

Policy Brief: Compliance, cost and user fees in the Early Childhood Care and Education Sector in South Africa

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There are significant lifelong impacts of quality early childhood care and education (ECCE) interventions for children's health, development, education and future life prospects (Heckman & Masterov, 2007; Engle, et al., 2011). Yet, the cost of accessing these services is often cited as a barrier to attending ECCE programmes, especially for children from low-income families (Bhatkal, 2014; Lokshin, et al., 2000). In South Africa, with limited allocation of state funding for ECCE, the financial burden to cover the costs of ECCE services (typically informal and privately provided) falls on parents or caregivers (Wills & Kika-Mistry, 2021).



The ECCE subsidy¹ provided to registered programmes serves as an enabler to access ECCE services for poorer households, where subsidies are intended to be passed on to users in the form of lower fees. However, to access the subsidy, operators must jump through several hurdles to become registered and meet norms and standards (Ilifa Labantwana, 2020). In principle, registration should contribute to higher quality programming. While registration enables access to state funding for private providers, thus addressing a major barrier to ECCE access, it can simultaneously raise the costs of services, and potentially the fees charged, as programmes incur costs to meet norms and standards. There are, therefore, trade-offs in managing costs, user fees and encouraging ECCE access, while also considering the important goal of ensuring programmes offer adequate standards of programming.

Against this context, this brief summarises findings from a paper² which examines compliance, costs and user fees in the ECCE sector. Using the 2013/14 Early Childhood Development (ECD) Audit, the paper generates metrics of compliance, explores variations in compliance by registration status and province, and investigates patterns in user fees charged. It explores how operational costs align with higher standards of programming, defined in terms of compliance with norms and standards. The paper then considers whether access to subsidies are passed on as fee reductions to parents or caregivers.

¹ For a child to qualify for the per-child per-day means-tested operational subsidy (increased to R17 per child per day in 2021 but remained stagnant at R15 for years despite inflation), ECCE providers need to demonstrate that the child meets the requirements of an income means test, whereby the joint income of the child's household members is less than a certain threshold. Although means-testing is linked to the child, subsidies are directed at providers.

² This Policy Brief is based on a working paper written for the Ilifa Labantwana and Resep ECD Working Paper Series.

Main highlights

- There is a mismatch between the norms and standards set out in the Children's Act (Act 38 of 2005) and the *de jure* registration requirements for ECCE programmes and partial care facilities. A low proportion of ECCE programmes, including fully registered programmes, are compliant with the norms and standards established for partial care facilities and ECCE programmes.
- Differences in compliance by programme registration status (fully vs. conditional vs. unregistered) are not large enough to justify some programmes receiving subsidies over others.
- There is significant variation across provinces in the extent to which norms and standards are met by fully registered programmes.
- A significant positive association is observed between operational unit costs and programme compliance suggesting that more spending results in higher standards of ECCE programming.
- Although weakly implemented as a process, registration appears to be positively linked to higher costs of programming (and in turn higher standards of programming). Registered programmes incur higher operational costs to meet compliance requirements compared to unregistered programmes.
- Subsidies enable higher levels of spending for better programming. In the absence of subsidies, ECCE programmes are considerably more likely to pass on costs as higher fees to households.
- It is common for ECCE programmes, even unsubsidised programmes, to offer exemptions from paying fees. Although subsidy access further supports the provision of fee exemptions in poorer contexts.
- ECCE programmes servicing poorer households bear the triple burden of trying to get government subsidies, providing exemptions and charging lower fees.
- Most programmes experience problems with users not paying ECCE fees.

User fees: ECCE fee structures and implications for programme providers

Our analysis starts by exploring patterns of user fees charged by ECCE programmes. While we know that over 80% of children attending ECCE programmes in South Africa in a pre-pandemic period were charged fees to attend and that the ability to pay is a strong determinant of whether children access services (Wills & Kika-Mistry, 2022), there is much more to be understood about user fees. How much is charged? How are programme fees structured and do people pay the fees charged? The main findings of our analysis are highlighted below.

- User fees differ by the age of the child.** In South Africa, ECCE programmes accommodate different age groups of young children. Overall, higher fees are charged for younger children and decrease as children get older. Child-practitioner ratios required for younger children are typically lower. One would, therefore, expect the distribution of fees charged to parents/caregivers for children participating in ECCE programmes to be higher for younger children and decrease as children get older. Lower average fees observed for children over the age of 5 could be attributed to state subsidisation of Grade R.³
- Offering exemptions from paying fees is common, even in unsubsidised programmes.** For example (Figure 1), 51%⁴ of children in unsubsidised programmes charging less than R50 per month, and 46%⁵ of children in unsubsidised programmes charging between R51 and R100 per month (in 2013/14) were exempt from paying fees. This mostly points to goodwill on the part of ECCE operators or in some instances, that they have little bargaining power, relinquishing a portion of fees that parents/caregivers do not pay. Overall, the higher the fee amounts charged, the lower the proportion of children exempt from paying fees.

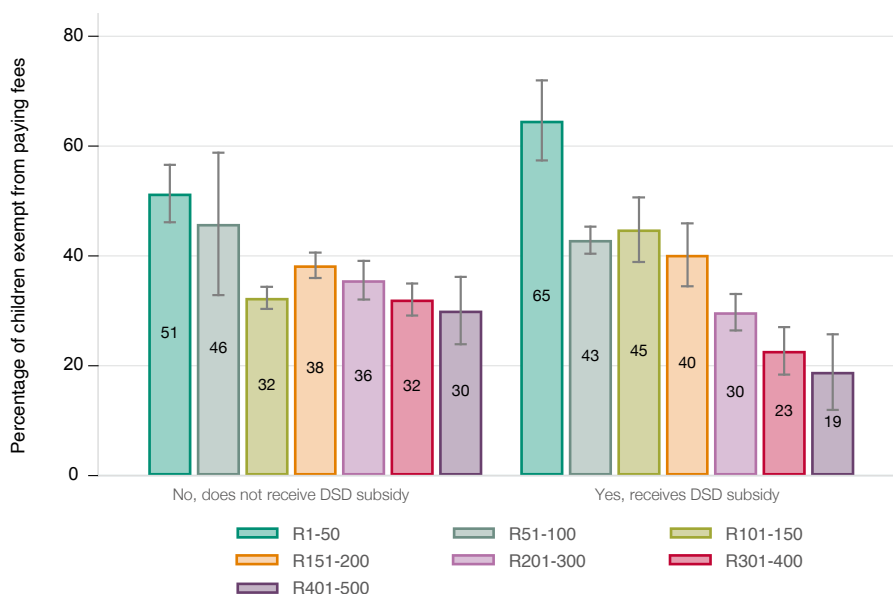
3 To a limited extent, Grade R in private ECCE programmes is funded by Provincial Departments of Education through transfers and subsidies; and how these are administered in terms of allocations and qualifying requirements is different from the Department of Social Development (DSD) subsidy.

4 Estimates for children in 784 unsubsidised programmes charging less than R50 per month.

5 Estimates for children in 1 072 unsubsidised programmes charging between R51 and R100 per month.

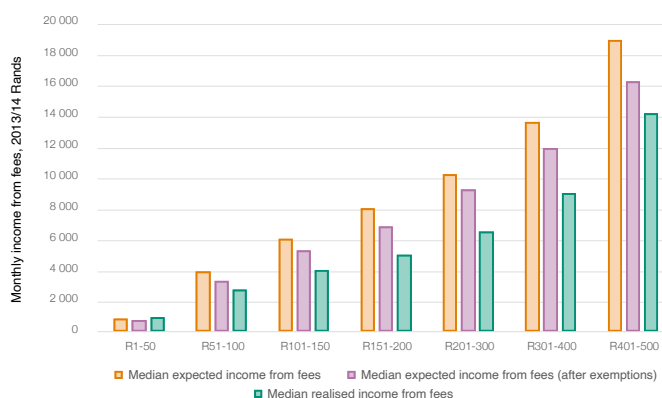
- c. **Subsidy access supports the provision of fee exemptions in poorer contexts.** Access to subsidies seems to encourage the provision of fee exemptions where fees charged are less than R50 per child per month. For example, among programmes charging less than R50 a month, 65% of children are typically exempted if the programme is subsidised⁶ compared to 51% of children exempted if the programme is unsubsidised.
- d. **Most programmes experience problems with users not paying ECCE fees.** Overall, realised monthly programme income from fees is considerably less than the potential monthly income that programmes should be receiving from fees charged for programmes charging less than R500 per month. This is seen in Figure 2A and 2B, with users particularly likely to default on fee payments in programmes charging more than R50 per child per month and in both subsidised and unsubsidised programmes. For subsidised programmes, the median realised monthly income is greater than the expected income from fees charged after considering children who are exempt from paying fees. This could be attributed to operators overestimating the number of children paying fees, considering that they are receiving subsidies.

Figure 1: Percentage of children exempt from paying fees across different fee categories by whether children are in subsidised or unsubsidised programmes, among all fee-charging programmes



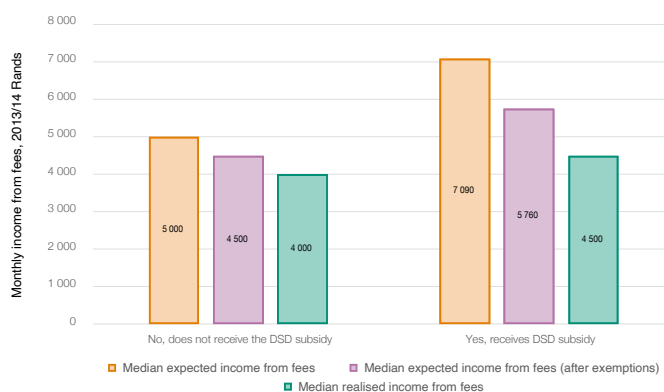
Source: ECD Audit 2013/14, own calculations. Notes: (i) Nominal 2013/14 prices, (ii) Wealthier programmes charging more than R500 excluded from the sample, (iii) Estimates for 6 326 subsidised programmes and 7 566 unsubsidised programmes

Figure 2a: Median expected and realised monthly income by highest fee categories and subsidy receipt, 2013/14 Rands



Source: ECD Audit 2013/14, own calculations. Notes: (i) Nominal 2013/14 prices, (ii) Expected income from fees calculated by multiplying the highest fee charged by the number of children enrolled. Similar patterns hold if the lowest fee charged is used, (iii) Sample: all programmes reporting an income from fees excluding wealthier programmes charging more than R500 per month (N = 11 403)

Figure 2b: Median expected and realised monthly income from highest fees charged by subsidy receipt, 2013/14 Rands



Source: ECD Audit 2013/14, own calculations. Notes: (i) Nominal 2013/14 prices, (ii) Expected income from fees calculated by multiplying the highest fee charged by the number of children enrolled. Similar patterns hold if the lowest fee charged is used, (iii) Sample: all programmes reporting an income from fees excluding wealthier programmes charging more than R500 per month (N = 11 403)

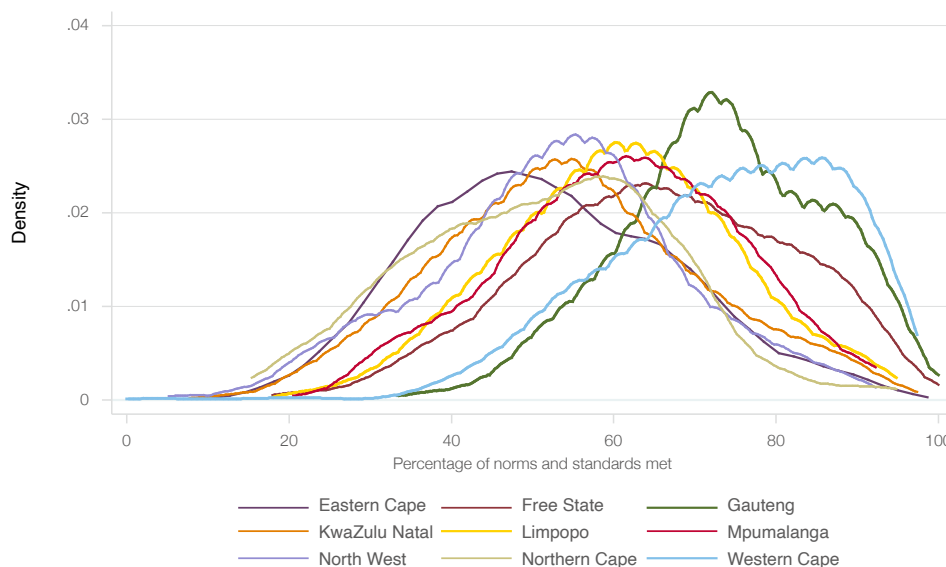
6 Estimates for 1 332 subsidies programmes charging less than R50 per month.

Examining ECCE programme registration. Are norms and standards being met?

The process of ECCE programme registration (or licensing) should in theory help to support higher standards of programming. Yet, the extent to which this happens is likely to depend on how well a registration process is implemented. Conditional registration allows for variation in the stringency with which registration criteria are applied, acting as a developmental process to move programmes onto a registration pathway. However, the requirements for full registration are clear, so that major deviations in application should not occur. To explore this, we matched norms and standards in the Children's Act (Act 38 of 2005) against variables identified in the 2013/14 ECD Audit to determine whether programmes are meeting norms and standards. We find that:

- A low proportion of ECCE programmes, including fully registered programmes, are compliant with all norms and standards** established for partial care facilities and early childhood development programmes. Among ECCE programmes (excluding wealthier programmes charging fees over R500 per child per month), they comply on average with only 56% or 22 of 39 norms and standards measured in the 2013/14 ECD Audit. Only 23% of fully registered programmes meet at least three quarters of the 39 identified norms and standards.
- Differences in compliance by registration status are not large enough to justify some programmes receiving subsidies over others.** Fully registered programmes are only slightly more compliant (meeting an average of 62% or 24.1 of 39 criteria) than conditionally (22.4 of 39) or unregistered programmes (19.5 of 39).
- There is significant variation across provinces (and by contexts) in the extent to which norms and standards are met by fully registered programmes.** ECCE programmes are more likely to be compliant if they are located in urban areas, are located in the Western Cape, Gauteng or Free State provinces (Figure 3), are school-based programmes compared to home or community-based programmes or have higher enrolment rates but with smaller proportions of children receiving the Child Support Grant.
- Some specific items from a norms and standards list are seldom met by most programmes, even those that are fully registered.** The specific norms and standards that are least likely to be met are shown in Table 1. There are cases of programmes being registered despite meeting only some or just a few of the norms and standards.

Figure 3: Distribution of fully registered ECCE programmes meeting norms and standards by province



Source: ECD Audit 2013/14, own calculations. Notes: (i) Figure shows kernel density weights, (ii) Wealthier programmes charging more than R500 excluded from the sample (N = 13 892)

Table 1: The 13 least likely to be met norms and standards identified for partial care facilities and early childhood development programmes (Percentage of ECCE programmes meeting specific norms and standards as identified in the 2013/14 ECD Audit)

		All ECCE programmes in Audit charging less than R500 per month	Fully registered programmes in Audit charging less than R500 per month
26	ECD programme has a separate area to clean babies	45.2%	50.1%
27	Centre has an evacuation plan	37.2%	45.2%
28	ECD programme has enough art materials	34.7%	42.6%
29	ECD programme has enough furniture	34.2%	42.6%
30	Evidence of record of medication to be taken	33.1%	37.9%
31	ECD programme has enough educational materials	33.1%	40.9%
32	ECD programme has enough puzzles	30.4%	38.8%
33	Evidence that ECD programme has a medication management policy	30.0%	34.7%
34	Evidence of children being trained on how to evacuate	29.4%	36.1%
35	ECD programme has enough construction materials	26.0%	33.7%
36	ECD programme has enough fantasy materials	25.7%	33.0%
37	ECD programme has enough outdoor materials	24.9%	32.8%
38	ECD programme has enough music materials	23.3%	30.2%
39	Staff have an ECD specialisation (certificate, diploma or degree)	17.6%	18.4%
	Average requirements met by ECCE programme (out of 39)	21.96	24.11
	N	13 892	6 353

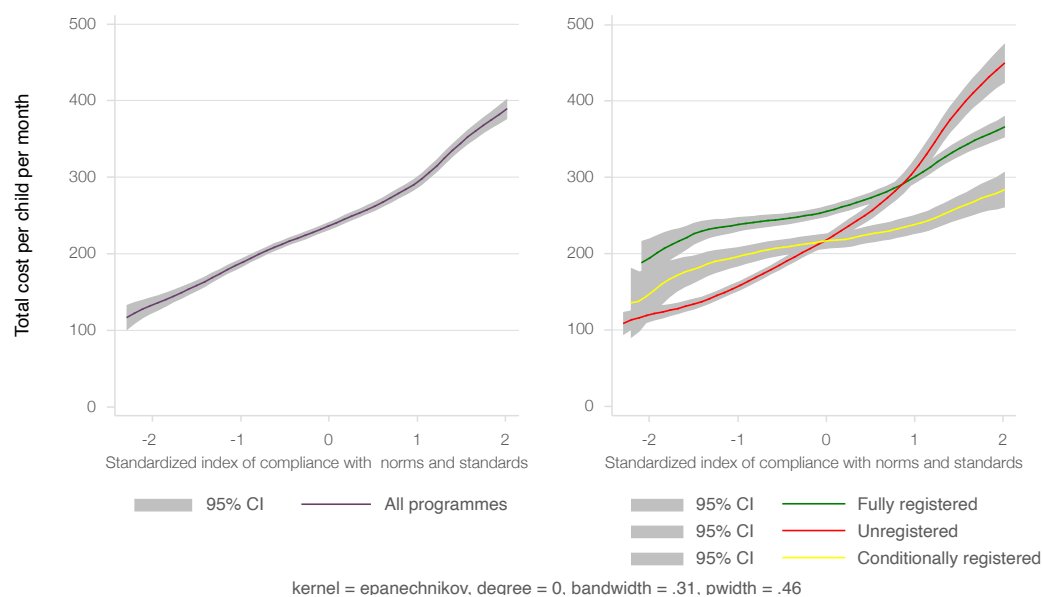
Source: 2013/14 ECD Audit, own calculations. Note: Wealthier programmes charging more than R500 are excluded from the sample (N = 13 892)

What are the patterns of costs associated with more compliant programmes meeting a level of ‘structural quality’?

The links between registration status and improved standards of programming are weakened by the inconsistent application registration frameworks for full registration status. But to what extent do higher levels of compliance with norms and standards translate into higher unit costs? To answer this question:

- We constructed a standardised index based on 39 identified norms and standards from the 2013/14 ECD Audit. The index is a proxy for ‘structural’ quality, as distinguished from ‘process’ quality (see Box 1).
- Identified reported unit costs. Our cost estimates are limited to self-reported direct or operating costs incurred by programmes. We cannot observe imputed and overhead costs from the available data. The actual costs of quality ECCE programming, therefore, remain unknown.

Figure 4: Estimated monthly direct costs per child vs. a standardised index of compliance with norms and standards, 2013/14 Rands



Source: 2013/14 Audit, own calculations. Note: (i) Sample: all programmes (N = 14 722), fully registered (N = 6 667), unregistered (N = 6 368), conditionally registered (N = 1 687), (ii) Total costs capped at the 99th percentile.

As seen in Figure 4, fully registered programmes at lower levels of compliance (represented by the index) incur higher costs to meet a given level of norms and standards, compared to unregistered programmes. At all levels of compliance, fully registered programmes face higher unit costs than conditionally registered programmes. For instance, among ECCE programmes charging less than R500 per month⁷ and meeting at least three quarters of the legal requirements (i.e., 30 of 39 identified norms and standards in the 2013/14 ECD Audit) the unit cost at the 50th percentile was R13.52 for fully registered centres, R10.94 for conditionally registered programmes and R11.33 for unregistered programmes. By comparison, the DSD subsidy at the time was roughly R15 per child per day. Importantly, this does not imply that the subsidy was more than enough to cover the costs of quality programming. The reason is that only operational costs are gathered through the ECD 2013/14 Audit (capital costs are not considered). Estimates point to the costs of provisioning by ECCE programmes being approximately R20.01⁸ per child per day in 2013/14. Furthermore, whether decent wages or salaries are paid to practitioners is not captured in reported unit costs, with the median monthly salary of around R1 300 in 2013/14. This is less than the national minimum wage of R3 500 per month in 2022 which translates to approximately R2 230 in 2013 prices.

Box 1: Structural quality vs process quality

'Structural quality' refers to inputs such as aspects of the physical environment, for example, infrastructure; group characteristics such as child practitioner ratios; and practitioner variables such as years of experience and qualifications. While the norms and standards contained in the Children's Act (Act 38 of 2005) include aspects of 'process' quality, which reflect the child's learning experience, particularly, interactions with teachers, peers and materials in the ECCE setting (Slot, 2018), the 2013/14 ECD Audit data only measures variables capturing structural quality, hence the focus of this paper.

Do subsidies mitigate the passing on of higher costs to households?

A positive relationship is expected between the unit costs of ECCE programming and user fees. But can government ECCE subsidies help to reduce the passing on of higher costs to users in the form of higher fees? This appears to be true as seen in Figure 5 showing realised fees per child (per month) on the y-axis and per child unit costs (per month) on the x-axis. The line for subsidised programmes lies well below the line for unsubsidised programmes at all levels

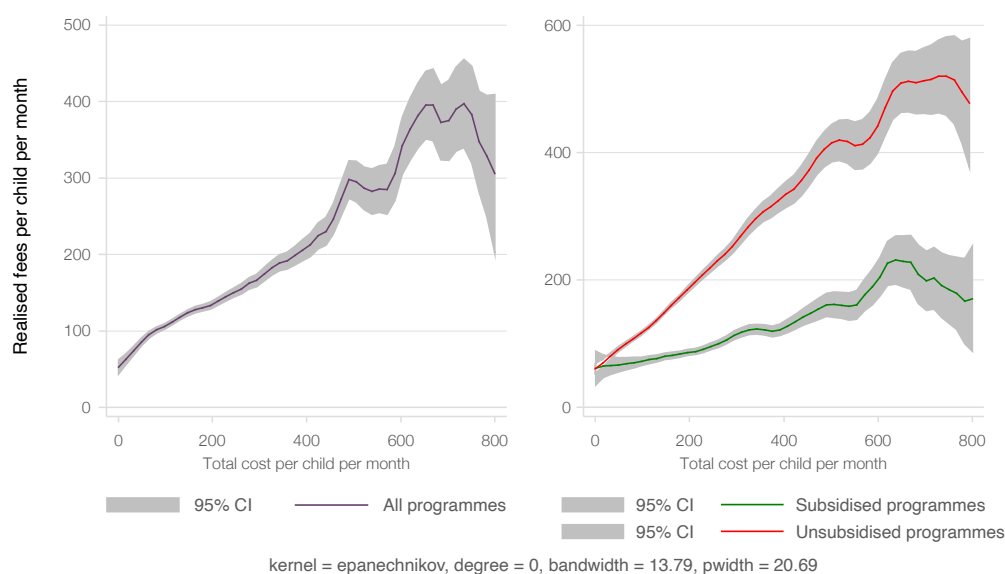
⁷ Including wealthier programmes in the sample may distort the cost estimates given the relationship between user fees charged and the programme operating costs.

⁸ Estimates point to the total per child per day cost of approximately R31.40 in 2022. This was deflated using headline CPI values for June 2022 (104.2) and June 2013 (66.4). Index (December 2021=100).



of fees charged, with a flatter slope observed for subsidised programmes. This implies that subsidies are important in mitigating costs being passed on to parents/caregivers in the form of higher user fees. Even after controlling for other programme characteristics, including urban location, province, and the percentage of enrolled children receiving the child support grant, we still find that subsidised programmes are less likely to pass on higher costs as higher user fees.

Figure 5: Realised fees per child per month vs. total direct or operational costs per child per month, 2013/14 Rands



Source: 2013/14 ECD Audit. own calculations. Note: (i) Larger confidence bands are observed for total costs above R600 due to smaller sample sizes, (ii) Sample: All programmes (N = 14 152), subsidised programmes (N = 6 084), unsubsidised programmes (N = 8 068), (iii) Realised fees and total costs capped at the 99th percentile.

Policy Recommendations

This paper has highlighted the mismatch between the norms and standards set out in the Children's Act and the *de jure* registration requirements for ECCE programmes and partial care facilities. A low proportion of ECCE programmes, including fully registered programmes, are compliant with the norms and standards. Officials are alerted to the very irregular application of frameworks for full registration across and within provinces, which calls into question decisions around why some programmes receive subsidies over others. Against this reality, we make the following recommendations:

- The Department of Basic Education (DBE) will need to pay attention to standardising the implementation of full registration frameworks across provinces and districts.
- Part of the standardisation process should involve the simplification of compliance requirements for ECCE programmes to become fully registered.
- It is clear from these findings that the norms and standards need to be reviewed by the government with the support of non-profit organisations providing ECCE oversight or support. Specifically, review the 'legal requirements' that very few programmes, including fully registered ones, are able to meet (seen in Table 1).
- The review of norms and standards should also happen in conjunction with developing a clearer view of the costs of meeting them. Part of the existing subsidy should go towards maintaining the full registration of programmes. Financing is required for programmes that are not registered to meet the norms and standards. While the conditional Early Childhood Development Grant introduced in 2017/18 has an infrastructure maintenance component, this is only used to get programmes from conditionally registered to fully registered, and the size of the grant is inadequate to cover the need.
- Collaboration between the DBE and the non-profit sector is vital in ensuring support for poorer programmes in meeting the norms and standards.
- Finally, it is necessary to expand access to means-tested subsidies. There is clear evidence that subsidies encourage fee exemptions for the poorest and appear to mitigate programmes passing on higher costs (for higher programming quality) to users in the form of higher fees.



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