged a maximum of 3, 2 or 1 percent of the combined household income for the household's first, second and third child, respectively. The monthly fee must, however, not exceed 1260 SEK for the first child, 840 SEK for the second, and 420 SEK for the third child in preschool activities. Virtually all of the country's municipalities applied the maximum fee system in 2003.

<sup>6</sup> DuBois 2004

<sup>7</sup> Skolverket 2004

**Table 3: Overview: French and Swedish Models – environmental success factors (“this model works if...”)**

	<b>Locus of capacity</b>	<b>Tolerance for quality variation</b>	<b>Parental knowledge</b>	<b>Parental power</b>	<b>Importance of budget containment</b>	<b>Population density</b>
<b>French Model</b>	Central, public	low	low	Voice	low	Low
<b>Swedish Model</b>	Local, public	medium	medium - high	Choice	Medium	Variable, low

### **PUBLIC INCENTIVE-BASED FINANCING: SEVERAL US STATES**

Several US states have chosen the following financing model, which will be touched upon briefly and regarding the funding side only, because other institutional elements can vary across the respective states. In all states, (at least part of) the funding is public while the ownership and management of providers is private or third sector. Parents have free choice between providers and are encouraged to exercise it.

In this model, government pays providers for childcare, sometimes by child, sometimes in a block grant based on staff levels. The reimbursement rates are tiered by the quality achievement of the pre-school, e.g. the institutions achieving a higher level in a quality assessment receive more funding.

This funding system has two key ingredients:

- (i) a rating or accreditation system for providers, and
- (ii) provider funding that reflects the rating.

The rating systems can be public or private, and voluntary or compulsory. In North Carolina, the official public licensing system rates the provider. An institution’s license for operation can have a star rating from one to five stars, depending on key quality indicators such as staff qualifications and parental involvement. In Colorado, *Educare Colorado*, a nonprofit initiative, has developed a Quality Rating System for care from birth to kindergarten. Indicators used comprise the learning environment, partnerships between families and the provider, education, staff-child ratios and accreditation achievement.

The rating puts the provider into a ‘tier’, and the provider will receive a funding rate that reflects this tier. E.g. in a 3 tier system, first tier providers receive \$100 per child, second \$120 and third \$150. This so-called tiered reimbursement is being practiced in 33 US states, e.g. Colorado, Oklahoma, Tennessee, Georgia, Maryland, and North Carolina.

In most states, the funding is de facto only applicable to children who are eligible for public childcare subsidies due to their parents’ low income. In most states, middle or higher income parents are expected to pay the full price for childcare.

Tiered reimbursement systems have been evaluated and found to have a positive impact on quality.<sup>8</sup> The greater the difference between reimbursement levels, the higher the quality improvement, with 15% funding increase the minimum difference to see an impact.

The system was also shown to help retain qualified staff through the prestige of a high star rating. Higher star levels have less staff turnover. Further, centers participating in the rating scheme accelerated the investment into staff and principal training.

An evaluation of the Oklahoma scheme further found that children in higher ranked centers scored more highly in maths.<sup>9</sup>

The tiered reimbursement based on a thorough rating through experts appears to assume that provider quality is very difficult to measure, i.e. that the information asymmetry for parents is high. In consequence, this system can be especially beneficial in circumstances where childcare knowledge and capacity is lacking virtually everywhere, outside the circle of specialized experts. The approach also assumes that public regulation and influence on providers are limited, so that differences in quality can easily arise. It also assumes a certain provider (and therefore population-) density, so that quality differences and parental choice make sense.

The system can be beneficial in labor markets where staff quality and retention are an issue. It can also help contain the budget if the subsidy rates to providers are regularly adjusted to provider costs, with costs being evaluated for a range of providers (benchmarked.)

However, it has been shown that, if voluntary, the rating system usually attracts only the upper end of the providers, because the lower end ones fear not to derive a benefit.<sup>10</sup>

**Table 4: Overview: French, Swedish and US Models – environmental success factors (“this model works if...”)**

	<b>Locus of capacity</b>	<b>Tolerance for quality variation</b>	<b>Parental knowledge</b>	<b>Parental power</b>	<b>Importance of budget containment</b>	<b>Population density</b>
<b>French Model</b>	Central, public	low	low	Voice	low	Low
<b>Swedish Model</b>	Local, public	medium	medium - high	Choice	Medium	Variable, low
<b>US model</b>	Experts only	high	low	Choice	medium	medium - high

<sup>8</sup> Gormley 2000

<sup>9</sup> Dunn and Norris 2000

<sup>10</sup> Gormley 2000b

## MIXED MODEL AND MARKET MAKING: ENGLAND

In England, childcare administration and financing follows in principle a very results-oriented approach which aims to keep public sector involvement low. The Ministry sets targets and standards<sup>11</sup>, and also funds part of childcare, while the voluntary and private sectors are explicitly encouraged to own and provide it. Local Authorities, LA, (municipalities) who administer the public childcare funding, have a duty to ensure it in sufficient quality and quantity for working parents.<sup>12</sup> They have to conduct a detailed analysis of what care is available in the area, and how it does or does not meet the needs of the parents living there. If there are gaps in provision, the LA must secure childcare from the private and voluntary sectors and only as a last resort should it provide it itself. Ownership and management (staff, premises) of childcare are supposed to be with the non-public sectors, and largely financed by parents.

In consequence, during the recent years the private sector has owned about 46% of childcare (with the share growing), the voluntary sector 39%, LAs 6%, schools 6% (e.g. zero-year classes), and other 4%.<sup>13</sup> In spite of rather low public sector involvement, enrollment of the key target group, the 3-4 year olds, has been high, if usually only part-time, with 98% enjoying some form of pre-school activity.

**Table 5: England, share of children enrolled in pre-school activities, 2006**

Type of provider	Percentage of the three- and four-year-old population
Private and voluntary providers*	37
Independent schools	3
Maintained nursery and primary schools	58
All providers	98

\*Includes some local authority day nurseries registered to receive funding

*Source: Eurybase 2008*

Funding is de facto a mixture between

- direct supply-side provision,
- indirect funding via the LA, who can then allocate the money, by child, to private and voluntary providers and
- parental payment, supported by demand-side subsidies.

Direct supply of childcare is limited to the Sure Start program, which finances daycare centres for children in deprived areas. Sure Start aims at the social integration and

<sup>11</sup> National Standards for Daycare, see Department for Children, Schools and Families, [www.dcsf.gov.uk](http://www.dcsf.gov.uk)

<sup>12</sup> Childcare Act 2006

<sup>13</sup> Ofsted, cited in Daycare Trust 2004

mobility of deprived children, by giving them and their families integrated access to pre-school education, health care and social services.

Apart from direct supply to those most in need, all three- and four-year-olds in England and Wales are eligible for a free part-time nursery education place.<sup>14</sup> The access to free hours is means-tested; the poor (<10,000GBP per year) receive in total about 26h per week, those earning >30kGBP receive only 8 free hours per week, with the middle income ranges receiving intermediate hours. Any additional childcare provision, including for children under 3, has to be paid by the parents. The free nursery education places are funded through the Dedicated Schools Grant (DSG) which is handed from central government to the LAs. The grant is allocated to local authorities based on a per child funding rate for each three- or four-year-old in the LA, regardless of the setting they attend; this funding is then allocated to individual pre-school providers by the local authority.

Parents receive support in the form of tax credits and childcare allowances. The so-called Child tax credit is in fact a means-tested allowance also available to those who do not work. The Working Tax Credit targets low salary earners and contains a means-tested childcare element.<sup>15</sup> Despite this demand-side support, parents pay around 70% of the cost of childcare, compared with 30% on average in the rest of Europe.<sup>16</sup>

Although, overall, the government is reluctant to be a 'market player' in the childcare sector, it is happy to be a 'market maker', i.e. to help demand and supply meet: it provides supplementary services, e.g. to bridge the information asymmetry of parents, and to match free capacity to families who are looking for a place. This happens at the LA level through information, advice and guidance, childcare information systems (an online register of all providers with detailed information and availability, sometimes also 'star' quality rankings) and an increasingly generous transport system.

Quality assurance happens at the central level, through in-depth inspection of all registered childcare providers, including childminders, and publication of the results by the national education regulator Ofsted.<sup>17</sup> Quality is also ensured through a national early years curriculum, the 'foundation stage curriculum', which sets a very flexible general framework for activity-based learning of children.

Parents are given a Voice, i.e. a share in the governance of childcare, and, increasingly, a choice between providers. Childcare governance at the LA level happens through a partnership of provider-, parent- and official representatives, and Sure Start children's

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<sup>14</sup> On average 12.5 hours nursery education for 38 weeks a year, funded by a government subsidy, BBC, 9th October 2007.

<sup>15</sup> Allowances are paid by the Department for Work and Pensions, [www.dwp.gov.uk](http://www.dwp.gov.uk), and tax credits are given by Inland Revenue, [www.inlandrevenue.co.uk](http://www.inlandrevenue.co.uk).

<sup>16</sup> The Daycare Trust, quoted in <http://www.guardian.co.uk/society/2007/jan/30/childrenservices.earlyyearseducation>

<sup>17</sup> Ofsted is a non-ministerial government department established under the Education (Schools) Act 1992 to take responsibility for the inspection of all schools in England. Its role also includes the inspection of local education authorities, teacher training institutions and youth work. During 2001, Ofsted became responsible for inspecting all 16-19 education and for the regulation of early years childcare, including childminders.

centres require parent representatives on their boards. Further, the new duty on LAs to ensure sufficient provision of childcare includes their market making role, which facilitates parental choice.

Assessing briefly our summary, the English system can achieve good results in a setting where the information asymmetry is still substantial (so that a public expert regulator ensures supervision), and where local needs differ substantially, so that local decision-making is most adequate. It is also an appropriate model where the public budget is very constrained and where there is a strong commitment to an accountability-based system with substantial local freedom.

However, the system assumes that parents are willing to pay a large share of the childcare bill, which may lead to under-provision in certain regions or for certain income classes.

**Table 6: Overview: French, Swedish, US and English Models – environmental success factors (“this model works if...”)**

	<b>Locus of capacity</b>	<b>Tolerance for quality variation</b>	<b>Parental knowledge</b>	<b>Parental power</b>	<b>Importance of budget containment</b>	<b>Population density</b>
<b>French Model</b>	Central, public	low	low	Voice	low	Low
<b>Swedish Model</b>	Local, public	medium	medium - high	Choice	Medium	Variable, low
<b>US model</b>	Experts only	high	low	Choice	medium	medium – high
<b>English model</b>	Local, non-public	Medium - high	Low - medium	Voice, choice (ltd)	high	medium

#### **DEMAND SIDE PUBLIC SUBSIDY, PRIVATE PROVISION: NEW ZEALAND**

New Zealand knows a variety of pre-school provider categories, with varying degrees of strictness in regulation. Kindergartens have to follow relatively demanding public regulation, and their pedagogic staff are college of education graduates. Childcare centers have a ‘chartered’ regulation, i.e. they write their own charters and have them approved by the regulator, under a more light-handed regime than kindergartens. Consequently, only about 54% of their staff are trained teachers. ‘Family care’, which refers to childminders, i.e. individuals who look after up to five children in their own homes, also follow a minimal chartered regulation. Playcentres, where parents accompany their children to a premise with pedagogical equipment, are not regulated.

Enrollment rates have risen substantially since 1990 (3% per year on average, and 30% per year for ethnic minorities!). Currently, 95% of all primary school students have

attended pre-school education. Most of the expansion happened among the more lightly regulated childcare centers.

The New Zealand model is a public-private partnership with very clear roles: public funding and regulation, and private delivery. Funding and regulation of childcare are with the national Ministry of Education. But nearly all providers are privately owned and managed, and contract their staff and capital on commercial terms. 51% of the childcare centres are commercially operated, 43% are not-for profits and 4% are owned by public bodies. Interestingly, private provision is present in both high and low income areas, and has given rise to large national and international, profitable chains such as Kindercare, ABC and Kidicorp.

One of the reasons why the private sector even finds low income neighborhoods profitable may be that the government pays fairly generous subsidies, which are administered exclusively via the demand side. Parents receive a means-tested entitlement of \$5000-\$16400 per year, for the full-time attendance of a pre-school aged child. In addition, all three and 4 year old children are entitled to 20 free hours per week. For both subsidies and free hours, the parents freely choose the provider, who can then claim the subsidy from the government, against the parents' registration. Hours beyond the above entitlements are at the charge of the parents.

Reimbursement rates for the providers are calculated per child-hour, and there are differentiated rate levels according to three quality categories: rate 1 (basic), 2 (higher) and 3 (highest), with rate 3 being 33% higher than rate 1. The assessment of structural variables (e.g. staff qualifications, staff presence, staff-pupil ratio, per type of service (more strictly regulated services command higher rates), rurality of region, children's ages and special needs<sup>18</sup>) decides on a provider's access to a rate. In each case, ten quality components are assessed by external evaluators who check on-site.

In addition to this substantial demand-side financing, the New Zealand government also has some discretionary grants which it uses to seed-fund new childcare in under-provided areas.

While ownership and management of childcare is non-public, its licensing and quality supervision is public, the licensing under the Ministry of Education, and supervision in the hands of the Education Review Office ERO. Like its English counterpart, the ERO is independent of any ministry and reports directly to parliament.<sup>19</sup>

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<sup>18</sup> Eg (1997): Kindergartens for over 2 yr olds received \$3.24/hr; other services (>2 yrs) \$2.43 and for children below 2 years, \$4.84 per child hour, see La Rocque and Thorne 2008.

<sup>19</sup> The Education Review Office (ERO) is a government department whose purpose is to evaluate and report publicly on the education and care of students in schools and early childhood services. ERO's findings inform decisions and choices made by parents, teachers, managers, trustees and others, at the individual school and early childhood level and at the national level by Government policy makers. Dr Graham Stoop is ERO's chief executive and the Chief Review Officer. As such he formally designates individual review officers to carry out reviews in schools and early childhood centres. The functions and powers of the Chief Review Officer are described in Part 28, ss 325-328 of the Education Act 1989. ERO has approximately 150 designated review officers located in nine district offices and Te Uepū-ā-Motu, its Māori Reporting Services Unit.

The New Zealand model, combining in a very clear division of labor public demand-side funding with private ownership and management, is a schoolbook example of results-oriented public management, leaving maximum freedom to parents and private providers, but ensuring sufficient provision and quality through public funds and supervision.

Parents have free choice between centers, and funding rates are generous (and means-tested) enough to ensure that this is also the case in low-income areas, because providers are everywhere reimbursed fairly for their efforts.

This system also holds substantial incentives for high quality: (i) public quality supervision – to ensure the minimum level, (ii) incentive payments for higher quality levels and efforts (e.g. with special needs children) and (iii) competition between providers, through the free choice of parents. The competition between centers, as well as the transparency of public rates per child-hour provide an excellent framework to keep costs low, through both competition and rate regulation.

While systems based on parental choice usually assume high parental knowledge about quality, this is balanced here by quality-differentiated reimbursement rates, and quality supervision. Still, it is conceivable that under the New Zealand system quality and capacity by provider vary more than in say a French system.

The table below summarizes all models discussed in this note, and the environmental factor settings that would be beneficial for their success.

**Table 7: Overview: French, Swedish, US, English and New Zealand Models – environmental success factors (“this model works if...”)**

	<b>Locus of capacity</b>	<b>Tolerance for quality variation</b>	<b>Parental knowledge</b>	<b>Parental power</b>	<b>Importance of budget containment</b>	<b>Population density</b>
<b>French Model</b>	Central, public	low	low	Voice	low	Low
<b>Swedish Model</b>	Local, public	medium	medium - high	Choice	Medium	Variable, low
<b>US model</b>	Experts only	high	low	Choice	medium	medium – high
<b>English model</b>	Local, non-public	Medium - high	Low - medium	Voice, choice (ltd)	high	Medium
<b>New Zealand</b>	Private, varied	Medium - high	Medium	Choice	high	high

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### **3. CONCLUSION: HOW SHOULD A STATE DECIDE ON THE APPROPRIATE FINANCING MODEL?**

While describing the different models of financing childcare, France, Sweden, some US States, England and New Zealand, we have already discussed various environmental factors and political preferences that can play a role for the success of a certain model. These factors are usually exogenous to any policy making, i.e. not under the control of the policy makers. Let's call these factors 'drivers' of the choice for a financing model.

We have already listed the drivers as titles of the columns of our summary tables after each chapter. The summary tables list for each financing model, which driver settings would be beneficial for its success.

As an example, the New Zealand model is most successful if:

- The locus of capacity (i.e. 'who knows most about childcare') is with private providers (rather than with central government, say);
- Tolerance for local variation for quality is medium – high;
- Parental knowledge about childcare quality is medium (or even high), so that
- parental choice makes a lot of sense, and is an important part of the national political culture;
- budget containment is important; i.e. public funds for childcare are scarce; and
- population density is high: so that nearly all regions have more than one provider in order to enable parental choice.

Any state needs to consider what exactly the settings for these drivers are in its own case. That means,

- Who knows most about childcare? Experts only, the government, some local governments, or parents?
- Is there a strong wish for high and uniform quality everywhere?
- How important is parental choice? Or is parental voice (i.e. parental participation in governance) more important?
- How much budget will be available, now and in future?
- And is the population density high, low, varied?

Depending on the answers to these questions, one of the previously described models, or a combination of two, will be the most adequate solution.

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