

Making work pay for mothers

Free childcare for working parents

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1. Introduction

Availability of high quality, affordable childcare is a priority for the European Union. In 2002, the Barcelona European Council agreed on the following objectives:

'Member States should remove disincentives to female labour force participation, taking into account the demand for childcare facilities and in line with national patterns of provision, to provide childcare by 2010 to at least 90.0 per cent of children between 3 years old and the mandatory school age and at least 33.0 per cent of children under 3 years of age'¹.

Since then, these objectives have been at the forefront of the priority setting at European level, first in the Lisbon Strategy and subsequently through a renewed commitment in the Europe 2020 Strategy. The European Union recognises that work-life balance is key to sustainably increase the employment rate. The availability of childcare is considered to be pivotal in this respect. Moreover, it is recognised that the provision of education and care is an important investment in the development of children.

As part of the Europe 2020 Strategy, the European Commission has set a target of 75.0 per cent employment rate for the 20-64 age cohort. Even though the Strategy does not outline an employment target for women, it is recognised that efforts to narrow the gender employment gap was warranted to contribute towards smart, sustainable and inclusive growth.

The European Semester is a political opportunity for Member States to reaffirm their commitment towards the contribution to the objectives of the European Union. For this to be possible, a number of challenges which have been identified as stumbling blocks, particularly for the participation of women in the labour market need to be addressed. These include the disincentive for second-wage earners to participate actively in the labour market, lack of flexible working arrangements, lack of care services for dependants, as well as unaffordable services for dependants.

¹ European Commission (2013), *Barcelona Objectives*, European Commission Luxembourg: Publications Office of the European Union, 2013. Pg 4

The impact of motherhood is one of the factors contributing to low female employment rates. According to the study 'Parents at work: men and work participating in the labour market', for a number of Member States, motherhood and employment inactivity seem to be closely interlinked. This report indicates that the lack of affordable and high quality childcare facilities is a barrier to the participation of women in the labour market².

As outlined in the objectives set in the 2002 Barcelona European Council, Member States were encouraged to remove disincentives whilst taking into account the demand for childcare facilities and the national patterns of provision. To this effect, it is acknowledged that the design of national strategic priorities contributing to the set objectives needed to take into consideration the macro- and micro- constraints faced by parents, as well as the contextual realities affecting Member States.

This paper attempts to explain Malta's efforts in addressing the obstacles faced by women in participating in the labour market as a means to further improve the females' employment rate. Section 2 provides an analysis of how the female employment rate evolved along the age cohorts. This is followed by a brief discussion on the opportunity cost that certain mothers face after giving birth. A list of the initiatives rolled out by government to lessen such opportunity cost is provided at the end of this section. Section 3 gives a detailed account of the Free Childcare scheme; how it was set up and the rules that govern the system. Results achieved during the first months since the launch of the initiative are discussed in Section 4. Section 5 provides an overview of the paper.

² Miani Celine and Hoorens Stijn (2014), *Parents at work: men and women participating in the labour force*, European Commission Short Statistical Report No.2, 2014.

2.0 Malta Case Study: Employment Rates and the Impact of Motherhood

Until the 1980s, it was empirically accepted that the female employment rate and motherhood were negatively related, indicating that the more females enter into the labour market, the lower their fertility³. This negative combination was a result of limited infrastructure and services offered to support the working life balance of females. In addition, the correlation reinforced itself as limited household disposable income limited the number of children a household could afford. This trend started to reverse following the increase in female participation, family friendly measures and support structures. Nowadays, the overall trend in Europe and in OECD countries shows that there is a positive correlation between female employment and fertility.

Compared to other European Member States, Malta boasts of high female employment ratios among the young generation. Between 2010 and 2014, the average female employment ratio for the age cohort 20-29 years was 70.0 per cent. Eurostat figures indicate that the average employment ratio is likely to increase due to the positive trend observed over the last years. As indicated in table1, female employment has increased across all age cohorts, with the exception of the 20-24 age group, but a sudden drop is observed after females are 29 years of age.

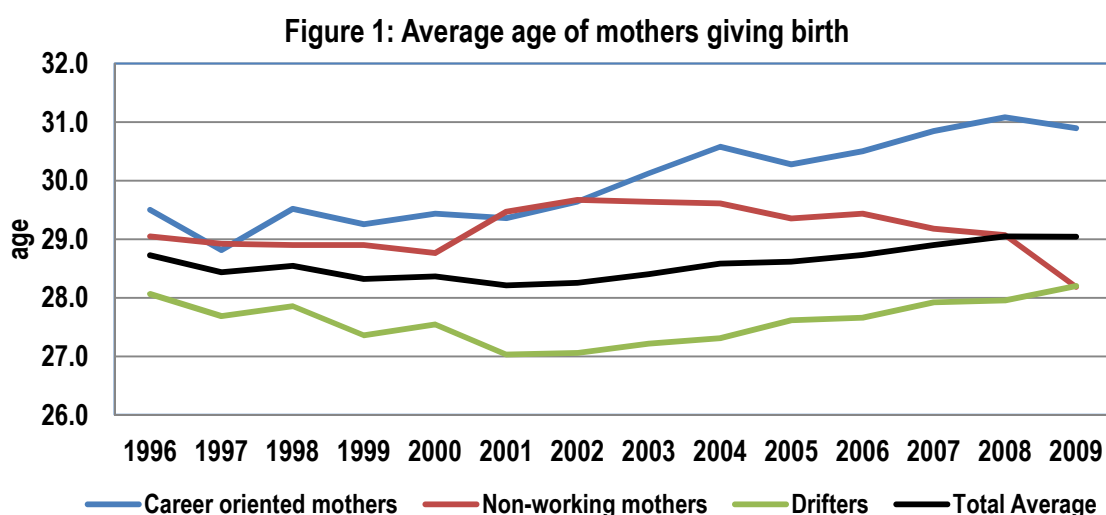
Female Employment Rates: Malta								
Age groups	2008	2009	2010	2011	2012	2013	2014	Difference (2014-2008)
20-64 years	39.4	40	41.6	43.8	46.6	49.8	51.9	12.5
20-24 years	68.5	64.3	64.2	63.3	60.7	66.9	67.2	-1.3
25-29 years	70.5	68.9	70.6	74.3	75.9	77.6	78.3	7.8
30-34 years	54.5	57.5	59	64.5	65.1	65.3	67.3	12.8
35-39 years	40.8	44.9	50.2	55.2	58.1	61.7	64.6	23.8
40-44 years	41.3	41.9	43.2	48.7	52.5	54.8	60.4	19.1
45-49 years	29.7	33.9	32.9	35.2	45.7	48.1	49.5	19.8
50-64 years	17.7	17.4	19.2	19.1	21.6	25.3	26.7	9

Source: Eurostat

³ The Economist (2009), *A link between wealth and breeding: The best of all possible worlds*, 06.08.2009.

In a collaborative study between the National Statistics Office and the Centre for Labour Studies, Caruana et al., discuss the issue of motherhood and female participation in the labour market. One of the issues discussed in the study is the causes of the decline in the participation of women in the labour market as females get over 30 years of age.

The study which covers the period starting from 1999 to 2009 indicates that career-oriented mothers and drifters are postponing their first motherhood (figure 1). This shift is not observed for the other non-working mothers, whose average age of giving birth has dropped from over 29 years of age to 28 years. The fact that on average, drifting mothers are giving birth after 28 years of age and career-oriented mothers are giving birth approximately at 31 years of age helps to explain why there is a drop in the employment ratio among the 30-34 age cohort⁴.



Source: Caruana et al. (2011)

⁴ Career-oriented mothers: In employment with the same employer between 2000 and 2009;
 Non-working mothers: Do not have a registered employment history with the ETC;
 Drifters: Changed their employer and moved in and out of the labour market between 2000 and 2009. Drifting mothers' sectoral and occupational classification is based on the job with the highest number of worked days.

2.1 Opportunity Cost: What to choose?

According to Caruana et. al⁵, mothers who gave birth between 1996 and 2009 could have worked a potential of 27.7 million working days. In actual terms though, only 35 per cent or 9.7 million working days were worked. In part, the remaining days were lost due to the lack of compatibility between motherhood and work.

The significant ratio of unutilised potential working days gives an indication of the economic output and tax revenue foregone as a result of low female employment rate. It was estimated that if the rate of actual working days for mothers had to be increased from 35.0 per cent to 50.0 per cent, household income and tax revenue would have increased by €18.5 million and €5.1 million per annum respectively⁶.

The low (actual) number of days worked in part is due to the presence of drifting mothers. Drifting mothers are those mothers who enter and exit the labour market according to family exigencies. According to Caruana et al., half of the mothers who gave birth in 2011 were considered as drifters⁷.

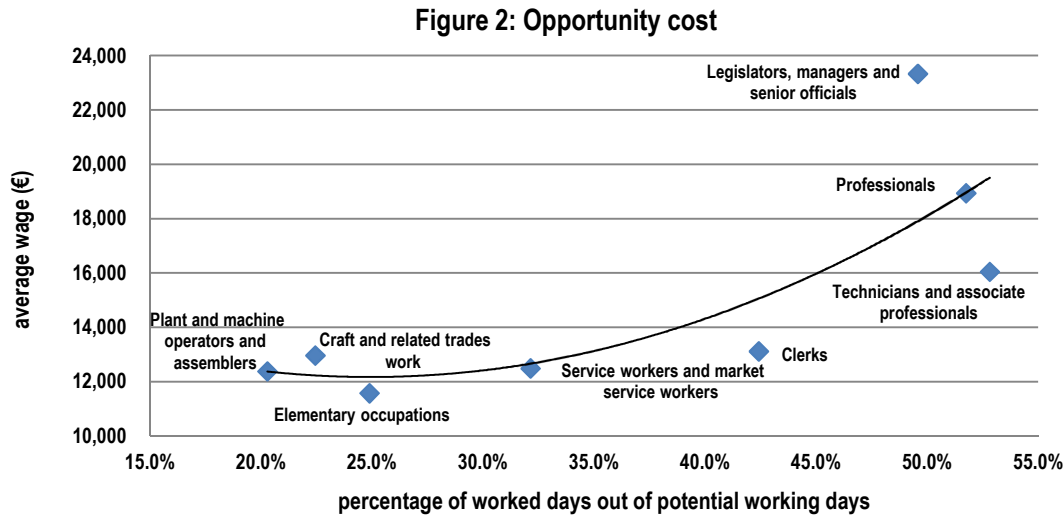
A number of factors can be attributed to mothers' inactivity in the labour market. These include historical, social as well as cultural factors which have influenced women's participation in the labour market. Such factors hence lead to both individual rational choices based on a woman's or family's choice to enter the labour market, and institutional choices, based on the availability of support structures and flexible working conditions that can constrain individual choices. One of the identified reasons why mothers feel the need to drift away from the labour market was the cost of childcare. The opportunity cost for low-to-medium income earners was too high, that is, the net gain resulting from employment was simply not enough to compensate for the work effort after deducting childcare costs. As illustrated in figure 2, the opportunity cost for certain occupations, such as elementary occupations and

⁵NSO-CLS report (2011), In Caruana et Al. (2011).

⁶ Ibid

⁷ Ibid

machine operators was too high. Given the low disposable income, work simply did not pay enough for such mothers, hence why it made more sense for them to withdraw from the labour market.



Source: Caruana et Al.

The above findings were corroborated by research survey done by the National Commission for the Promotion of Equality⁸ which identified the causes that were hindering women from participating in the labour market locally. Almost half of the local female respondents who took part in the research study declared that in order to take care of children they needed to give up employment. One fourth of the total female participants declared that the lack of support structures and family friendly measures discouraged them from taking up work. To this effect, a number of policy measures were identified to facilitate the integration of parents in the labour market, hence minimising the impact of parenthood on the Maltese formal economy.

2.2 Making Work Pay Initiatives

The constraints mothers were facing could not be addressed only through the provision of childcare. The Maltese governments along the years were aware that a comprehensive approach which includes a number of measures was appropriate to

⁸ NCPE: National Commission for the Promotion of Equality (2012), *Unlocking The Female Potential*, pg 12.

address the challenges faced by mothers. In the past years, a number of initiatives that make work pay, targeted mainly at parents were introduced. These include:

- **Breakfast Clubs:** This scheme offers parents the opportunity to leave their children at school one hour before the school opens. This enables parents to keep up with working hours. Furthermore each child is provided a healthy breakfast. This service is free of charge.
- **Klabb 3-16:** The Klabb 3-16 is an after school hours care service provided to all school age children. The service has been implemented in order to bridge the gap between the time when school finishes and the time when parents finish from work. Klabb 3-16 aims to provide a good quality and affordable care service after school hours that would meet the needs of the school community and therefore engages children in activity every single day. This allows parents to have greater working flexibility.
- **Tapering of Benefits for Single Parents:** Single parents choosing employment are eligible to maintain 65.0 per cent of their unemployment benefits in their first year of employment, which rate is tapered down to 45.0 per cent in the second year and 25.0 per cent in the third year. Their employers also benefit from 25.0 per cent of the unemployment benefit for the first three years of employment.
- **Maternity leave Benefit:** The Maternity Benefit payable by the Government and which is applicable for the last 4 weeks of the maternity leave has increased by more than €6.00 per week as from 1st January 2015.
- **In work-benefit:** This benefit is applicable if both parents are working and are earning between €10,000 till €20,400. They are entitled to receive a maximum amount of €1,000 per child (until child is 23 years old) annually. A single working parent earning between €6,600 and €15,000 is entitled to receive a maximum amount of €1,200 per child annually.
- **Reduction of income tax for women over 40 years of age:** Women who have been inactive for more than 5 years and are willing to start employment

can benefit from reductions in their income tax. Their income will also not be considered when using a joint tax computation (married rates).

Collectively these measures are being implemented in order to gradually address the constraints that different mothers may convene which may hinder them from work. It enables further spending power to low and medium income families and will definitely increase the opportunity cost of those who do not choose to work.

3.0 The Free Childcare system

3.1 Negotiation Process

The Free Childcare scheme was announced in November 2013 during the Budget Speech for 2014. In order to commit to this project, the Maltese government had to reach an agreement with the private childcare centres. In fact negotiations with the existing service providers during that time, started around May 2013.

During the negotiating process, private providers had the opportunity to discuss the challenges they were facing. Childcare providers' main concern was the low demand for the service. They argued that since demand was low, they were not benefitting from enough 'economies of scale', hence, they were not in a position to lower prices.

It took around seven months to visit all centres and reach an agreement on a common framework. The negotiations proved to be successful as the government managed to reach a 3-year deal with almost all private providers. Almost all childcare centres joined the Public Private Partnership (PPP) agreement with the Maltese government. 93.0 per cent of childcare providers now form part of the free childcare scheme and are therefore free of charge. Furthermore during the Budget of 2015, the government pledged €8 million to ensure the continuation of the service. Due to its success the 3-year agreement will be further extended.

Childcare centres participating in the PPP receive €3 per hour per child in 2015 (same rate in 2014), going up to €3.05 per hour per child in 2016. Prior to 2014, the average price for childcare services was €2.50 per hour per child. Government

decided to pay a higher rate than the average market price in order to allow the centres enough resources to improve the quality of the service offered. Furthermore, government took the decision to pay a fixed rate to all childcare providers instead of offering vouchers to parents, because under the latter system, providers would have still been able to increase their prices. Under such circumstances, affordability would have remained an issue for low-to-medium income parents.

3.2 Administration of scheme

All eligible parents can choose any childcare centre of their choosing since almost all childcare centres have signed the PPP agreement (excluding public owned childcare centres) and thus are funded by the government. Upon acceptance by the centre, the Ministry of Education and Employment (MEDE) gets informed of the registration and the child starts childcare the following month. Parents who are not eligible or who wish to send their children into private childcare centre (not in the PPP agreement) are eligible to €2,000 in tax credits.

The number of free hours that a child can spend in childcare is equivalent to the number of hours worked by the parent with the lowest work intensity plus the addition of commuting time. Hence, if a parent works for 20 hours per week, her/his free childcare entitlement is equal to 20 hours plus an extra hour per day to make up for travelling time.

If the monthly hourly uptake of childcare drops down below 90.0 per cent of the booked hours, the difference is deducted from the absence entitlement. Absence entitlement is equivalent to 15.0 per cent of the yearly booked hours. If absence entitlement is exhausted, parents have to pay the difference to the childcare centre. Hence, over a year, a parent will not pay anything if the child attends for at least 75.0 per cent of the booked hours.

These parameters have been implemented in order to avoid over-booking of hours by parents, which in turn are not used but still paid for by the Maltese government.

An allowance is made for parents who use up to 110.0 per cent of the booked monthly hours, whereby they are exempted from paying any additional fees⁹.

4.0 Results

Data indicates that the results achieved so far are significant. According to the Ministry for Education and Employment, since its launch more than 1,000 mothers have started to make use of free childcare. Of these 1,000 mothers, 200 of them were new entries into employment. Furthermore another 200 of them are pursuing education or training. Thus it is expected that those mothers who are pursuing education or training will be entering sustainable employment rather than relying on social benefits. There is also evidence that mothers that are working part time and using this scheme have also extended their working hours (estimated to have increased by 22.0 per cent).

Prior the free childcare system, mothers that were in occupations of ISCO level 5-9 and who started to work just after giving birth amounted to only 34.9 per cent of all childcare users. After the 1st of April 2014, this category has increased to 46.1 per cent of the new entrants. Furthermore, the entry into the labour force was 130 days earlier when compared to mothers who did not make use of the service. There has also been an increase in the number of childcare hours being booked. From this anecdotal evidence one may presume that the number of hours worked by mothers is also on the increase.

Taking into account the increase in labour hours and the multiplier effect, there are already signs that there is a substantial increase in fiscal and economic return. It is estimated that the extra direct and indirect revenue arising from this measure accounted for at least €1.5 million during the last 9 months of the year.

According to administrative records, currently there are 80 childcare centres participating in the scheme out of the 86 childcare centres distributed around Malta.

⁹ Ibid

The highest concentration of childcare centres tends to be found towards the central part of Malta, with localities of San Gwann, Fgura and Santa Venera having the highest number of childcare centres. The distribution of childcare centres tends to concentrate in areas that are closest to business hubs and central business districts, whereas in the peripheral localities, the distribution of childcare centres tends to diminish. 13 of the current 80 childcare centres are run by the Foundation for Educational Services (FES) under the auspice of the Ministry for Education and Employment and therefore these centres are considered as a public entity.

The number of children who have benefitted from the Free Childcare Scheme from April till December 2014 amounted to an estimated 3,660 children. Although the scheme is still in its early stage, research and observation of the first six months show a positive trend. In fact, this initiative has further encouraged the use of childcare by low to medium skilled workers. At present, there are about 535 registered child carers that are in employment. Moreover, in the coming weeks the total number of child carers is expected to increase significantly as 148 new trainees will be completing their childcare course.

These figures indicate that the Free Childcare Scheme is having a ripple effect on the social and economic infrastructure. The participation of mothers in the labour market is increasing, leading to higher state contributions and reduced dependency on state welfare. As a result of active participation in the formal economy, it is expected that the adequacy of pensions is enhanced and that the risk of social exclusion due to the low work intensity of these households with children is minimised. The Free Childcare Scheme leads also to an increased investment in human capital, as well as an investment against the transmission of inequalities, since the labour market will be more gender-balanced. Moreover, take-up of childcare will not depend on household income. Ultimately this Scheme, together with the other measures is expected to lead to a medium- to long-term behavioural change towards the *Making Work Pay* concept and away from benefit dependency.

4.1 EU response to the Free Childcare in Malta

The European Commission recognized the effort that Malta is making in encouraging female participation through the initiation of free childcare services. The Commission

highlighted that the effectiveness of this scheme is pivotal if it is to lead to desired results. Although Malta has managed to create other measures, the Commission still believes that more should be done in order to improve employment rates.¹⁰ In the Assessment of the 2014 National Reform Programme and Stability Programme for Malta, the Commission stated that some progress has been achieved in addressing the Country Specific Recommendation as a result of the implementation of the Free Childcare Scheme¹¹. Later it was again reinstated in the Commission's Country Report in 2015¹².

“Substantial progress has been achieved in enhancing the provision and affordability of child-care in Malta through the provision of free childcare.”¹³

Furthermore in the 2015 Joint Employment Report, Malta further received positive remarks on its overall efforts in extending the availability of high quality and affordable childcare. It also remarked the Malta Free Childcare Scheme as a new initiative to increase the employment rate of women and enhancing the work-family flexibility¹⁴.

“The ability of MS to significantly increase the employment rate of women depends to a large extent on the availability of high quality and affordable childcare. OECD evidence confirms that childcare is a key driver for women's labour market participation. Several countries

¹⁰ European Commission (2014), Recommendation for a Council Recommendation on Malta's 2014 national reform programme and delivering a council opinion on Malta's 2014 stability programme.

¹¹ European Commission (2014), *Assessment of the 2014 national reform programme and stability programme for Malta*, 2.6.2014, pg 27.

¹² European Commission (2015), *Country Report Malta 2015*, Commission Staff Working Document, 26.2.2015, pg 26.

¹³ Ibid

¹⁴ European Commission (2014), *Draft Joint Employment report from the commission and the council accompanying the communication from the Commission on the Annual Growth Survey 2015*, COM(2014) 906 final, 28.11.2014.

continued measures implemented in previous years and/or made additional funding for childcare available (Austria, Germany, Hungary Ireland, Malta, Poland), whereas others recently prepared steps to put in place new legislation or projects (the Czech Republic, Slovakia). Malta started as of April 2014 a free and universal childcare offered to families where both parents are working. Childcare is available during the parent/s work hours as well as an extra hour a day for commuting. Furthermore, the 2014 Budget envisaged a free-of charge service for children in kindergarten and state primary schools that will be offered during school days to employed parents who wish to take their children to school an hour before school starts.”

5.0 Conclusion

The introduction of free childcare scheme addressed the issue of affordability of childcare. Due to its implementation, mothers now have better access to employment. This scheme will in particular benefit low to medium skilled mothers who wish to work as now they will be relieved from the high costs of childcare. Due to the reduction of costs, both low-skilled and high-skilled mothers will gain extra spending power that will surely have economical benefits. As a matter of fact, it is estimated that a mother who is in employment for 40 hours on a weekly basis is currently saving over €5,200 yearly on the estimation that the average payment for every child was €2.50 per hour during the pre-childcare scheme.

Another important factor of this scheme is that rather than following other similar country measures such as childcare vouchers and additional payments for childcare, the Maltese government took itself the burden of maintaining the childcare expenses. This was essential as vouchers could have led to an inflation of childcare prices that would have still ended unaffordable by low income mothers.

Additionally, through the free childcare scheme, focus has shifted towards the enhancement of quality of the service. Since government is giving a flat rate to all providers within the PPP agreement, the centres try to encourage further entry of children by enhancing their quality service. This is due to the fact that payment is dependent on the number of children. As a result of higher demand employment of child carers is increasing, leading to an increase of overall employment. This payment structure is set to lead towards a positive domino effect.

This scheme is also essentially a part of a series of new measures that are being implemented with the objective of making work pay. The concept of this initiative is to promote positive welfare by enhancing work. Free childcare is also expected to impact positively on the fertility rate as it will give career mothers the opportunity to follow both work and motherhood.

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