

# **Study Report on Childcare Sector**

June 2014

Japan Fair Trade Commission



## Study Report on Childcare Sector

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#### Attachment

1. Roundtable Discussions on Childcare Sector (Summary)
2. Totalization result of questionnaire survey



## I. Purpose of Survey and Examination

### 1. Background

It is said in Japan that the difficulty in balancing child-rearing and working is one of the factors of declining birthrate. Especially in urban areas, short supply of childcare facilities leads to a huge issue that a large number of children are on a waiting list.

In accordance with three new children and childrearing-related legislations<sup>1</sup> enacted on August 10, 2012, the “Comprehensive Support System for Children and Childrearing” (hereinafter, the “new system”) is scheduled to start in April 2015, and both the national and local governments are now working on the preparation for the implementation of the new system. Likewise, based on the “Zero Childcare Waiting List Acceleration Project” launched by the Prime Minister Shinzo Abe on April 19, 2013, various efforts have been increasingly made by the Japanese government to achieve the goal that no children have to wait when receiving childcare service by the end of FY2017, in which year childcare demand is projected to hit its peak.

The “Japan Revitalization Strategy,” which was adopted by the Japanese Cabinet on June 14, 2013, states that the childcare sector is one of the “sectors that could become the driving force of growth as vast new markets, depending on the institutional design” and “there is significant room remaining for improvement in these sectors to efficiently provide good-quality and low-cost services and products to the people.” Efforts in the childcare sector are considered as a growth strategy of Japan. Discussions were also conducted regarding the childcare sector from the aspect of regulatory reform with the purpose of contributing to the growth and development of Japan, the stabilization and improvement of people’s daily lives and the revitalization of Japan’s economy, and the resulting “Regulatory Reform Implementation Plan” (Cabinet approval on June 14, 2013) states that regulatory reform shall be undertaken to completely eliminate waiting lists for children, while maintaining the quality of childcare.

Childcare service is not only a sector in need of filling demand, but also one that is expected to become a growth area of Japan.

Keeping in mind that the objective of competition policy is to promote fair and free competition among service providers, and thereby to ensure benefits for consumers, the Japan Fair Trade Commission (JFTC) conducted a survey and analysis on the state of the childcare sector, and identified key issues from the viewpoint of competition policy.

The competition policy aims to promote competition among businesses by developing an

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<sup>1</sup> Act on Children and Childrearing Support (Act No. 65 of 2012), Act to Partially Amend the Act on Advancement of Comprehensive Service Related to Education, Child Care, etc. of Preschool Children (Act No. 66 of 2012), Act for Establishment of Laws and Regulations Related to the Act for Enforcement of Act to Partially Amend the Act on Advancement of Comprehensive Service Related to Education, Child Care, etc. of Preschool Children (Act No. 67 of 2012).

environment that facilitates new market entry and business innovation, and thereby to ensure that consumers enjoy quality products and services and to encourage businesses to further improve quality of products and services by allowing consumers to compare and select products.

Based on the above perspective, clarifying the viewpoints of the childcare sector is considered to facilitate the improvement in the supply and quality of childcare services, while making the childcare sector a growing sector of the Japan economy.

In the competition policy context of competition policy, JFTC examined the childcare sector considering the importance of developing an environment that facilitates: (1) the promotion of new entry by diverse operators, (2) impartial conditions for competition among operators, (3) appropriate selection of users, and (4) innovation by operators.

## 2. Subjects of Survey and Examination

As the new system has currently been under discussion in detail at the Council for Children and Childrearing and other occasions and the JFTC conducted the survey based on the orientation of the discussion on the premise of the framework of the new system.

In addition, while childcare service providers include such as daycare centers, certified children's centers, and non-registered childcare facilities<sup>2</sup> provide childcare services on behalf of parents, our study focused on daycare centers, which are the most common option for working parents.

## 3. Survey Method

The survey employed the following methods.

### (1) Questionnaire in writing

In order to understand the current status of daycare centers, a questionnaire survey was conducted for the period of December 5-27, 2013 with the following social welfare corporations and other organizations as subjects. Questionnaire forms were distributed and collected by mail (an electronic version of questionnaire forms was sent and collected by e-mail upon request).

- A. Social welfare corporations having daycare centers: sent to 1,002 corporations  
(Responses: 563, Valid responses: 563, Valid response rate: 56.2%)
- B. Stock companies, etc.<sup>3</sup> having daycare centers: sent to 337 companies

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<sup>2</sup> Refer to pages 20 to 22 for daycare facilities other than daycare centers, such as certified children's centers and non-registered childcare facilities.

<sup>3</sup> The term "stock companies, etc." here means stock companies and limited-liability companies and

(Responses: 185, Valid responses: 170, Valid response rate: 52.8%)

C. Municipalities (cities, towns, and villages): sent to 600 municipalities

(Breakdown of municipalities: 85 ordinance-designated and core cities and special wards, 52 municipalities that had developed Daycare Plans<sup>4</sup> as of April 1, 2013 [except for ordinance-designated and core cities and special wards], 463 municipalities other than the above that were chosen at random) (Responses: 430, Valid responses: 430, Valid response rate: 71.7%)

(2) Online questionnaire

In order to understand parents' attitudes toward childcare, a questionnaire survey was implemented online for the period of December 13-18, 2013 targeting users and non-users of daycare centers as follows by entrusting the survey to an online research company.

A. Users of daycare centers

(Guardians of children aged 0-6 utilizing private daycare centers): 417 responses

B. Non-users of daycare centers

(Among guardians of children aged 0-3, those who are not using daycare centers, certified children's centers, or kindergartens): 419 responses

(Breakdown of guardians not using daycare centers: 100 users of non-registered childcare facilities [those who are using non-registered childcare facilities], 319 non-users of daycare centers [those who are not using any childcare facilities])

(3) Interview

The interview was conducted in the following municipalities, organizations, and people as subjects.

A. Municipalities: 5

B. Social welfare corporations: 3

C. Stock companies: 4

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includes operators having only non-registered childcare facilities. Among 170 valid responses, 55 companies have daycare centers, while 115 companies do not (having only non-registered childcare facilities).

<sup>4</sup> See page 9 for Daycare Plan.

D. Persons with relevant knowledge and experience: 6

(4) Public meeting

Three public meetings were held to hear experts' views on the current status of the childcare sector.

A. Date

1st meeting: February 17, 2014

Agenda: Information disclosure by daycare center and third-party evaluation

2nd meeting: February 28, 2014

Agenda: Regulations on stock companies' entry

3rd meeting: March 17, 2014

Agenda: Equal footing for social welfare corporations and stock companies

B. Chairperson, committee members

(Chairperson)

Hideki Ide, Professor, the Faculty of Business and Commerce, Keio University

(Committee members)

Munetomo Ando, Associate Professor, Advanced Institute for the Sciences and Humanities, Nihon University

Mika Ikemoto, Senior Researcher, Research Department, the Japan Research Institute, Limited

Shinji Kuwato, Executive Managing Director, Sogo Fukushi Kenkyukai (general incorporation foundation),

Noriko Goto, Research Manager, Benesse Educational Research and Development Institute, Child Sciences and Parenting Research Office, Director, Benesse Corporation

[In Japanese alphabetical, Honorifics omitted, Positions as of the meeting dates]



## II. Current Status of Childcare Sector

### 1. Social Background

#### (1) Rise of need for childcare

Japan's annual birthrate is in a gradual decline, while alternately increasing and decreasing since 1991, and in 2011, it was approximately 1,050,000. The total fertility rate<sup>5</sup> has also been declining after falling below 2.0 in 1975 and dropped to 1.26 in 2005, which is the lowest in history. Even though the total fertility rate in 2011 was 1.39 as in the year before, showing a slight increase, it is still at low levels compared to Europe and the U.S.<sup>6</sup> In addition, the number of children aged 0–5 is estimated to be 6,312,000 as of October 2013.<sup>7</sup>

On the other hand, because of changes in attitudes toward women's participation in the workforce as well as economic changes, the number of dual income households is growing. Since 1997, the number of dual income households surpassed that of households consisting of male employees and unemployed wives (so called "fulltime homemaker households"), and in 2012, the number of dual income households was 10,540,000, while that of fulltime homemaker households was 7,870,000.<sup>8</sup> The employment rate of mothers with children before reaching the age to attend elementary school age is still at a low level compared to Europe and the U.S.<sup>9</sup>, and the rise of the employment rate is expected from the aspects of economic growth and the promotion of a gender-equal society.

Furthermore, in addition to the growth of dual income households, circumstances surrounding children have changed significantly in the past few decades, including the decrease of three-generation family households<sup>10</sup> and the increase of single-parent families.<sup>11</sup>

Under such circumstances, the demand for childcare services is further growing in society.

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<sup>5</sup> The total fertility rate is the sum of the fertility rates by age cohort of women 15 through 49, and is equivalent to the average number of children that would be born to a woman over her lifetime, assuming those age-specific rates for those years.

<sup>6</sup> "White Paper on Society of Declining Birthrate 2013" by the Cabinet Office.

<sup>7</sup> The sum of children aged 0–5 from "Population Estimates" (as of October 1, 2013) by the Ministry of Internal Affairs and Communications.

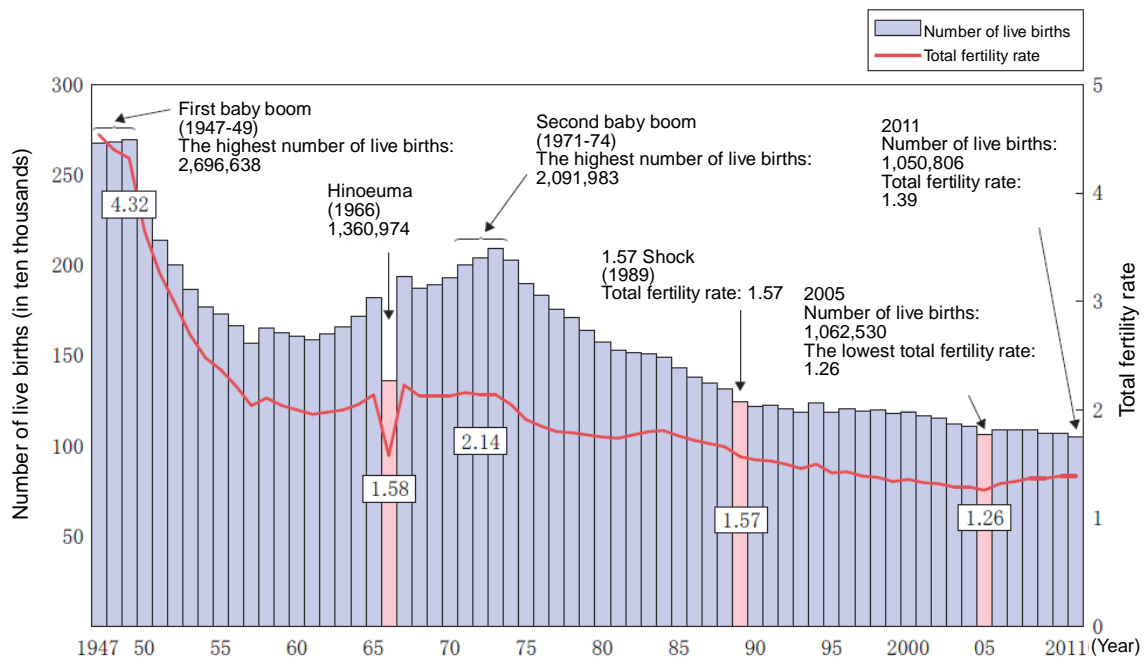
<sup>8</sup> "White Paper on Gender Equality 2013" by the Cabinet Office.

<sup>9</sup> OECD Family database.

<sup>10</sup> Three-generation family household means a linear three-generation or more family with a householder.

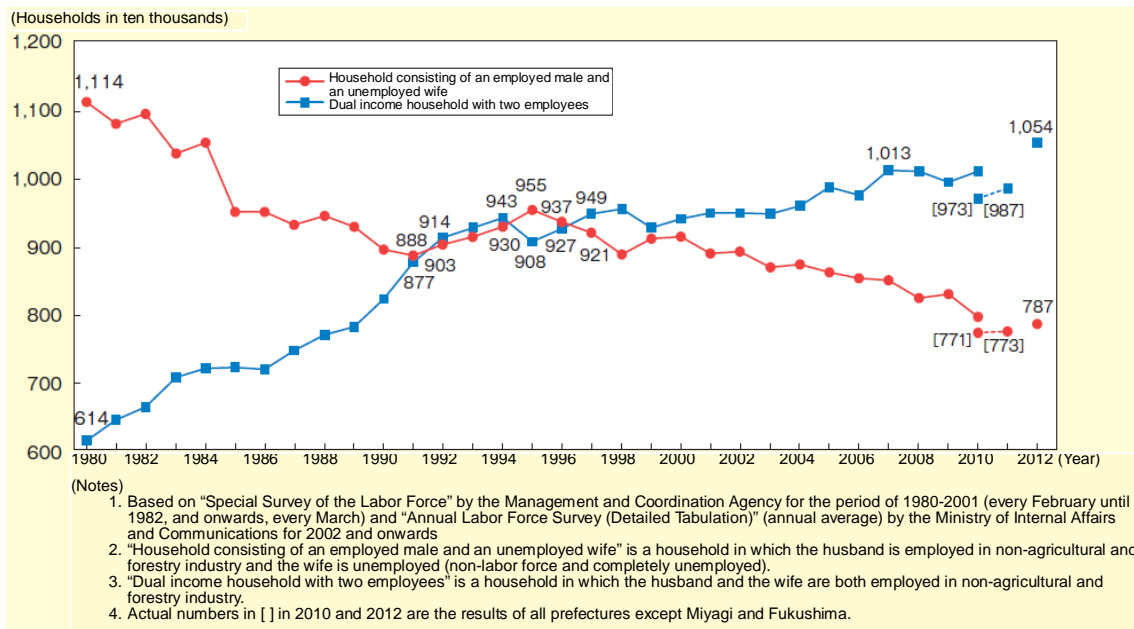
<sup>11</sup> Single-parent family means a single-mother family or a single-father family.

**Figure 1: Trends in live births and total fertility rates**



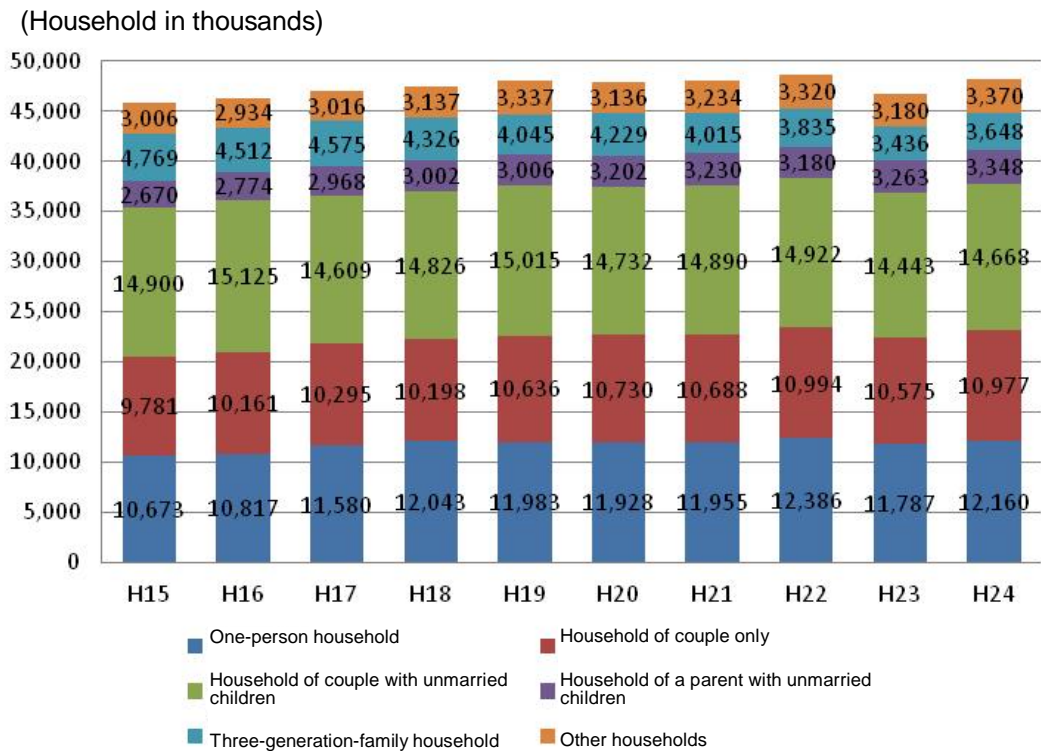
[Source] "White Paper on Society of Declining Birthrate 2013" by the Cabinet Office

**Figure 2: Trends in the number of dual income households**



[Source] "White Paper on Gender Equality 2013" by the Cabinet Office

**Figure 3: Trends in number of households by structure of household**



(Note) The figures of 2011 exclude the number of households of Iwate, Miyagi, and Fukushima prefectures, and the figures of 2012 exclude the number of households of Fukushima prefecture.

[Source] Based on “Summary Report of Comprehensive Survey of Living Conditions” by the Ministry of Health, Labour and Welfare

## (2) Issue of children on waiting lists

At present, the number of daycare centers falls short of demand, especially in large cities and places at which to leave children cannot be ensured, making the issue of children awaiting places a major social problem. For instance, there were some cases where guardians appealed pursuant to the Administrative Complaint Review Act (Act No. 160 of 1962) because they could not leave their children at daycare centers.

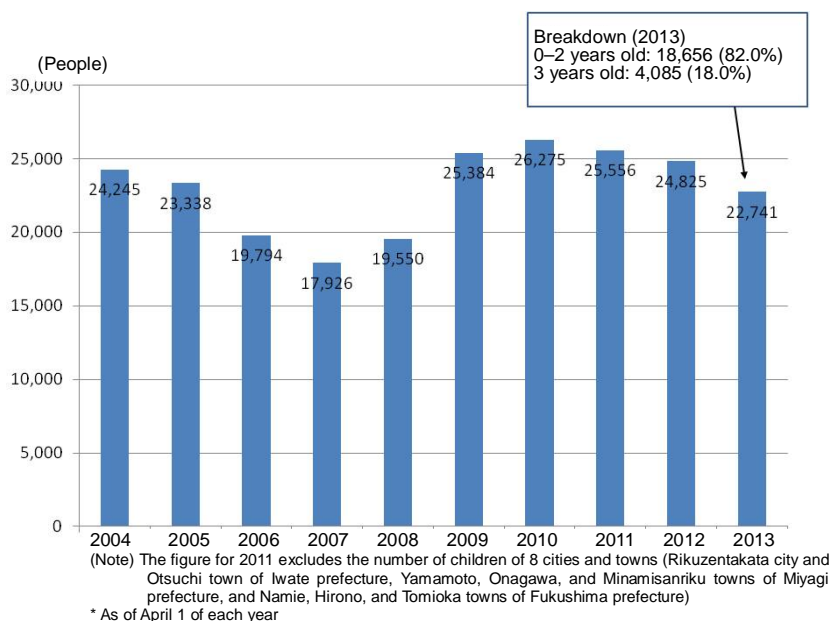
“Children on waiting lists” are “children who are subject to the application made by their guardians for childcare services and have not yet been provided any childcare services.”<sup>12</sup>

The number of children on waiting lists is reported to be 22,741 across the country as of April 1, 2013. Among this number, 3,035 were 0 years old, 15,621 were 1 and 2 years old, and 4,085 were 3 years old or older, which means 82.0% of children are very young, aged

<sup>12</sup> Child Welfare Act, Enforcement Ordinance (Ordinance of the Ministry of Health and Welfare No. 11 of 1948), Article 40. A public notice from the chief of the Equal Employment, Children and Families Bureau, the Ministry of Health, Labour and Welfare, “Municipal daycare plan pursuant to the provisions in the Child Welfare Act” (KOJIHATSU, No. 0822008, August 22, 2003) stated points to be considered regarding determination of whether the claimed child falls in the category of “children on waiting list” or not.

0–2.<sup>13</sup> According to the trends in the number of children on waiting lists for the past decade, it has been almost hovering around the 20,000 level, although there is an increase or decrease.

**Figure 4: Trend in the number of children on waiting lists**



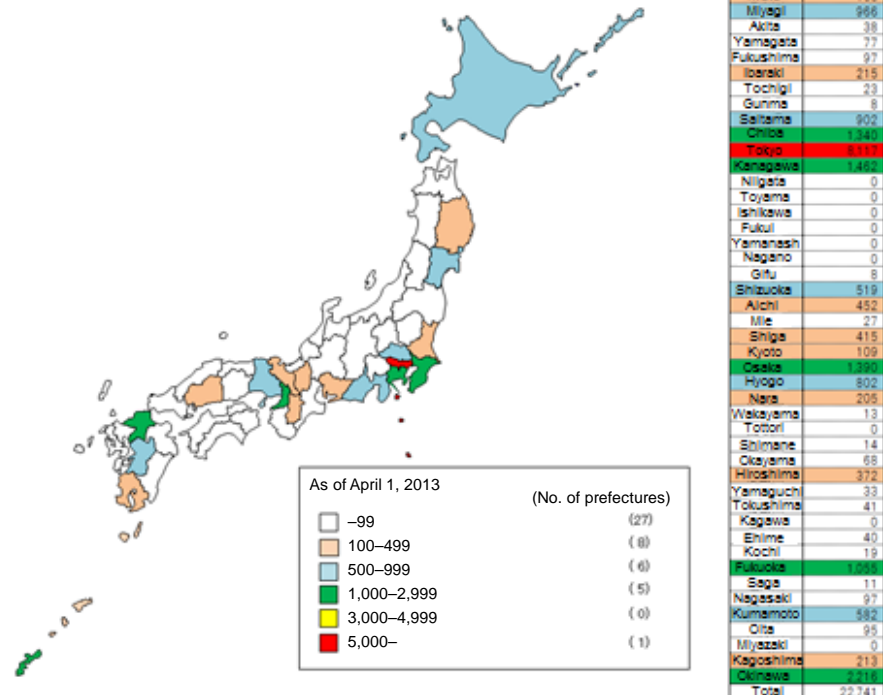
[Source] Based on “Summary of Day Care Statistics (April 1, 2013)” by the Ministry of Health, Labour and

Welfare

<sup>13</sup> “Summary of Day Care Statistics (April 1, 2013)” by the Ministry of Health, Labour and Welfare

**Figure 5: The number of children on waiting lists by prefecture**

Map of children on waiting lists in Japan (by prefecture)  
(April 1, 2013)



Note: Each prefecture includes ordinance-designated cities and core cities.

[Source] "Summary of Day Care Statistics (April 1, 2013)" by the Ministry of Health, Labour and Welfare

It is specified that a local municipality shall develop a Daycare Plan if there are 50 or more children on waiting lists in the municipality (Child Welfare Act (Act No. 164 of 1947) Article 56-8, paragraph (1), Enforcement Ordinance of the Child Welfare Act Article 40).<sup>14</sup> The purpose of a Daycare Plan is to ensure a supply system for childcare services, and it is required to identify needs for childcare services quantitatively and qualitatively, and set up specific targets to resolve the issues of children on a waiting list considering the supply infrastructure utilizing private operators.<sup>15</sup> Although contents of Daycare Plans varied among municipalities, some target figures, such as for the capacity of a daycare center and the number of daycare centers, are specified. As of April 2013, the number of municipalities that have Daycare Plans, that is, municipalities with 50 or more children on

<sup>14</sup> With the rapid decline of the birthrate, providing support for child-rearing for every family with children to take care of and developing an environment that makes child-rearing easier are pressing issues. Under the circumstances, this was added at the time of the amendment in 2003 with the purpose of enhancing support for child-rearing at the regional level.

<sup>15</sup> Public notice in Note エラー! ブックマークが定義されていません。 .

waiting lists, is 101.<sup>16</sup>

However, it is pointed out the currently recognized number of children on waiting lists is not showing actual demand for admission for daycare centers. First, there is some doubt about the definition of children on waiting lists. At the moment, the recognition of children on waiting lists does not consider children who are given childcare services through independent childcare measures<sup>17</sup> by municipalities and the cases where guardians gave up applying for admission into daycare centers. Second, there exist some differences among municipalities in terms of the recognition of children on waiting lists. For instance, while children in families where guardians are on childcare leave or seeking jobs are counted as children on waiting lists in some municipalities, they are not in other municipalities.

## 2. Changes in Systems<sup>18</sup>

First, changes in systems until today are outlined to deepen the understanding of the current system in the childcare sector.

### (1) Pre- and post-World War II

#### A. Welfare system before pre-World War II

Before World War II, the major providers of childcare services were a number of non-governmental social services organizations operated by benefactors and volunteers. This was because the targets of governmental welfare services at that time were mainly people who had no relatives and/or low-income people and non-governmental social services organization used to take a supplemental role to governmental organizations. Under such circumstances, in 1938, the Social Service Act (Act No. 59 of 1938) was legislated to provide tax advantages and subsidies to private social service businesses, including businesses to relieve the poor, homes for old people, and nurseries, with the purpose to prevent the upsurge of such facilities and the emergence of inadequate facilities.

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<sup>16</sup> Same as Note エラー! ブックマークが定義されていません。 .

<sup>17</sup> Here, independent childcare measures mean non-registered childcare facilities that are provided subsidies and the like on the condition of meeting standards set by municipalities regarding facilities and staff.

<sup>18</sup> This section is based on “Fifty Years’ History, Ministry of Health and Welfare,” “Fifty Years’ History of Child Welfare,” “White Paper on Health and Welfare 1999,” “White Paper on Health and Welfare 2000,” “Annual Reports on Health and Welfare 2001,” “Annual Reports on Health and Welfare 2013,” and “White Paper on Society of Declining Birthrate 2013.”

## B. Establishment of Child Welfare Act

After World War II, Japan suffered from a significant rise in the number of children with problematic behavior, as the number of children who lost their parents increased due to the war and other reasons, also reflecting the then social conditions. In addition, there was a shortage of daycare centers for working women, while the infant mortality rate was high due to the inferior hygienic environment and malnutrition among pregnant women and infants. To deal with such problems, the Child Welfare Act was enacted in 1947 with the intent to provide sufficient aid to children and actively expand the welfare of children. As a result, the government and municipalities are required to develop systems and facilities for childcare and welfare aiming not only to provide aid to children who need care but also to realize sound development of children in general who are the future leaders of society and promote child welfare in a positive manner. It was also required for municipalities to make arrangements (administrative actions) for infants' admission into daycare centers under public expense.

## C. Establishment of Social Welfare Services Act

The Social Service Act enacted in 1938 was no longer enforced since it could not adjust itself to drastic changes of postwar social conditions and the basic direction of social welfare administration was set out in separate laws, such as the Child Welfare Act. The Social Welfare Services Act (Act No. 45 of 1951) was thus legislated in 1951, responding to the growth of demand for the systemization of social welfare legislations by enacting a law to provide basic points common to all sectors related to social welfare services, instead of the Social Service Act. The establishment of the Social Welfare Services Act then led to the development of the social welfare corporation system, while defining the basic points common to all areas providing social welfare services. Since then, social welfare corporations have been playing a central role as providers and operating bodies of daycare centers.

In the Social Welfare Services Act, social welfare services are classified into two types: Type 1 and Type 2. Administrators of social welfare services of Type 1 are in principle limited to the national and local governments and social welfare corporations, since those social welfare services “highly require reliable and fair operations and their impact is large from the aspect of human rights protection of users when fairness is absent in their operations.” According to the Social Welfare Services Act, on the other hand, there is no limitation for administrators of Type 2 social welfare services, because such services are considered to be “services with low necessity of public regulation, as self-initiative and innovation should be promoted and there are relatively

small possibilities of harmful effect upon delivery of such services.”<sup>19</sup> Daycare centers are categorized into Type 2 social welfare services.<sup>20</sup>

(2) Changes in social conditions during the economic growth period

During the period between 1955 and 1965, as industrialization encouraged the concentration of population in urban areas, the childcare function of family weakened due to the growing number of nuclear families and the increase of households in which both husband and wife worked. Furthermore, the demand for daycare centers grew from 1965 to 1975 when an increasing number of married women advanced into the workplace as a result of high economic growth and the second baby boom<sup>21</sup> struck. During this period, however, drastic amendment of the Child Welfare Act was never considered, although more people came to ask for the enhancement of childrearing support and flexible operation of daycare centers.

(3) System reforms after 1989

A. Revision of Child Welfare Act in 1997 (introduction of the selective utilization system)

“Appropriate childcare system

“Appropriate childcare system for a society with decreasing birthrate (Interim Report)” published in December 1996 (Central Child Welfare Council Fundamental Issues Sub-Committee, December 3, 1996) pointed out that “while households in which both husband and wife work became common and ... needs for childcare continue to diversify, there is a growing need for sound upbringing services for children without guardians after school,” and urged the “re-development of a childcare system aiming to provide a quality environment that enables childrearing suitable to a new era.” The Interim Report also stated that “daycare centers have a huge influence on the growth of children is huge,” therefore suggesting the necessity of “developing a system in which users are provided with enough information on contents and types of childcare services of daycare centers and can choose daycare centers and services based on such information in order to ensure the best interests of children.”

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<sup>19</sup> See material documents from the first meeting of “Commission on Status of Social Welfare Corporations” (September 27, 2013) by the Ministry of Health, Labour and Welfare. However, there are cases where some corporations are not certified as providers of social welfare services pursuant to specific statutes, and administrators of daycare centers were limited to the national and local governments and social welfare corporations until the amendment of (3)C by the notice in 2000.

<sup>20</sup> At present, Type 1 social welfare services include operational services of infant homes, foster homes, and special nursing homes for the elderly. Included in Type 2 social welfare services are home help services and day services for the elderly, apart from operational services of daycare centers.

<sup>21</sup> The second baby boom occurred under the condition in which people who were born during the war as well as Japan's so-called post-war baby boomers (born between 1947 and 1949) reached child-bearing age.



Based on the above, the drastic amendment of the Child Welfare Act was implemented in 1997 for the first time since the legislation of the Act. By this amendment, the old system was abolished where municipalities made arrangements (administrative actions) for applicants hoping to get admission into daycare centers, and the current system (selective utilization system) was introduced in order to allow guardians of children to apply to municipalities for admission into multiple daycare centers they choose. The revised Act also makes it obligatory for municipalities to provide information necessary for users when choosing daycare centers. In addition, daycare centers are imposed a duty to provide information on their respective childcare services to residents in the areas where the relevant daycare centers are located.

#### B. Revision of Social Welfare Services Act in 2000

“Reform of social welfare fundamental structure (Interim Report)” published in June 1998 (Central Social Welfare Council’s Study Group on Structural Reform, June 17, 1998) suggested the necessity of enhancing the social welfare system by carrying out drastic reform, as it became impossible for the existing social welfare system to deal with the increasing demand for providing all the people of the nation with support to realize their stable lives in time of the declining birthrate and aging population and the changing functionalities of family. In the interim report, some principles of reform were advocated. One was to “promote entry of diverse service providers, while considering their characteristics and roles, in order to respond to a wide range of demand from users.” Others were to “encourage the improvement of expertise of people engaged in social welfare activities and the disclosure of information on services from the aspect of service contents and cost burden instead of strengthening governmental restrictions in order to obtain the people’s trust and understanding” and to “encourage the improvement of quality and efficiency of services through the utilization of market mechanisms, including the promotion of fair competition by providing options to users.”

According to these ideas, the Social Welfare Services Act was amended and its name changed to the Social Welfare Act in June 2000 in order to deal with the demand from the public for social welfare that is expected to further grow and diversify. As a result, the common basic social welfare system for social welfare services and social welfare corporations was reformed. By this amendment, a new system was developed by abolishing the old system in which municipalities determined service contents through administrative actions for different social welfare services. In the new system, users can choose and utilize social welfare services in equal relations with operators. In addition, based on the fact that social welfare corporations were required to improve

the quality of their services through, for instance, self-evaluation, it was decided that fair and neutral third-party organizations should execute third-party evaluations of various social welfare services to assess quality of such services from an objective and professional standpoint.

#### C. Revision of Notice in 2000 (Expansion of entities establishing daycare centers)

Originally, in the case of private individuals, only social welfare corporations could found daycare centers<sup>22</sup>, as specified in the public notice from the chief of the Children's Bureau of the Ministry of Health & Welfare.<sup>23</sup> However, at this time, it was required to consider the entry of private enterprises into the market of welfare services for childcare as a part of reviewing activities for social welfare services from the aspect of regulatory reform. Specifically, the necessity of the entry of private enterprises was pointed out in "Three-Year Program for the Promotion of Deregulation" (Cabinet approval on March 31, 1998), "Three-Year Program for the Promotion of Deregulation (Revised)" (Cabinet approval on March 30, 1999), "Arguments regarding Regulatory Reform" (July 30, 1999, Administrative Reform Promotion Headquarters, Regulatory Reform Committee), and so forth.

Regarding this issue, "Basic Policy for Prevention of the Declining Birth Rate," decided at the meeting of relevant cabinet ministers on the prevention of a declining birthrate, provided that it was necessary to take measures such as "the development of childcare services responding to a wide range of demand from users" in order to create a Japanese society in which people have dreams and hopes for families and child rearing in Japan in the 21st century. Furthermore, in order to promote the prioritized measures mentioned in the "Basic Policy for Prevention of the Declining Birth Rate" in a more specific and planned manner, a "Specific Implementation Plan for Prevention of the Decline in Birthrate" (New Angel Plan) was developed on December 19, 1999 (6-ministers agreement among Finance, Education, Welfare, Labour, Construction, and Home Affairs Ministries), and it was provided that measures should be taken to reduce children on waiting lists, for example, by "relaxing the regulations, such as the removal of restrictions on entities establishing daycare centers."

Based on this agreement, the aforementioned notice to limit daycare center establishers was repealed "in order to make it easy to build registered daycare centers that meet the minimum requirements and so that local public agencies can tackle

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<sup>22</sup> In this notice, it was stated that "the establishment and operation of daycare centers run by private individuals shall be limited to social welfare corporations in order to ensure public nature, genuineness, and continuance of childcare services and to promote sound development of the services."

<sup>23</sup> Notice from the chief of the Children's Bureau of the Ministry of Health & Welfare, "Approval of establishing daycare center" (JIHATSU, No. 271, March 19, 1963).

issues of reducing children on waiting lists in a flexible manner. In turn, a new notice<sup>24</sup> was issued, which allowed a wide range of entities to establish daycare centers. This new notice allows a variety of bodies, such as stock companies, to found daycare centers.<sup>25</sup>

(4) Enactment of three new child-rearing-related legislations (establishment of the new system)

Although a number of measures were taken to support child rearing including the above measures, the environment surrounding child rearing was still grim and there were still feelings of anxiety and isolation for child rearing due to the changes in family structure, the reduced intimacy in family and community, and occurrence of children on waiting lists in urban areas. As a result, it came to be inevitable to develop a new framework for supporting child rearing in the entire society to provide assistance to people who hope to give birth to and raise children. It was also pointed out that providing quality child education and childcare services in a comprehensive manner was highly important according to the needs in communities, as childhood education and child rearing were crucial for the formation of the basis for lifelong personality development.

Responding to such social demand from society, in January 2010, the Outline of Measures for Society with Decreasing Birthrate (“Vision for Child and Childcare”) (Cabinet approval on January 29, 2010) was laid down based on the Basic Law on Measures for Society with Decreasing Birthrate and target measures and numerical targets for the five years between 2010 and 2014 with the aim of creating a society supporting children and childcare. In the Outline of Measures for Society with Decreasing Birthrate, it is specified that the idea of “children first” is confirmed and that the promoting of “support for children and childcare” and “work–life balance” is necessary to achieve “measures against the declining birthrate.” Moreover, in the integrated reform of the social security and tax systems, it was determined to allow tax, which is a major financial resource necessary for social security, to be allocated to four social security expenditures including childcare (pension, medical care, nursing, and child rearing) instead of the former three expenditures for the elderly (basic pension, eldercare, and nursing). In August 2012, three new child-rearing-related legislations were enacted as a comprehensive and unified

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<sup>24</sup> Public notice from the chief of the Children and Families Bureau of the Ministry of Health & Welfare, “Approval of establishing daycare center” (JIHATSU, No. 295, March 30, 2000).

<sup>25</sup> In addition, with the aim of solving the issue of children on waiting lists, the amendment of the Child Welfare Act in 2001 added a new provision to say that “municipalities receiving more demand for childcare shall proactively take measures necessary including making loans of public assets (public property provided by local autonomy law No. 238, Paragraph 238, Item (1)) and shall found and operate childcare centers by utilizing capabilities of various operators, such as social welfare corporations, in order to increase the supply of childcare services in an efficient and planned manner” (Article 56-7).

system to support child rearing of new next generation. These legislations are expected to respond to needs in the childcare sector.

In addition, the new system encourages promoting school education and childcare of infants and support children and childcare in communities in a comprehensive manner based on the basic recognition that guardians bear primary responsibility for childcare. More specifically, the new system was designed to realize the following points:

- (1) Integration of the benefit systems by creating “facility-type benefits” or common benefits across certified children’s centers, kindergartens, and daycare centers. Before this system, different financial measures had been taken separately under the school education system and the welfare system.
- (2) Setting up of “community-based daycare benefits” targeting various types of daycare services responding to diverse needs in each community.
- (3) Enhancing the transparency of the framework for daycare services by improving the certification system for relevant facilities, such as daycare centers.
- (4) Municipalities formulate a “municipality’s implementation plan for supporting child and childcare” in order to enrich support for childcare in a diversified manner according to local needs, targeting all households including households with children who need daycare services. Based on the plan, financial support is increased for user support services, such as the provision of information and advice so that guardians can utilize education, daycare, and childcare services offered in their own communities smoothly.

### 3. Outline of the system

The following is the outline of the current and new systems regarding childcare facilities, such as daycare centers.

#### (1) Daycare center

##### A. Outline of daycare center under the current system

##### (a) Position of daycare center

Article 24, paragraph (1) of the Child Welfare Act states that in the case where a guardian cannot take care of his/her children due to working, illness, or any other reasons (“lack in daycare” of an infant), “a municipal government shall, when the guardian applies, provide daycare to those children in a nursery center.” Municipalities therefore are required to provide daycare services by themselves by setting up daycare centers<sup>26</sup> or by consigning those services to daycare centers

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<sup>26</sup> Some of such centers are built by municipalities but operated by social welfare corporations or stock companies, etc. (so-called “public build and private operate”) under the Designated Manager System set forth in the Local Autonomy Act (Act No. 67 of 1947).

(private daycare centers) established by child welfare institutions such as social welfare corporations and stock companies, etc. with the prefectural governor's approval.<sup>27</sup>

Daycare centers are facilities “intended for providing daycare to infants or toddlers<sup>28</sup> lacking daycare based on entrustment from their guardians on a daily basis” (Article 39, paragraph (1) of the Child Welfare Act), and need to satisfy certain standards, including facility area, the number of nursery teachers, and cooking room. The capacity of a daycare center is 60 or more in principle.<sup>29</sup> In certain cases, however, establishing small daycare centers with a capacity of 20 or more is admitted.<sup>30</sup> Subjects of daycare services are children aged zero and older up to elementary school age, and in principle, the length of daycare is 8 hours per day with 11 hours per day as operational hours.<sup>31</sup>

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<sup>27</sup> エラー! ブックマークが定義されていません。 See the public notice in Note (エラー! ブックマークが定義されていません。) for the approval for establishing daycare centers. Regarding the application of building daycare centers from individuals or organizations other than social welfare corporations, the notice specifies some conditions for approval, such as criteria for permission.

<sup>28</sup> According to the Child Welfare Act, “infant” means person under one year of age (Article 4, paragraph 1, item 1) and “toddler” means person of one year of age or more before the time of commencement of elementary school Article 4, paragraph 1, item 2).

<sup>29</sup> エラー! ブックマークが定義されていません。 Public notice in Note エラー! ブックマークが定義されていません。 .

<sup>30</sup> Public notice from the chief of the Children and Families Bureau of the Ministry of Health & Welfare, “Approval of establishing small daycare center” (JIHATSU, No. 296, March 30, 2000).

<sup>31</sup> “Guideline for daycare at daycare centers” (The Ministry of Health, Labour and Welfare Ministerial Notification No. 141, March 28, 2008).

(b) Utilization procedure for daycare centers

When guardians need to utilize any daycare center(s), they make applications to relevant municipalities presenting their working conditions and daycare center(s) they wish. Based on such applications, municipalities decide if subject children “lack in daycare,” provide admission into daycare centers considering wishes of guardians, and sign up with the guardians. When the number of applicants exceeds the capacity of a daycare center, it is common to select from those applicants, for instance, by rating the existence of brothers or sisters of the relevant children and the possibility of support in childcare from their relatives.<sup>32</sup> When the children are not admitted to enter any daycare centers, they are regarded as on hold or “on waiting list.” In such a case, guardians usually utilize non-registered childcare facilities or family-style daycare services (so-called “childcare givers”)<sup>33</sup> or extend their childcare leaves while waiting for admission into daycare centers.<sup>34</sup>

Guardians pay daycare fees (borne by users) to municipalities. The amount of daycare fees is decided by municipalities according to guardians’ status, such as household income based on the base amount provided by the government. Some municipalities set the amount of daycare fees less than the base amount provided by the government so as to mitigate the burden to guardians.

In the case where municipalities consign childcare services to private daycare centers, municipalities pay the daycare centers operational expenses as commission fees depending on, for example, the number of children registered at the daycare center. Operational expenses of such daycare centers are financially supported by daycare fees paid to municipalities by guardians and public share. The ratio of user charge and public share as a whole is about 4:6. Public share is resourced from the government (50%), prefectures (25%), and municipalities (25%).<sup>35</sup>

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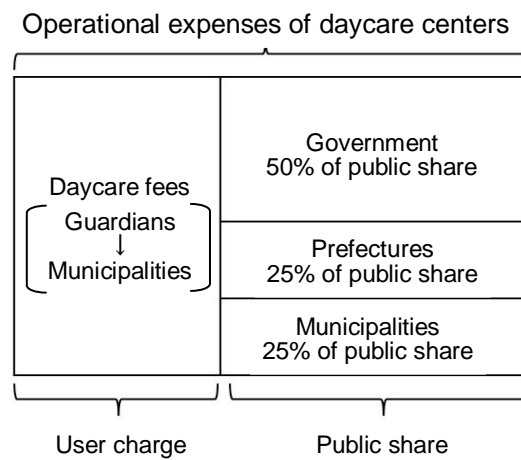
<sup>32</sup> See materials for 11th meeting of “the Council for Children and Childrearing” and 12th meeting (joint session) of “Study Group on Criteria for the Council for Children and Childrearing” (January 15, 2014).

<sup>33</sup> See pages 21 and 22 regarding this.

<sup>34</sup> エラー! ブックマークが定義されていません。As explained on page 9, the children receiving childcare services from some non-registered childcare facilities or family childcare service providers while waiting for admission are not regarded as “children on waiting lists” in the public notice from the Ministry of Health, Labour and Welfare (Note エラー! ブックマークが定義されていません。).

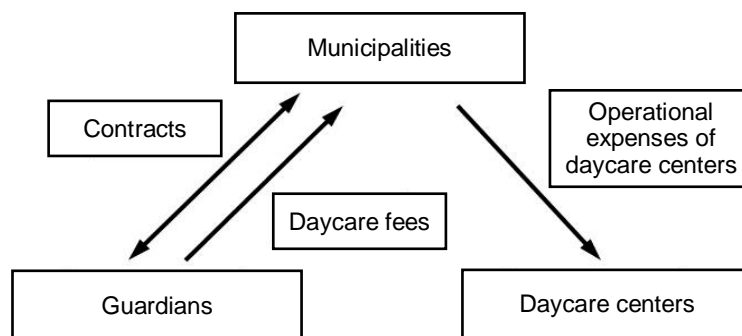
<sup>35</sup> The base amount of daycare fees and public share of operational expenses of daycare centers are described in the public notice from the Minister’s Secretariat of the Ministry of Health, Labour and Welfare, “Government Financial Contribution to Operational Expenditure of Daycare Centers based on the Child Welfare Act” (HATSUJI, No. 59-2, April 16, 1976).

**Figure 6: Structure of financial resources for operational expenses of daycare centers**



[Source] Based on meeting materials of the Council for Children and Childrearing

**Figure 7: Expense-sharing mechanism under the current system**

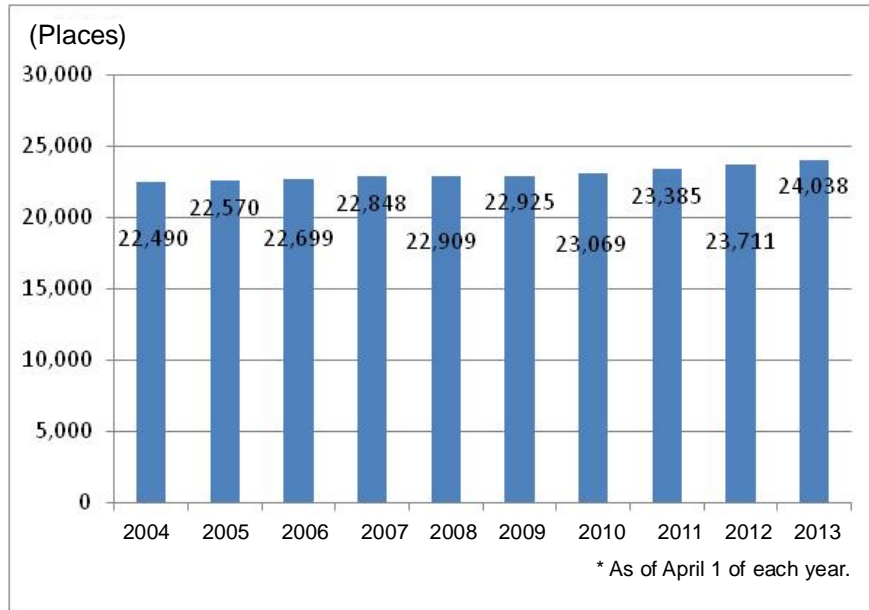


[Source] Based on meeting materials of the Council for Children and Childrearing

As of April 2013, the number of daycare centers is 24,038 and that of children using daycare centers is 2,219,581 (accounts for 35% of the total number of preschool children).<sup>36</sup> While the birthrate has been declining, the number of users of daycare centers is growing due to the increasing in the number of dual income households.

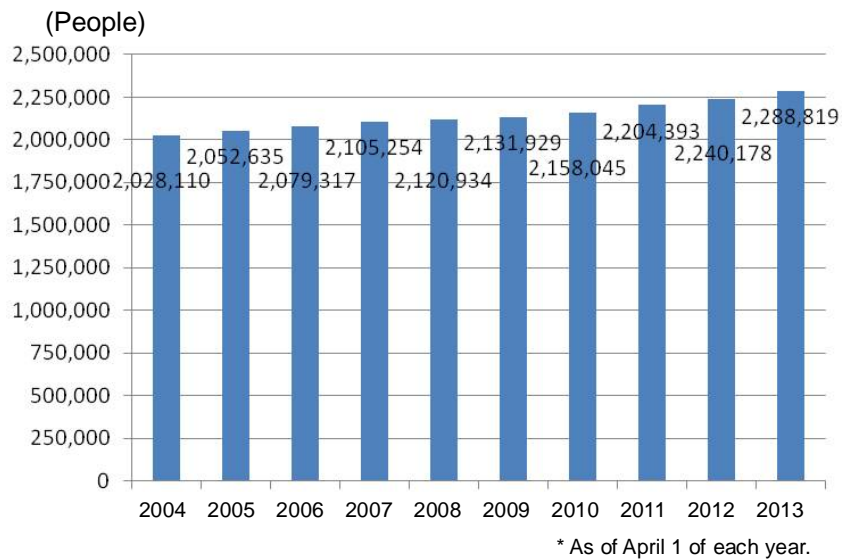
<sup>36</sup> エラー! ブックマークが定義されていません。 Same as Note エラー! ブックマークが定義されていません。 .

**Figure 8: Trend in the number of daycare centers**



[Source] Based on "Summary of Day Care Statistics (April 1, 2013)" by the Ministry of Health, Labour and Welfare

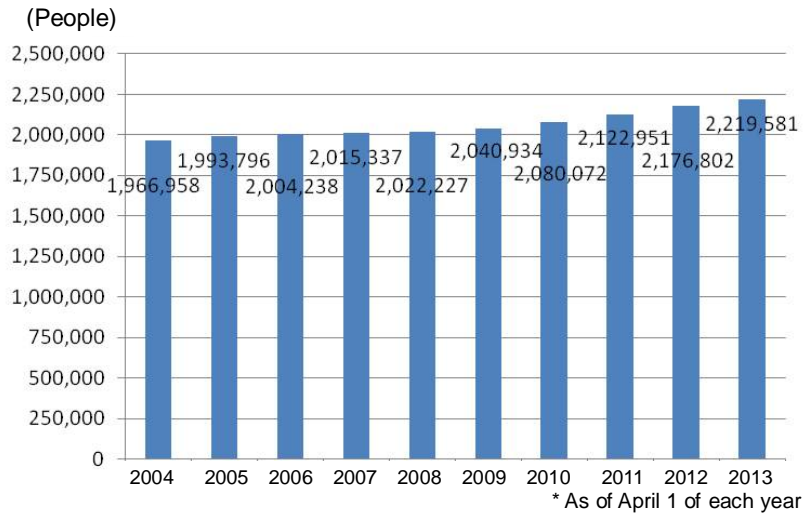
**Figure 9: Trend in the capacity of daycare centers**



[Source] Based on "Summary of Day Care Statistics (April 1, 2013)" by the Ministry of Health, Labour and Welfare



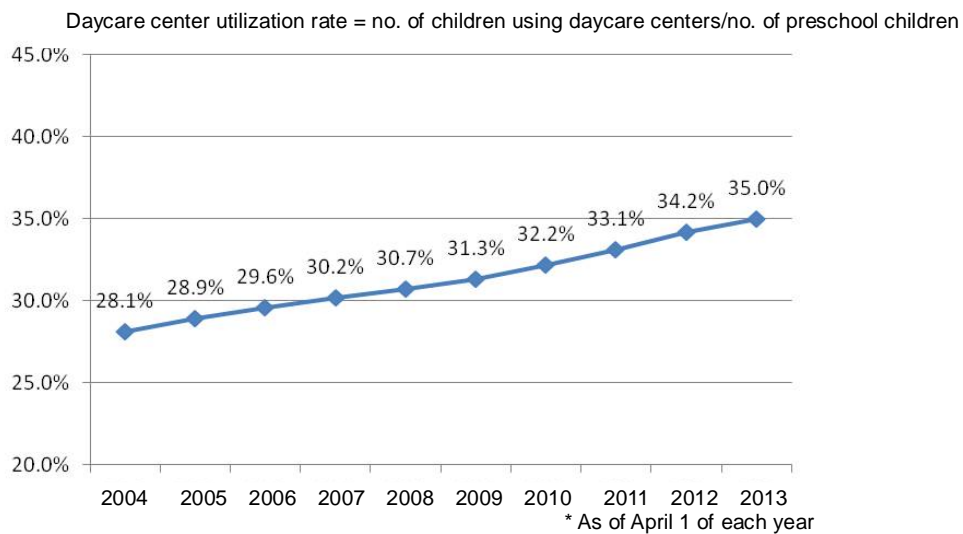
**Figure 10: Trend in the number of children using daycare centers**



(Note) The figure for 2011 excludes the number of children using daycare centers of 8 cities and towns (Rikuzentakata city and Otsuchi town of Iwate prefecture, Yamamoto, Onagawa, and Minamisanriku towns of Miyagi prefecture, and Namie, Hirono, and Tomioka towns of Fukushima prefecture)

[Source] Based on "Summary of Day Care Statistics (April 1, 2013)" by the Ministry of Health, Labour and Welfare

**Figure 11: Trend in the daycare center utilization rate**



[Source] Based on "Summary of Day Care Statistics (April 1, 2013)" by the Ministry of Health, Labour and Welfare

## B. Outline of daycare center under the new system

### (a) Position of daycare center

In the new system, daycare centers are required to provide childcare services to children who are under their custody and need to receive childcare services from daycare centers because of working or illness of guardians or other reasons. In

addition, daycare centers should take measures to ensure childcare services for children who are in need of such services, for instance, through certified children's centers and family-style daycare services (Article 24 of the Child Welfare Act (hereinafter "the revised Child Welfare Act") revised according to the Act for Establishment of Laws and Regulations Related to the Act for Enforcement of Act to Partially Amend the Act on Children and Childrearing Support and the Act on Advancement of Comprehensive Service Related to Education, Child Care, etc. of Preschool Children). In order to realize this idea of providing childcare services to every child, all municipalities are obliged to formulate a municipality's implementation plan for supporting children and childrearing and to carry out planned development of childcare facilities (Act on Children and Childrearing Support, Article 61, paragraph (1)).<sup>37</sup>

In the revised Act, a daycare center is defined as "a facility intended for having infants or toddlers requiring daycare commute from their guardians and providing them daycare on a daily basis" and it is specified that the fixed number of persons that utilize such a facility is 20 or more (the revised Child Welfare Act, Article 39, paragraph (1)).

(b) Utilization procedure for daycare centers<sup>38</sup>

a. Public daycare centers

To utilize daycare centers, guardians are required to obtain approvals from municipalities regarding the necessity of childcare services for their children based on working conditions of the guardians, etc., and indicate daycare centers they wish to obtain admissions for and make applications to municipalities.<sup>39</sup> Receiving such applications, municipalities make arrangements for utilization of daycare centers considering guardians' wishes. In the case of public daycare centers, guardians and daycare centers contract with each other directly to accept their children. At this time, daycare centers are imposed to accept the applicants unless there are any justifiable grounds, such as exceeding the capacity. Guardians pay

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<sup>37</sup> A municipality's implementation plan for supporting child and childcare should include the total of the necessary fixed number of persons that utilize specified education and childcare facilities and measures to secure systems to deal with the numbers for each fiscal year by each education and childcare providing area that is specified by comprehensively taking into consideration geographical conditions, population, transportation, other social conditions, status of facility conditions for providing education and childcare services, and other conditions (hereinafter "education and childcare providing area").

<sup>38</sup> While this section particularly focuses on daycare centers, the amendment was actually done for all facilities and projects for children in need of childcare, such as certified children's centers and family childcare service providers, and the statement regarding formalities of contract and benefits (limited to the statement for public daycare centers) covers all facilities and projects.

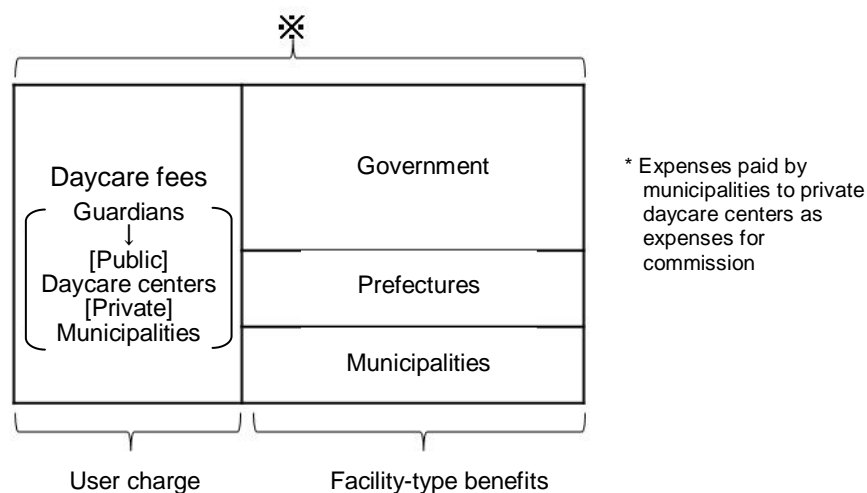
<sup>39</sup> Guardians can apply for both approval of the necessity of childcare and for admission into daycare centers at the same time.

daycare fees directly to daycare centers. Daycare centers also receive facility-type benefits from municipalities as a resource that can be used for the implementation of childcare services. Although the facility-type benefits are regarded as individual benefits, daycare centers receive such benefits on behalf of guardians (statutory substitute reception) to make sure that the benefits are spent on childcare services.<sup>40</sup>

b. Private daycare centers

Application procedures for private daycare centers are almost the same as those for public daycare centers, but contracts are between guardians and municipalities as in the current system and daycare fees are paid to municipalities. Furthermore, expenses for childcare services are, as in the current system, paid to private daycare centers from municipalities as expenses for commission but not as facility-type benefits.

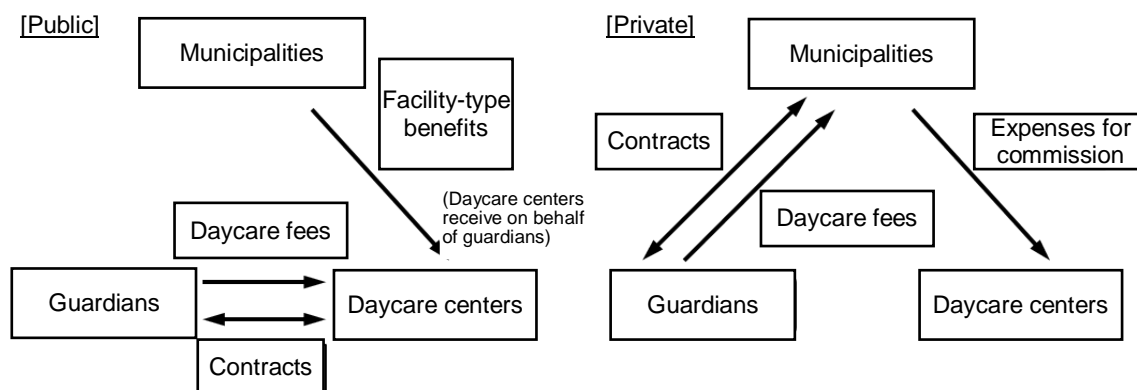
**Figure 12: Daycare fees and facility-type benefits in the new system**



[Source] Based on meeting materials of the Council for Children and Childrearing

**Figure 13: Expense-sharing mechanism under the new system**

<sup>40</sup> See materials for 14th meeting of “Child and Childcare Conference” and 18th meeting (joint session) of “Study Group on Criteria for Child and Childcare Conference” (March 28, 2014).



[Source] Based on meeting materials of the Council for Children and Childrearing

## (2) Childcare facilities other than daycare centers

### A. Certified children's centers

Amongst kindergartens and daycare centers, certified children's centers perform functions of providing child education and childcare and supporting childcare in communities with the prefectural governor's approval in accordance with the Act on Advancement of Comprehensive Service Related to Education, Child Care, etc. of Preschool Children (Act No. 77 of 2006, hereinafter "Act on Certified Child Care Centers") that came into effect in October 2006. Certified children's centers are divided into four types: kindergarten and daycare center cooperation, kindergarten, daycare center, and local discretion. Users of certified children's centers directly contract with the certified children's centers and pay fees set by the centers. As of April 2014, the number of certified children's centers is 1,359.<sup>41</sup>

Under the current system, kindergartens and daycare centers of the kindergarten and daycare center cooperation type are based on different laws for approval, given guidance and supervision by different agencies, and applied separate financial measures respectively.<sup>42</sup> On the other hand, in the new system, such kindergartens and daycare centers are covered by a single certification system based on the Act on Certified Child Care Centers, while guidance and supervision providers and financial measures (facility-type benefits) are also unified. Facilities of certified children's centers of other types remain the same but financial measures are unified through facility-type benefits.

<sup>41</sup> "The number of certifications regarding certified children's centers as of April 2014" by the Office for Advancing Kindergarten and Day Care Center Cooperation, Ministry of Education, Culture, Sports, Science and Technology and Ministry of Health, Labour and Welfare.

<sup>42</sup> Kindergartens need to be certified in accordance with the School Education Act, while daycare centers come under the Child Welfare Act. Guidance and supervision as well as financial measures are given and taken separately to kindergartens and daycare centers.

## B. Non-registered childcare facilities

Childcare facilities intended to provide childcare services to children without the prefectural governor's approval based on the Child Welfare Act are collectively called non-registered childcare facilities and are required to notify the prefectural governor on certain matters (the Child Welfare Act, Article 59, paragraph (1)). Non-registered childcare facilities contract directly with users and daycare fees are set by each facility. Types of non-registered childcare facilities are varied depending on service contents, receiving or not receiving subsidies from public funds and their amount, etc. Some of them are, for instance, institutions subsidized for operational expenses by satisfying criteria set by municipalities (e.g., approval criteria), childcare facilities within companies intended to provide childcare services to children of workers employed by business operators, etc., and baby hotels taking charge of children in the evening. These institutions are mainly used to care for children who are not admitted into daycare centers or those of guardians who work outside operating hours of ordinary daycare centers.

In the new system, some non-registered childcare facilities are classified as community-based child and childcare support projects approved by municipalities and receive benefits from the public funds.<sup>43</sup>

Additionally, babysitters are regarded as home-based childcare services provided at residences of children's guardians, etc., although they are not non-registered childcare facilities.

## C. Family-style daycare services

Family-style daycare services (so-called "childcare givers") provide childcare services to children of different ages, particularly focusing on small children, at childcare providers' residences, etc. on a small scale. It is said that family-style daycare services was started by municipalities around 1960, and after 2010, family-style daycare services are considered to be childcare support projects specified in the Child Welfare Act (Article 6-3, paragraph (9) of the Child Welfare Act). Family-style daycare service providers are nursery teachers or approved by municipalities' governors that

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<sup>43</sup> For instance, childcare facilities within companies are newly defined in Article 6-3, paragraph (12) of the revised Child Welfare Act (employer-provided childcare support project) and receive community-based daycare benefits as community-based child and childcare support projects approved by municipalities (Article 34-15 of the revised Child Welfare Act, Article 7, paragraphs (5) and (9), and Article 29 of the Act on Children and Childrearing Support). In the new system, childcare facilities certified as community-based child and childcare projects or based on the Act on Certified Child Care Centers are not required to notify prefectural governors (Article 59-2 of the revised Child Welfare Act).

the providers have knowledge and experience equivalent to nursery teachers and finish trainings provided by municipalities. The number of children taken care of is three or less for a family-style daycare service provider. However, when there is/are any assistant(s) for the provider, the provider can accept up to five children. Nursing hours are in principle 8 hours per day.<sup>44</sup>

Under the new system, family-style daycare services are regarded as community-based child and childcare support projects approved by municipalities and receive benefits from the public funds.<sup>45</sup>

#### D. Kindergarten

Kindergartens are certified in accordance with the School Education Act (Act No. 26, 1947) and classified into the category of school. Kindergartens are classified into public institutions founded by the government or municipalities and private institutions founded by educational foundations, etc. The establishment of a private kindergarten requires approval from the prefectural governor (School Education Act, Article 4, paragraph (1), item (3)). When utilizing a kindergarten, a user should contract directly with the kindergarten, and pay daycare fees set by the kindergarten. As a subsidy for daycare fees, kindergarten enrollment incentive is granted to guardians. In addition, private kindergartens are provided financial aid for private schools (operating expense subsidy). Targets of kindergartens are children from aged 3 and older up to elementary school age and, in principle, the length of education and daycare is 4 hours per day.<sup>46</sup> As of May 2013, the number of kindergartens is 13,043 and the number of children using the facilities is 1,583,610.<sup>47</sup>

Under the new system, kindergartens have the following three options for benefits: (1) receiving facility-type benefits by becoming a certified children's center, (2) receiving facility-type benefits as a kindergarten, and (3) receiving the current financial aid for private schools as a kindergarten.<sup>48</sup> When choosing the options (1) and (2), kindergartens are granted facility-type benefits instead of the existing kindergarten

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<sup>44</sup> Public notice from the chief of the Equal Employment, Children and Families Bureau, the Ministry of Health, Labour and Welfare "Provision of Family childcare services" (KOJIHATSU, No. 1030-2, October 30, 2009).

<sup>45</sup> Article 34-15 of the revised Child Welfare Act, Article 7, paragraphs (5) and (6) and Article 29 of the Act on Children and Childrearing Support.

<sup>46</sup> According to "Fact-finding Survey on Early Childhood Education 2012" by the Ministry of Education, Culture, Sports, Science and Technology, 81.4% of kindergartens (public: 59.7%, private: 94.2%) are providing after-hours childcare services. However, the ratio of infants using such services four days or more in a week is just 10.6%.

<sup>47</sup> "Report on Basic Research on School 2013" by the Ministry of Education, Culture, Sports, Science and Technology.

<sup>48</sup> The existing private kindergartens receive facility-type benefits as kindergartens unless they make specific requests.

enrollment incentive and the financial aid for private schools.

#### 4. Trend Overseas<sup>49</sup>

This section overviews trends in overseas systems concerning the childcare sector.

##### (1) Sweden

In Sweden, public daycare centers used to take a principal position, but since 1992 when the system to grant public subsidies to private daycare centers was introduced, the number of private daycare centers, including stock companies, increased. As of 2010, the ratio of private daycare centers reached 19% (based on users of day-care centers). Most private facilities are run by profit-making businesses, which means the recent rise in the number of daycare centers is supported by profit-making businesses. Although private daycare centers receive funding from municipalities and are expected to satisfy the same basic criteria as the ones for public daycare centers by making contracts, they are not obliged to follow the standard curriculum presented by the government. All daycare centers are regularly audited, monitored, and evaluated by governmental agencies.

##### (2) Denmark

In Denmark, 70% of daycare facilities are operated by public community service providers, and the rest are run by private not-for-profit organizations. Few are utilizing daycare services provided by profit-making organizations. Since municipalities have a limitation in establishing daycare centers for children on waiting lists, as a flexible way, it was decided to allow profit-making organizations to enter the childcare sector, but on the condition that they cannot make profits from daycare services (making profits through additional services and other means is permitted). After that, the system was revised to encourage entry of profit-making organizations. As part of this revision, profit-making organizations came to be allowed to make profits through daycare services for companies and to decide daycare fees freely. Since 2007, all facilities are obliged to perform environmental evaluation of children (such as physical and psychological environment of

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<sup>49</sup> This section is based on “Starting Strong II: Early Childhood Education and Care” (OECD ed., Japanese translation, translated by Miwako Hoshi, Mikako Shuto, Yoko Yamato, and Mariko Ichimi), “Research Survey on Current Status and Trends of Early Childhood Education and Care in Overseas (*Shogaikokuni okeru yojikyoiku hoiku no genjo ya doko ni kansuru chosa kenkyu hokokusho*)” (The Japan Research Institute, Ltd.), “Consideration of Entry of Stock Companies into the Early Childhood Education and Childcare Sector: Based on Trends in Overseas (*Yojikyoiku hoikubunya heno kabushikigaisha sannnyuo kangaeru - shogaikoku no dokoo fumaete*)” (Mika Ikemoto), and “Childcare Markets” (ed. by Eva Lloyd and Helen Penn).

the facilities) and to disclose evaluation results online.

### (3) Australia

Daycare services have been provided mainly by not-for-profit organizations in Australia. However, the recognition of such services has changed and daycare services are now understood rather as services offered through the market mechanism. In 1991, the targets of the subsidies were expanded to profit-making organizations and the introduction of the market mechanism was promoted. The operating expense subsidies for not-for-profit services were abandoned in 1997, and the government expenditure is currently regarded as a provision for guardians but not for daycare service providers.<sup>50</sup>

### (4) New Zealand

In the late 1980s in New Zealand, the number of private daycare centers owned by stock companies, etc. increased, as a new system regarding subsidies was introduced. In the new system, any facility meeting certain criteria receives the subsidies irrespective of the form of entity establishing the facility. As of 2011, the number of private daycare centers run by stock companies, etc. is 1,940, and that of not-for-profit daycare centers is 2,543. These facilities are evaluated (educational assessment) every three years. If the evaluation results of a facility do not meet the required level, the Ministry of Education intervenes in the facility. All final reports are released online.

### (5) Norway

In Norway, profit-making corporations are allowed to enter the childcare sector and private daycare centers are significantly contributing to the recent increase of daycare centers. In 2004, it was legislated to grant subsidies, at the same level as public daycare centers, to private daycare centers, including stock companies. The survey on the quality of daycare services shows that there is not a big difference between public daycare centers and private daycare facilities.<sup>51</sup>

### (6) The United Kingdom

In the 1990s in the U.K., the capacity of daycare centers – mainly private ones – increased as the government made efforts to improve the number of daycare centers with the aim of increasing the female employment rate. As of 2011, 91% of daycare centers

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<sup>50</sup> However, the subsidies are granted directly to daycare facilities but not to guardians.

<sup>51</sup> “Undersøkelse om foreldres tilfredshet med barnehagetilbudet” TNS Gallup (2008) (Survey concerning parents' satisfaction with kindergartens).



are private and public daycare centers account for 8%.<sup>52</sup> Government agencies audit daycare centers in accordance with guidelines and reports on the audit results are published online. Furthermore, the Childcare Act 2006 specifies that service providers of daycare and education before pre-school education are, except those who do not meet certain conditions, obliged to register at the Office of Standards in Education and undergo audit. All results of audit are disclosed online.

#### (7) The United States

In the United States, the household is considered to be a personal sector, and public involvement in the sector is limited in many cases. There is no integrated national policy for children and households, and policy-making for childcare is up to each state. In the U.S. as a whole, two thirds of facility-type daycare services are not-for-profit and one third of daycare facilities are profit-making. The most common type of daycare services outside the house targeting children aged three or younger is private, while the older children become, the more public facilities are used. Although a license for health and safety is required for opening a childcare center in all states, the entry barriers into the childcare sector are considered to be very low. In most states including Wisconsin, stock companies are admitted to enter the childcare sector, and indeed, many stock companies, including listed companies, are already active in the sector.

#### (8) France

While the entry of profit-making enterprises is permitted in France, most daycare centers are operated by municipalities and non-profit corporations. The number of daycare centers run by profit-making corporations is very small. In 2003, however, granting government subsidies to profit-making enterprises was decided. It is prescribed that each daycare center is obliged to formulate a plan for childcare and education.

#### (9) Germany

In Germany, it is considered that social services should be provided by the smallest social unit, that is, family, etc. In line with this, childcare services are offered by private operators and there are no public childcare services. According to the number of children using daycare centers by establishing entity, around 10% of daycare centers are run by profit-making enterprises, while most daycare services are provided by public service corporations (mainly religious corporations).

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<sup>52</sup> "Childcare and Early Years Providers Survey 2011," The UK, The Department for Education.

#### (10) Summary

In major countries, almost all currently admit profit-making corporations to enter the childcare sector. Even in the countries where only non-profit corporations were allowed to establish daycare centers in the past, the doors for the childcare sector are now opened to profit-making corporations in many countries. Some countries are attentive about checking contents and the quality of services through third-party accreditation, etc. in order to maintain the safety and quality of childcare services. Even in countries where some issues are cited (for example, low quality of childcare services delivered by profit-making corporations), it seems the focal point of discussion is how to ensure the quality and safety of each daycare center rather than doubting the entry of profit-making corporations into the childcare sector.

### III. Current State and Discussions at Public Meetings

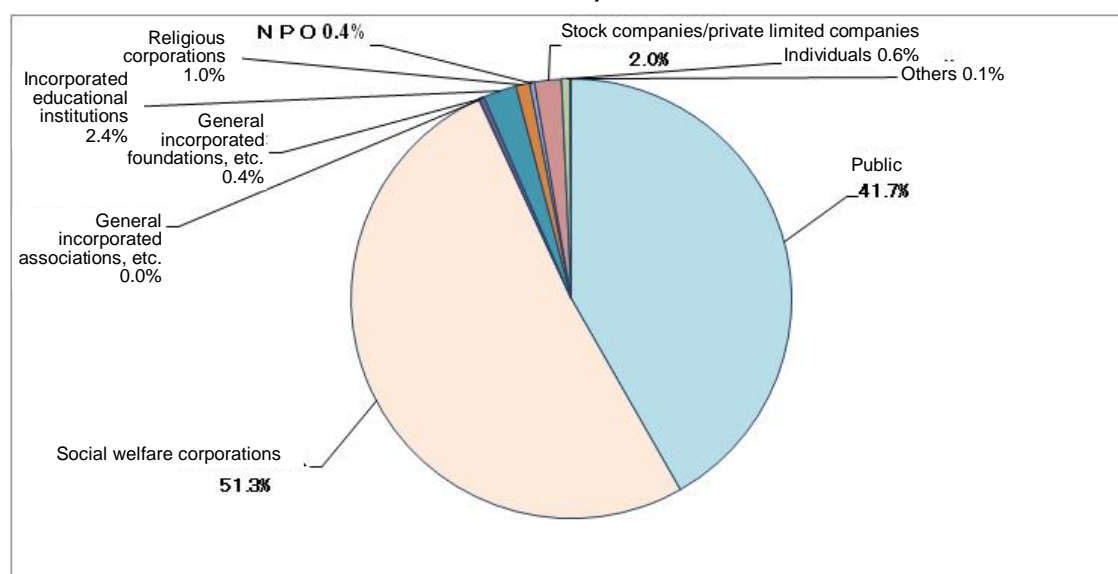
#### 1. New Entry

In order to examine if the current environment allows various types of organizations to enter into the childcare sector, a survey was conducted regarding systems and current state of new entry.

##### (1) Overview and state of the current system

When building a private daycare center, it is required to obtain approval from prefectural governor (the Child Welfare Act, Article 35, paragraph (4)). Although the Child Welfare Act itself does not impose any limits on the form of entity establishing a daycare center, only social welfare corporations were admitted to establish daycare centers according to the public notice from the chief of the Children's Bureau of the Ministry of Health & Welfare in the past.<sup>53</sup> This public notice was abandoned in March 2000<sup>54</sup>, and since then, a wide range of actors, such as stock companies, can enter the childcare market. As of April 2013, daycare centers built by stock companies or private limited companies account for 2.0% of the total number of daycare centers.<sup>55</sup>

**Figure 14: Breakdown of day-care center by establishing daycare center (As of April 1, 2013)**



[Source] Based on the material submitted by the Ministry of Health, Labour and Welfare for the 21st meeting of "The

<sup>53</sup> Public notice in Note エラー! ブックマークが定義されていません。 .

<sup>54</sup> By the public notice in Note エラー! ブックマークが定義されていません。 .

<sup>55</sup> See the material submitted by the Ministry of Health, Labour and Welfare for the 21st meeting of "The Council for Regulatory Reform: Healthcare/Medicine Working Group" (May 1, 2014) held by the Cabinet Office.

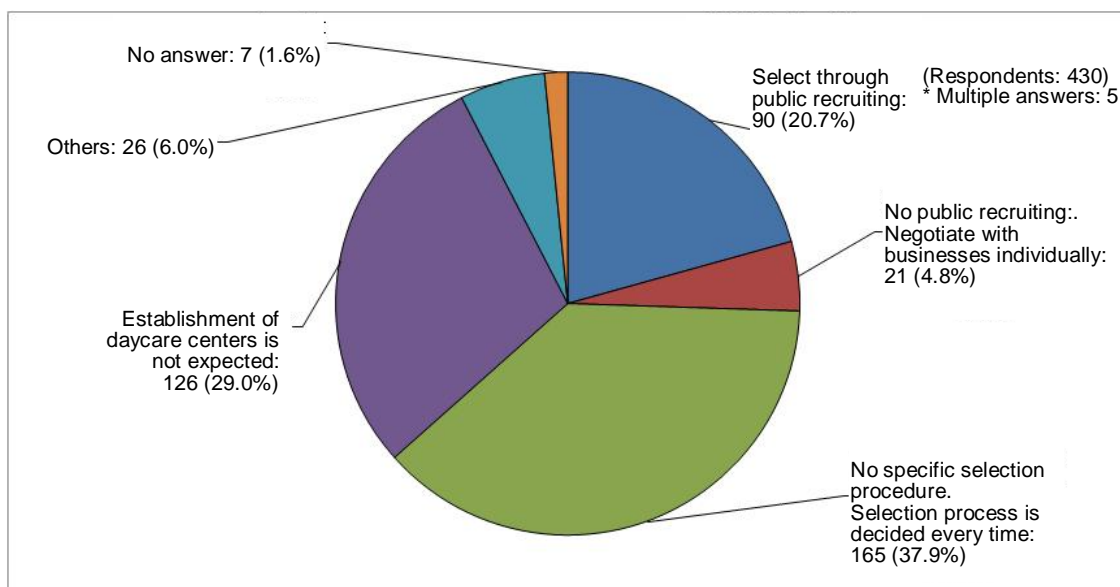
Council for Regulatory Reform: Healthcare/Medicine Working Group” (May 1, 2014) held by the Cabinet Office  
 (Note) The total may not be 100% because of rounding. The same shall apply hereinafter.

Regarding the provision of approval, the involvement of municipalities is not specified in the Child Welfare Act. In fact, however, as municipalities are described as implementing entities of daycare services in Article 24, paragraph (1) of the Act, it is rather commonly seen that municipalities where daycare centers are located are involved in approval procedures for applications and judge whether or not to provide the applicants with approval. More specifically, there are cases where prefectural guidelines for approval of daycare center establishment provide that, for instance, applicants should submit documents along with opinions of the relevant mayor of municipality to the relevant prefectural governor or have sufficient consultation with the relevant municipality when applying for approval, or mayors of municipalities should send applications to the relevant prefectural governor only after reviewing contents of those applications.

Moreover, in some cases, municipalities select operators as entities establishing daycare centers through open recruitment as a precondition and the selected operators can apply for approval. This means, establishment entities are virtually selected during the public invitation process before providing approval.

Regarding how to choose operators as entities establishing daycare centers, 20.7% of municipalities answered “select through open recruitment.”

**Figure 15: Selection method for entities establishing daycare centers**



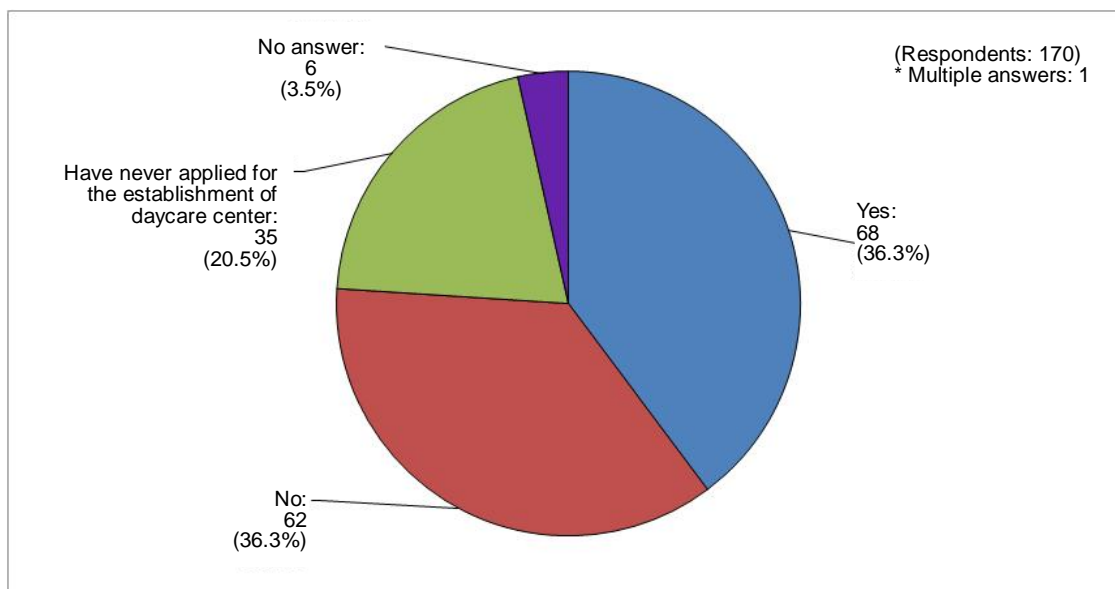
[Source] Survey by the Japan Fair Trade Commission

Some municipalities are reluctant to admit the entry of stock companies, etc. into the childcare sector. For example, when such municipalities set application guidelines for operators to be entities establishing daycare centers, they sometimes limit qualified applicants to social welfare corporations. In such cases, stock companies, etc. effectively cannot apply to prefectures for approval of establishing daycare centers.

## (2) Opinions on the current system and status

According to the questionnaire conducted targeting stock companies, etc., 39.8% of respondents (50.0% when excluding companies that have not applied for establishment of daycare centers) answered, “rejected by municipalities because of being a profit-making corporation, such as a stock company, and gave up the entry into the childcare sector as municipalities set conditions that virtually made it impossible for stock companies, etc. to enter the sector.” In particular, some respondents described practices for approval as follows: “Some municipalities accept only existing social welfare corporations,” “Only social welfare corporations are approved while stock companies are not in some municipalities,” “We were asked to obtain agreement from three existing daycare centers,” and “We were asked to obtain agreement from all presidents of existing daycare centers in the same area regarding the entry into the childcare sector.” Furthermore, some answered that “approval is not given without a record of one year or more for daycare center operation” and “approval is not given without operational record of daycare centers in other municipalities” regarding the past records, and regarding selection procedure, “stock companies are also publicly invited recruited officially but only social welfare corporations are selected,” and “apparently the entry of stock companies is admitted but is actually not because some person(s) critical about the entry of stock companies is/are placed in the committee selecting operators.” in order to virtually impede stock companies from entering the childcare sector”. At public meetings, some problems were pointed out, among which was the case where “stock companies give up the idea of an entry into the childcare sector at an early stage because some municipalities are reluctant to allow stock companies to enter the sector even though such municipalities conduct public recruiting, and as a result, the number of applicants does not reach the required level.”

**Figure 16: Experience of being not approved because of being a stock company, etc. or being set conditions that made impossible for stock companies, etc. to enter the childcare sector**



[Source] Survey by the Japan Fair Trade Commission

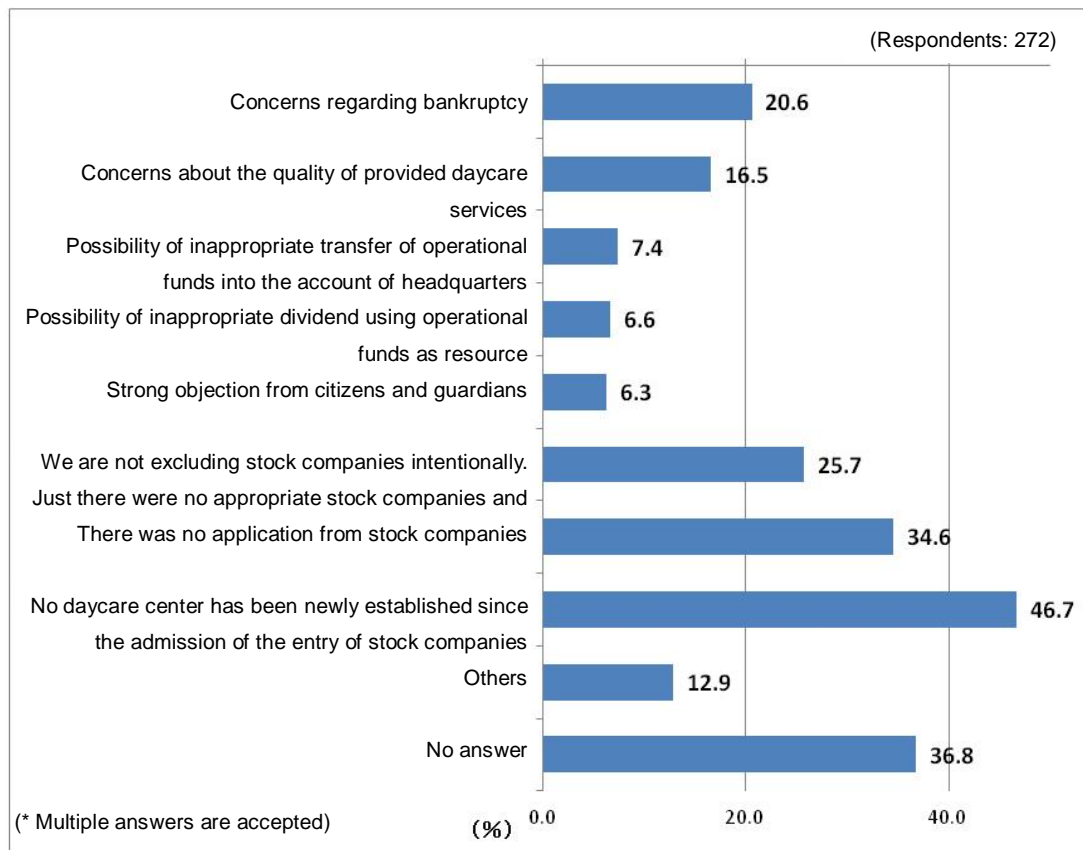
At public meetings, the following voices were also heard: “It seems that municipalities sometimes select social welfare corporations rather than stock companies as operating entities of daycare centers probably because of business continuity,” “Some municipalities seem not to want to admit the entry of operators other than social welfare corporations because it is easier for them to provide continuous daycare services to children enrolled into daycare centers, thus protecting users if the centers are operated by social welfare corporations. Because, they think, even when a social welfare corporation decides to close its center, the center will be operated by another social welfare corporation or vested to the national treasury<sup>56</sup>,” “Behind the fact that some municipalities do not approve the establishment of daycare center by stock companies, there seems to be lobbying by existing operators exerting pressures on municipalities not to accept the entry of stock companies,” and “We believe that whether or not the entry of stock companies advances is up to how much municipalities want to reduce wait-listed children.” At the interview with stock companies on the other hand, it was heard that “the idea that childcare is welfare is preventing stock companies from entering the childcare

<sup>56</sup> Regarding vesting of residual assets of a dissolved social welfare corporation, the Social Welfare Act provides that such residual assets must be vested to another social welfare corporation as specified by the articles of incorporation if any, and if there is no article of incorporation, such assets are vested to the national treasury (the Social Welfare Act, Article 31, paragraph (3), Article 47).

sector. When a large amount of public funds is poured into the childcare sector, there are strong concerns among municipalities that stock companies may be operating other businesses using the public funds.”

According to the questionnaire for municipalities without daycare centers established by stock companies, there are some responses that “concerns regarding bankruptcy” (20.6%) and “concerns about the quality of provided daycare services” (16.5%) as reasons for not having such daycare centers, while 25.7% answered, “we are not excluding stock companies intentionally. Just there were no appropriate stock companies.”

**Figure 17: Reasons for not selecting stock companies as entities establishing daycare centers**



[Source] Survey by the Japan Fair Trade Commission

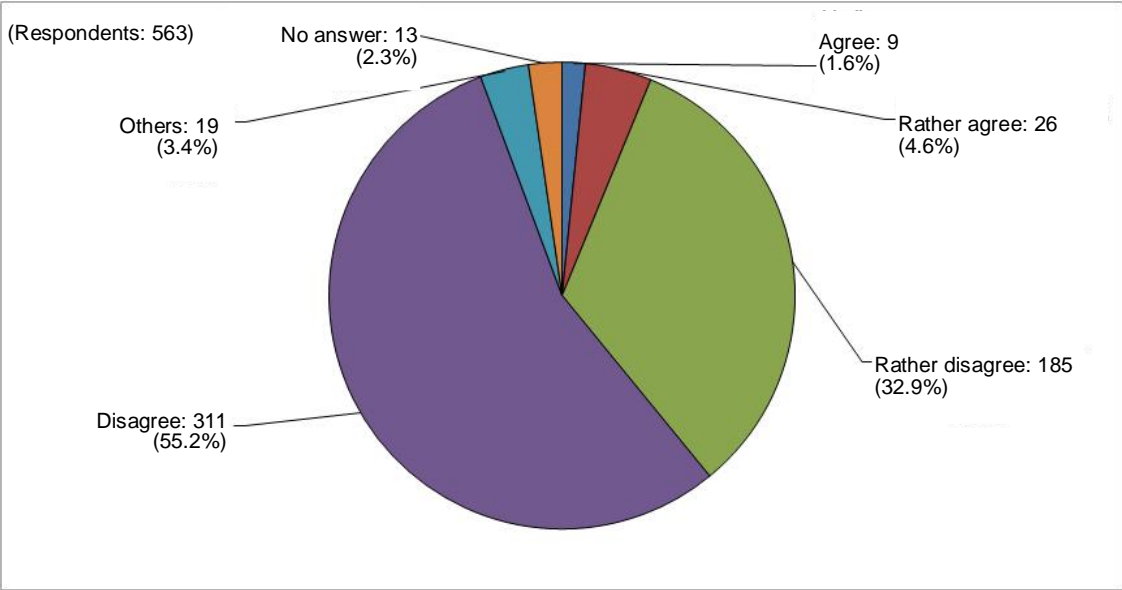
According to the questionnaire for social welfare corporations regarding the establishment of daycare centers by stock companies, etc., 88.1% of respondents answered “Disagree” (55.2%) or “Rather disagree” (32.9%) and as reasons, they explained “the quality of daycare services will diminish as profit-making corporations usually go after profit, giving priority to cost,” “risks of bankruptcy and withdrawal are high in case of profit-making corporations and they cannot provide stable and continuous daycare services,” and “it is not natural in the first place that profit-making corporations do business in the child welfare and education sectors.” At the interview with social welfare corporations, they expressed that “there is a fundamental doubt if stock companies can contribute to the development of children, as the nature of childcare does not match the idea of profit-making,” “stock companies will deliver daycare services from the aspect of profitability as they go after profit. People who cannot pay enough money can only receive services of the minimum standard,” and “while social welfare corporations are



stable, stock companies always have risks of bankruptcy.”

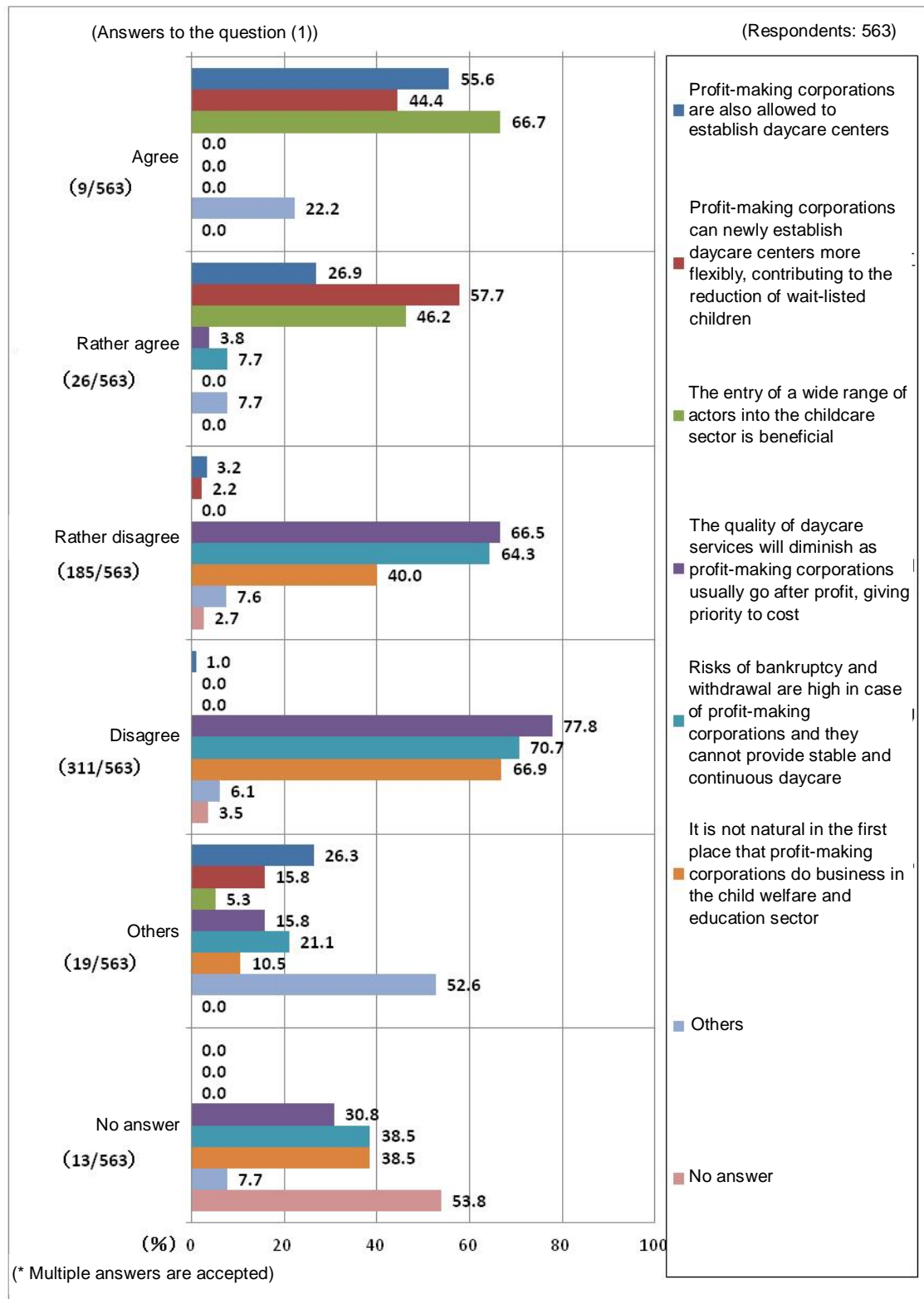
**Figure 18: Opinions of social welfare corporations regarding the establishment of daycare centers by stock companies, etc. and the reasons**

(1) Opinions of social welfare corporations regarding the establishment of daycare centers by stock companies, etc.



[Source] Survey by the Japan Fair Trade Commission

## (2) Reasons for answers to the question (1)



[Source] Survey by the Japan Fair Trade Commission

On the other hand, there were some counterarguments regarding the above concerns about stock companies, etc. as follows.

With respect to concerns of the decrease of daycare services' quality, some expressed at a public meeting, "There is no big difference between stock company and social welfare corporation in terms of the form of corporation. In the end, it is up to individual operators", "Considering good childcare is the most important and the form of corporation does not make a fundamental difference" at the interview with social welfare corporations, and for the questionnaire for stock companies, etc., "Lowering the quality of services is not possible as compliance with standards is imposed by laws," "In major part, the quality of daycare services is up to the attitudes and awareness of staff and the form of corporation does not influence the quality," "The quality of daycare services changes depending on individual operators but not on the form of corporation," "To make profits, attracting customers is essential, which means the improvement of the quality of daycare services is crucial. Without competitions, on the other hand, services' quality will drop," and "By responding to needs in the market, the quality of daycare services will be ensured."

Regarding concerns of closing daycare centers, the following opinions were heard: "Although stock companies are criticized due to concerns regarding bankruptcy and closing of business, there are cases where even social welfare corporations could not continue operations" and "At present there are many social welfare corporations operating daycare centers using rental properties, and the validity of reasons for not admitting stock companies, etc. to enter the childcare sector based on no existence of restrictions on residual assets when closing is declining" at the public meetings, "Although we can only assume, as there is no example case of operator's withdrawal, we believe how municipalities deal with closures of daycare centers does not differ between social welfare corporations and stock companies" at the interview with municipalities, and "Bankruptcy is an example of a limited number of enterprises, and we can provide high-quality daycare services through competition because we are stock companies" for the questionnaire for stock companies, etc. According to the questionnaire for municipalities, it was found out that there were some cases where even social welfare corporations suspended the operation of their daycare centers due to bankruptcy, dissolution, or financial trouble.

**Figure 19: Existence of cases of suspending the operation of daycare centers due to bankruptcy, dissolution, or financial trouble**

		Total number over the past ten years	Number of municipalities with such cases	Total number of daycare centers in municipalities with such cases
Established by social welfare corporations	Number of daycare centers whose operations were stopped by establishing entities	51	27	1367
	Daycare centers that suspended operation due to bankruptcy, dissolution, or financial trouble	15	9	596
Established by stock companies	Number of daycare centers whose operations were stopped by establishing entities	12	6	229
	Daycare centers that suspended operation due to bankruptcy, dissolution, or financial trouble	10	5	226
Established by other entities	Number of daycare centers whose operations were suspended by establishing entities	49	22	180
	Daycare centers that suspended operation due to bankruptcy, dissolution, or financial trouble	9	8	19

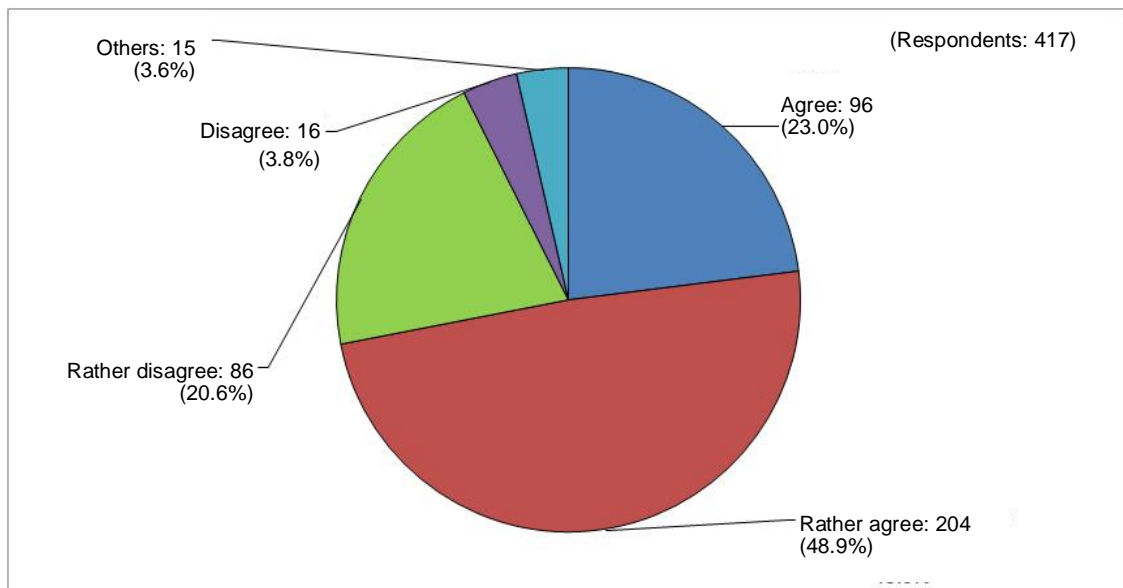
[Source] Survey by the Japan Fair Trade Commission

From the above, it is considered that concerns for stock companies do not necessarily apply to all stock companies, etc. and the form of corporation does not make a fundamental difference in terms of operation of daycare centers and provision of daycare services.

As for the questionnaire for guardians regarding the entry of stock companies into the childcare sector, 71.9% of daycare center users answered “Agree” (23.0%) or “Rather agree” (48.9%), 80.0% of users of non-registered childcare facilities answered “Agree” (40.0%) or “Rather agree” (40.0%), and 83.1% of non-users of daycare facilities answered “Agree” (28.2%) or “Rather agree” (54.9%). Reasons for such answers are “Stock companies seems to be more flexible and introduce better services,” “contribute to the reduction of wait-listed children,” and “the improvement of the quality of daycare services is expected as daycare centers will compete with each other by providing better services.”

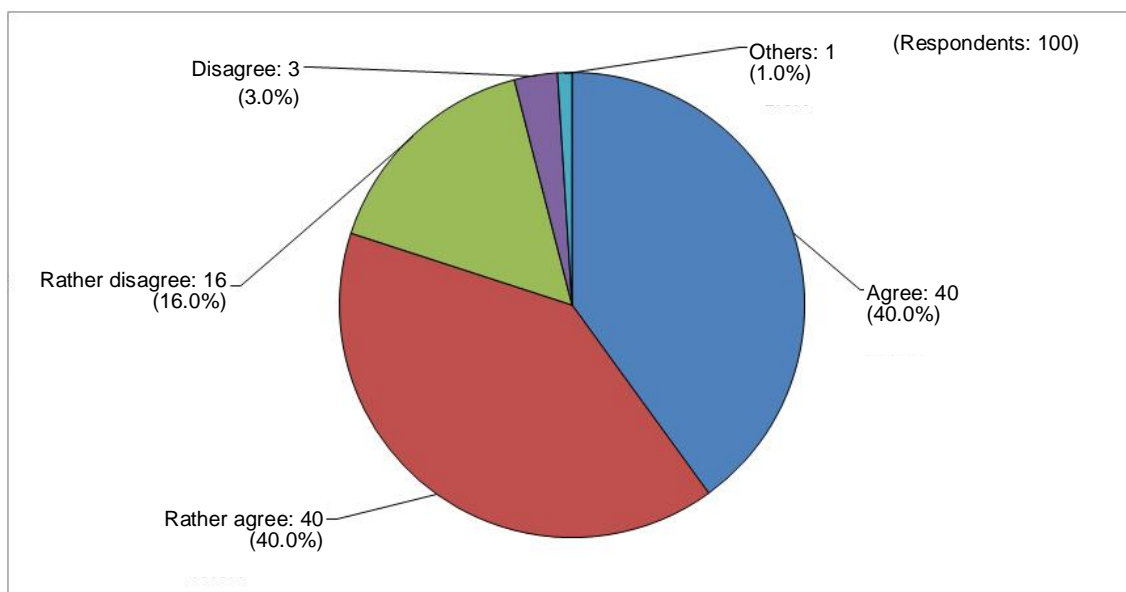
(1) Opinions of guardians regarding the advancement of stock companies' entry

[Daycare center users]



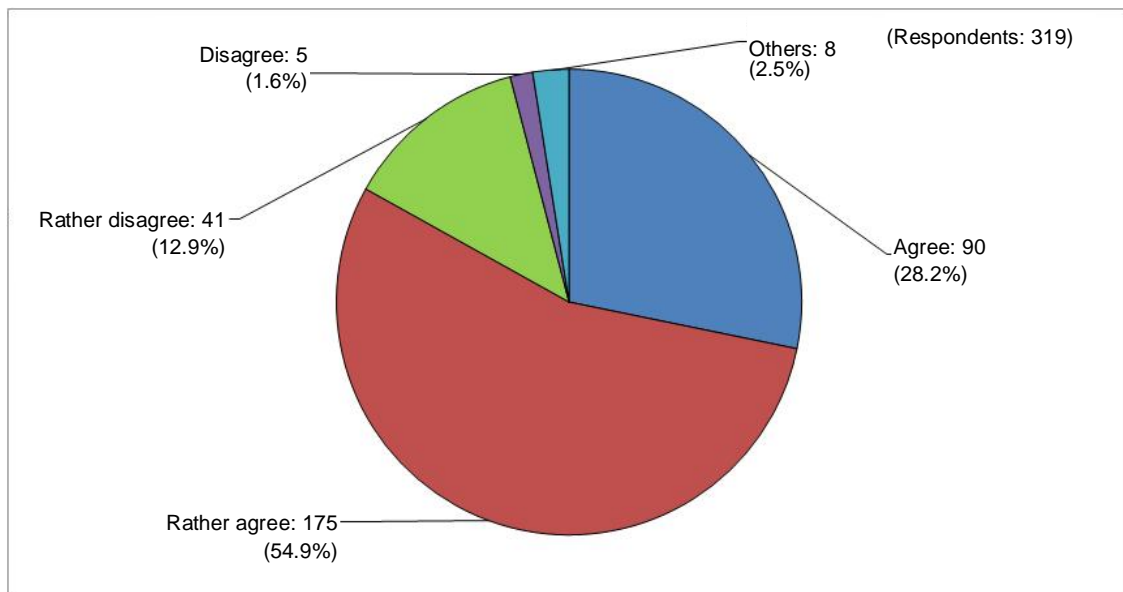
[Source] Survey by the Japan Fair Trade Commission

[Users of non-registered childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

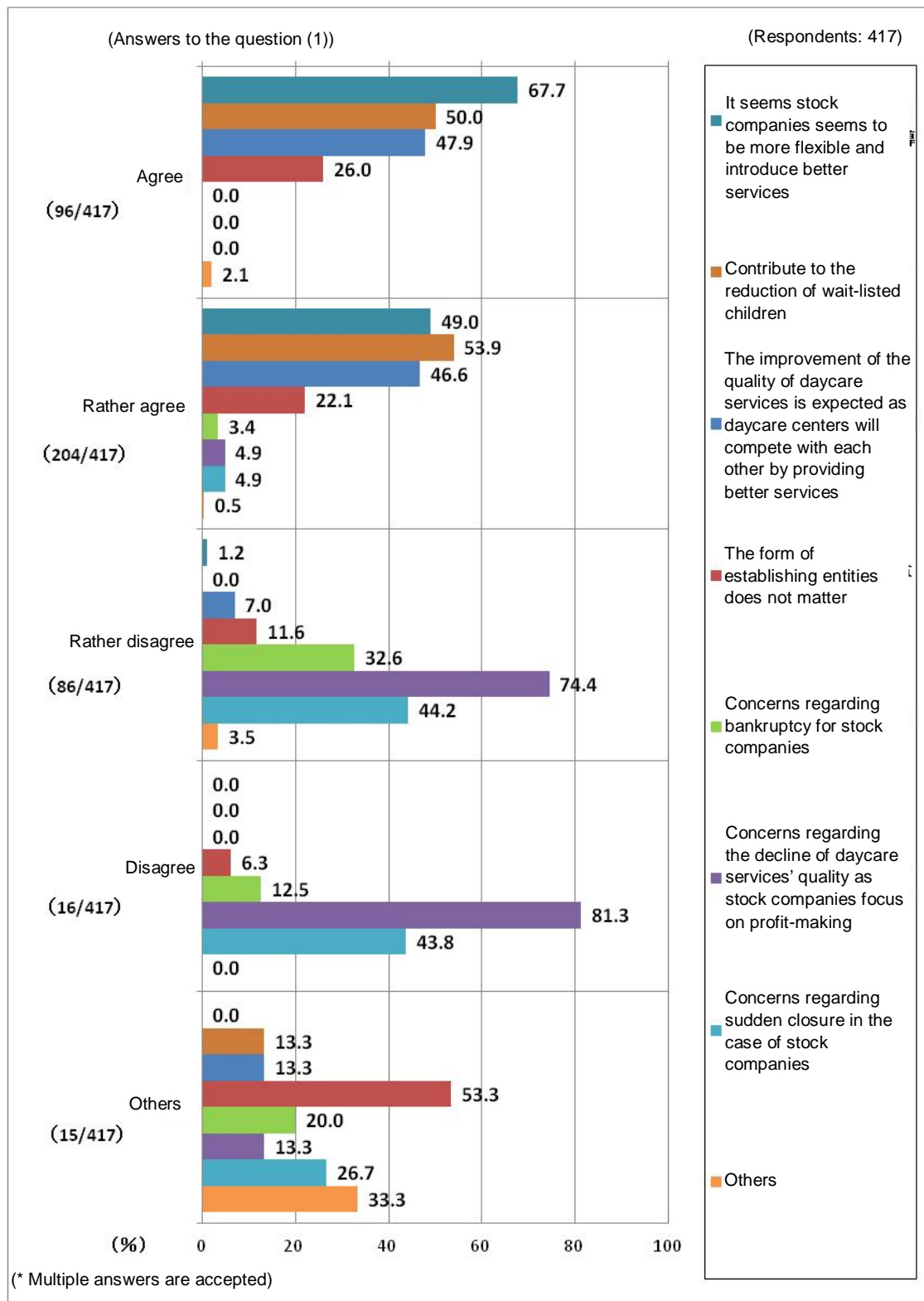
[Non-users of childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

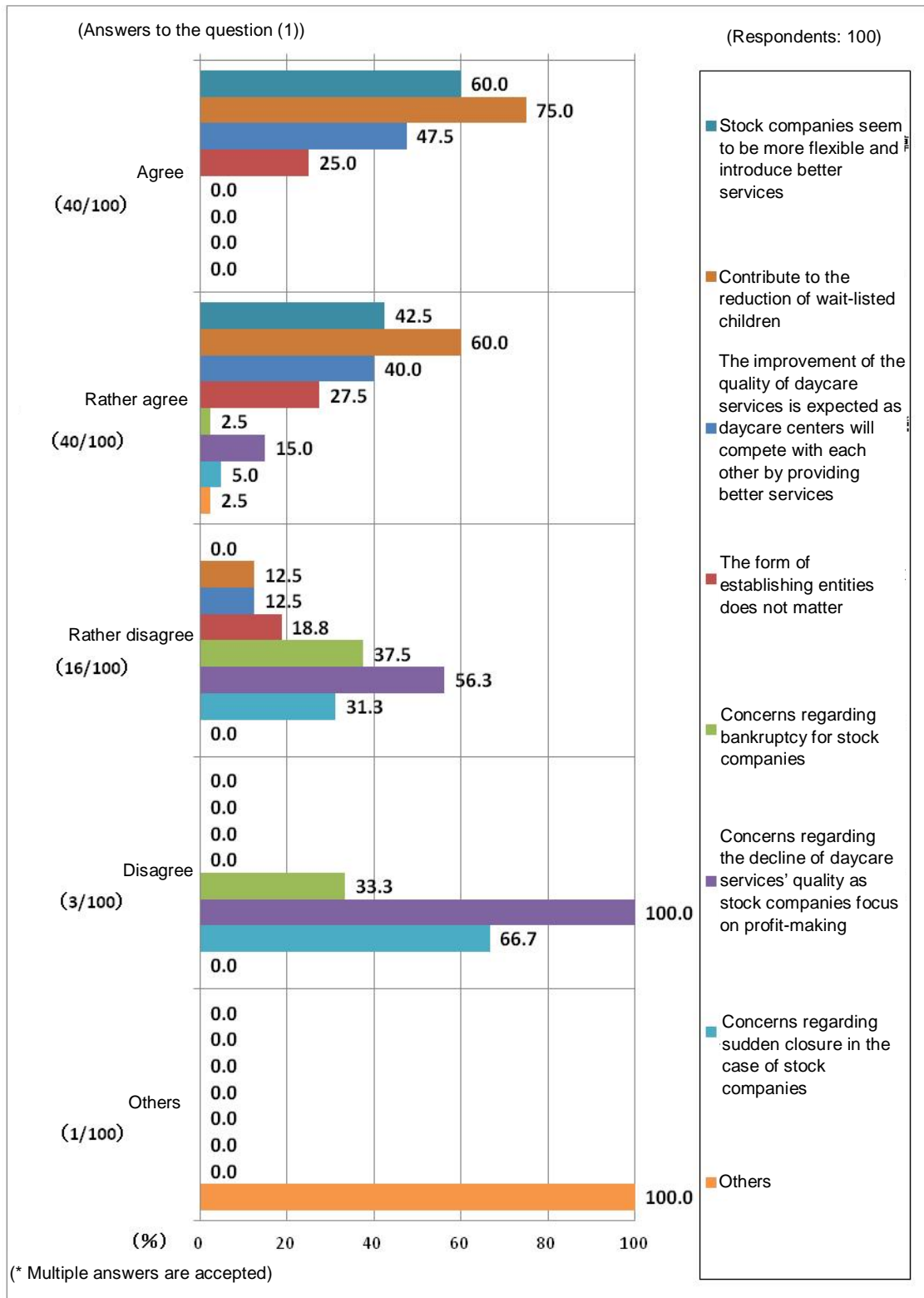
(2) Reasons for answers to the question (1)

[Daycare center users]



[Source] Survey by the Japan Fair Trade Commission

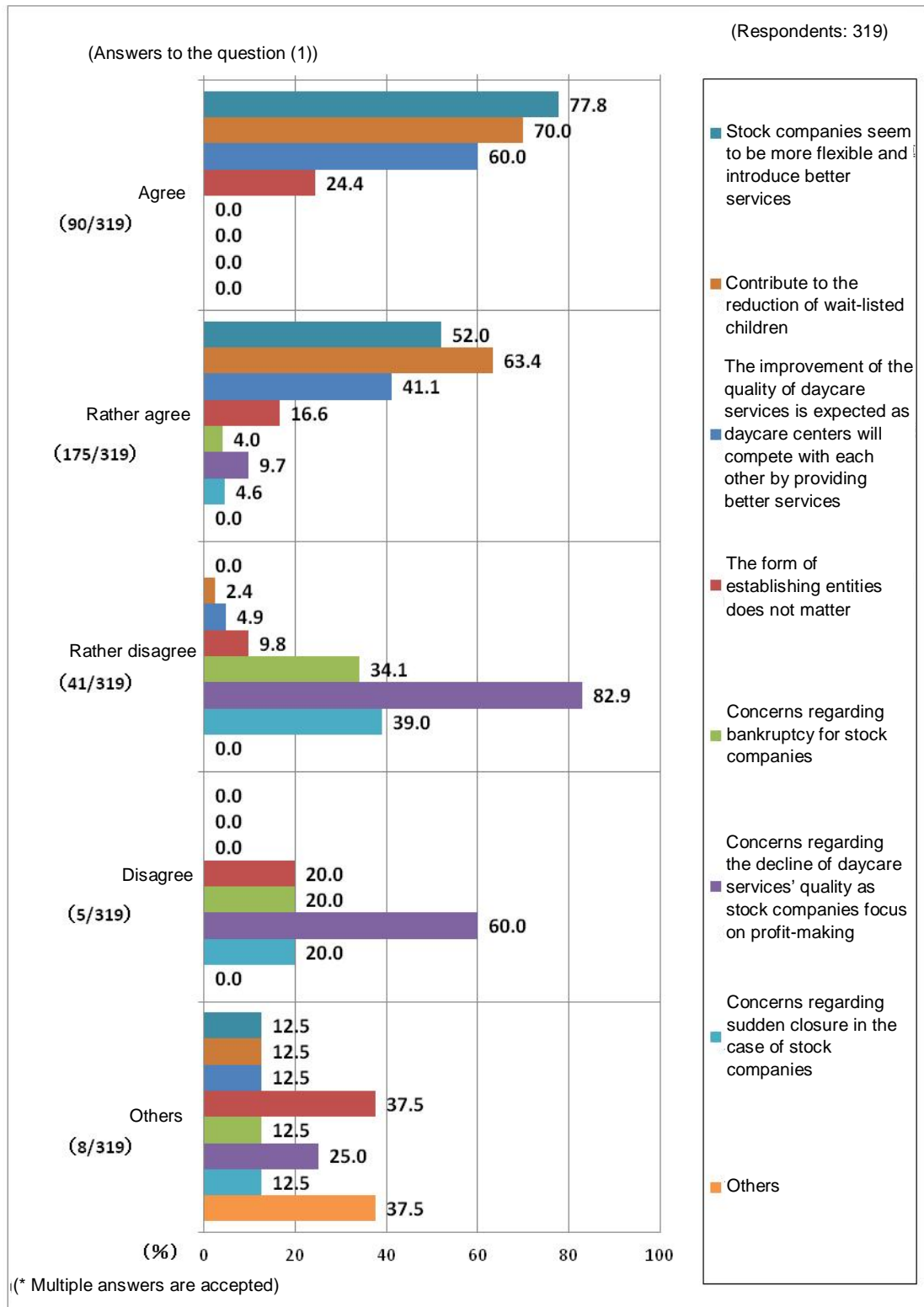
[Users of non-registered childcare facilities]



[Source] Survey by the Japan Fair Trade Commission



[Non-users of childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

### (3) Overview of the new system

Under the current system, specific criteria for approval of establishing daycare centers are provided by the public notice from the chief of the Children and Families Bureau of the Ministry of Health & Welfare<sup>57</sup> but not by the Child Welfare Act. Under the new system, on the other hand, criteria for reviewing applications for establishment of daycare centers are prescribed in the revised Child Welfare Act, and prefectural governors grant approval for applications when they objectively satisfy the approval criteria and requirements regarding financial basis, social confidence, and knowledge and experience of social welfare business, unless there are any causes for disqualification or the necessity of adjusting supply and demand due to oversupply (the revised Child Welfare Act, Article 35, paragraphs (5) and (8)).<sup>58</sup> Such a specification of the review criteria for approval of establishing daycare centers in the Act as above is now preventing prefectural governors from rejecting applications from stock companies, etc. for approval of establishing daycare centers because of the form of corporation, that is, being stock companies, etc. Moreover, it is newly specified that prefectural governors must consult with mayors of municipalities where potential daycare centers will be located beforehand when giving approval to any applications (the revised Child Welfare Act, Article 35, paragraph (7)).

Based on the above system reforms, in May 2013, the Council for Regulatory Reform suggested “the Ministry of Health, Labour and Welfare send notices to prefectures to ensure just and fair operation of approval systems regardless of the management form and also notify prefectures to ensure full dissemination of contents of such notices to municipalities.” In response to this, on the 15th of the same month, the Ministry of Health, Labour and Welfare issued the public notice from the chief of the Equal Employment, Children and Families Bureau, the Ministry of Health, Labour and Welfare<sup>59</sup> for prefectural governors as follows: “In the new system, ... as for communities where the demand for childcare services is not met, it is specified to approve an application regarding the establishment of a daycare center regardless of the form of the applying corporation when the applicant satisfies the requirements. ... Therefore, we ask communities not meeting the demand for childcare services to operate approval systems in a positive as well as just and fair manner with a view to future conditions under the new system even

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<sup>57</sup> エラー! ブックマークが定義されていません。Public notice in Note エラー! ブックマークが定義されていません。.

<sup>58</sup> When a person who applied for approval is a social welfare juridical person or school juridical person, the person is not obliged to satisfy the requirements regarding financial basis, social confidence, and knowledge and experience of social welfare business (the revised Child Welfare Act, Article 35, paragraph (5)).

<sup>59</sup> Public notice from the chief of the Equal Employment, Children and Families Bureau, the Ministry of Health, Labour and Welfare, “Approval, etc. of establishing daycare centers with a view to the new system” (KOJIHATSU, No. 0515-12, May 15, 2013).

before the effective date of the new system. ... At the same time, we ask you to make the contents of this notice known to all municipalities (including special wards) within your jurisdiction that are implementing entities of childcare services.”

Reference 1: The Council for Regulatory Reform “Opinions of the Council for Regulatory Reform on Childcare” (May 2, 2013) (extract)

The restriction on the form of establishing entities of daycare centers was abolished by the deregulation in 2000. Furthermore, along with the introduction of “the Comprehensive Support System for Children and Child-rearing”, it will be clearly stated that municipalities cannot reject applications for establishing daycare centers in their sole discretion on the grounds that the applicants are stock companies, etc. The Ministry of Health, Labour and Welfare send notices to prefectures to ensure just and fair operation of approval systems regardless of the management form, and also notify prefectures to ensure full dissemination of contents of such notices to municipalities.

(Underline added by the Japan Fair Trade Commission)

**Reference 2: Public notice from the chief of the Equal Employment, Children and Families Bureau, the Ministry of Health, Labour and Welfare “Approval, etc. of establishing daycare centers with a view to the new system” (KOJIHATSU, No. 0515-12, May 15, 2013) (extract)**

... In the new system, procedures for approving establishment of daycare centers were decided to be changed as described in the attachment, and as for communities where demand for childcare services is not met, it is specified to approve an application regarding the establishment of a daycare center regardless of the form of the applying corporation when the applicant satisfies the requirements.

Reduction of children on waiting lists is a pressing issue and the “Zero Childcare Waiting List Acceleration Project” announced by the Prime Minister on April 19 this year is requiring the national and local governments to make all-out efforts to solve the issue. Communities not meeting demand for childcare thus need to take active actions to satisfy such demand.

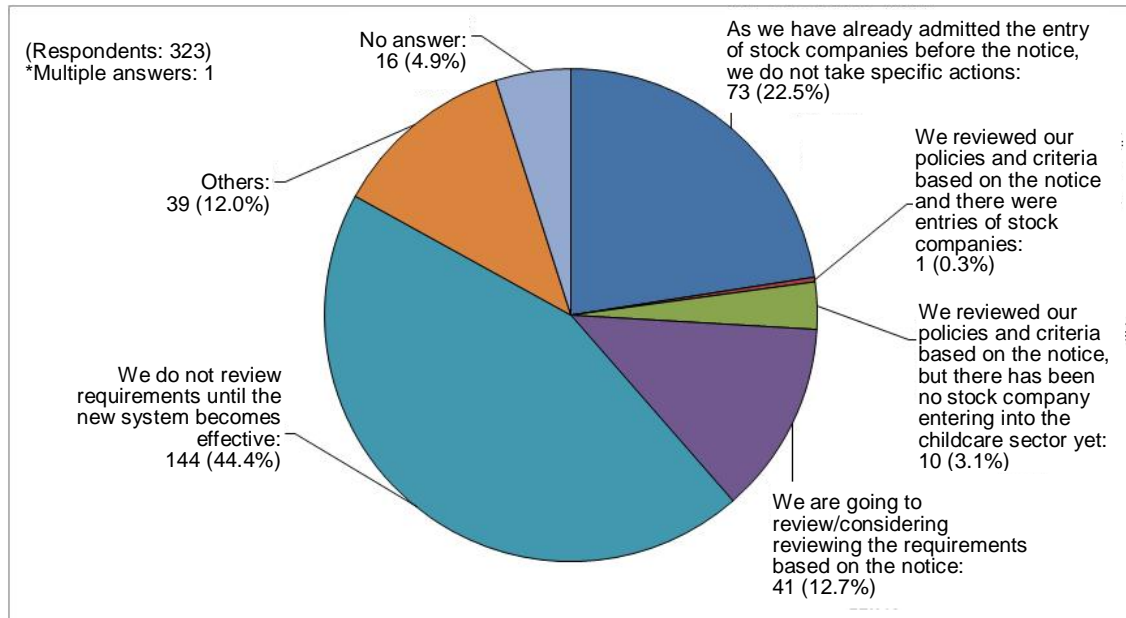
Therefore, we ask communities not meeting demand for childcare services to operate approval systems in a positive as well as just and fair manner with a view to future conditions under the new system even before the effective date of the new system.

At the same time, we ask you to make the contents of this notice known to all municipalities (including special wards) within your jurisdiction that are implementing entities of childcare services.

(Underline added by the Japan Fair Trade Commission)

According to the questionnaire for municipalities concerning this point, 3.4% in total of respondents answered “we reviewed our policies and criteria based on the notice and there were entries of stock companies” or “we reviewed our policies and criteria based on the notice, but there has been no stock company entering into the childcare sector yet,” 12.7% answered “we are going to review/considering reviewing the requirements based on the notice,” and 44.4% answered “we do not review requirements until the new system becomes effective.”

**Figure 20: Status of reviewing policies, etc. in municipalities based on the public notice from the Ministry of Health, Labour and Welfare**



[Source] Survey by the Japan Fair Trade Commission

According to the survey by the Ministry of Health, Labour and Welfare, among the total of 180 designated cities, core cities and other cities, wards, and towns that have formulated Daycare Plans, 77 municipalities limit to social welfare corporations when inviting operators to establish and operate daycare centers or ask applying entities to show a certain level of past records as of October 2013.<sup>60</sup>

#### (4) Opinions on the new system

At the public meetings concerning the new system, although there was a voice to say “legally, I do not think there is a barrier for the entry of stock companies in both the current system and the new system for child and childcare support,” some concerns were also expressed about municipalities’ operation of the system as follows: “There remain concerns about the operation of system disadvantageous to stock companies, for instance, placing person(s) critical about the entry of stock companies in the selection committee when selecting establishing entities. Such a fact seldom comes out into the open.” Also at the interview, stock companies showed their concerns to say that “there

<sup>60</sup> The number of municipalities that answered “had such cases” (excluding multiple answers) in Attachment 2 of the material submitted by the Ministry of Health, Labour and Welfare for the 21st meeting of “The Council for Regulatory Reform: Healthcare/Medicine Working Group” (May 1, 2014) held by the Cabinet Office. The number of municipalities is 92 when including multiple answers.

may still be some municipalities that virtually exclude stock companies even in the new system,” while some said that “municipalities will not be able to operate their approval system intentionally in the new system.”

## 2. Subsidy and taxation systems

To examine if there is an environment where operators can compete with each other under impartial conditions, a survey was conducted on the subsidy and taxation systems and their current status.

### (1) Subsidy system

#### A. Overview and state of the current system

When establishing a private daycare center, the establishing entity needs a large amount of budget for facility establishment cost. The current system has the subsidy system to support expenses for construction, extension, and renovation of daycare centers. Under such a system, in principle, social welfare corporations<sup>61</sup> are granted subsidies equivalent to three fourths of the cost they spend for construction, extension, and renovation of their daycare centers.<sup>62</sup> On the other hand, stock companies, etc. are not subject to the subsidy system.

Furthermore, some prefectures and municipalities have their own subsidy systems for private daycare centers as local single projects. The amounts and subjects of those subsidies are decided by individual municipalities at their own discretion, and there are cases where the subjects are limited to social welfare corporations or the amounts and conditions for granting subsidies are different between social welfare corporations and other corporations.

According to the questionnaire for municipalities, 85.4% of respondents grant subsidies to private daycare centers as local single projects and 22.8% of municipalities carrying out the local single projects limit the subjects of such subsidies

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<sup>61</sup> Apart from social welfare corporations, educational foundations (limited to when an educational foundation establishes both a kindergarten and a daycare center constituting a certified children's center of the kindergarten and daycare center cooperation type and when establishing facilities of the daycare center), the Japanese Red Cross Society or non-profit incorporated associations, non-profit incorporated foundations, special incorporated associations, or special incorporated foundations are subject to the subsidy system.

<sup>62</sup> “Daycare Center Urgent Establishment Project” in the attachment “Fund for Child-rearing Management and Administration Guideline” of the public notice from the chief of the Elementary and Secondary Education Bureau, the Ministry of Education, Culture, Sports, Science and Technology and the chief of the Equal Employment, Children and Families Bureau, the Ministry of Health, Labour and Welfare “Administration of Special Subsidy for Child-rearing Support Measures (Fund for Child-rearing) 2008” (MONKASHO, No. 1279/KOJIHATSU, No. 0305005, March 5, 2009). The pay-ratio of the cost is in principle one-half for the government, one-fourth for a municipality, and one-fourth for an establishing entity or two-thirds for the government, one-twelfth for a municipality, and one-fourth for an establishing entity.

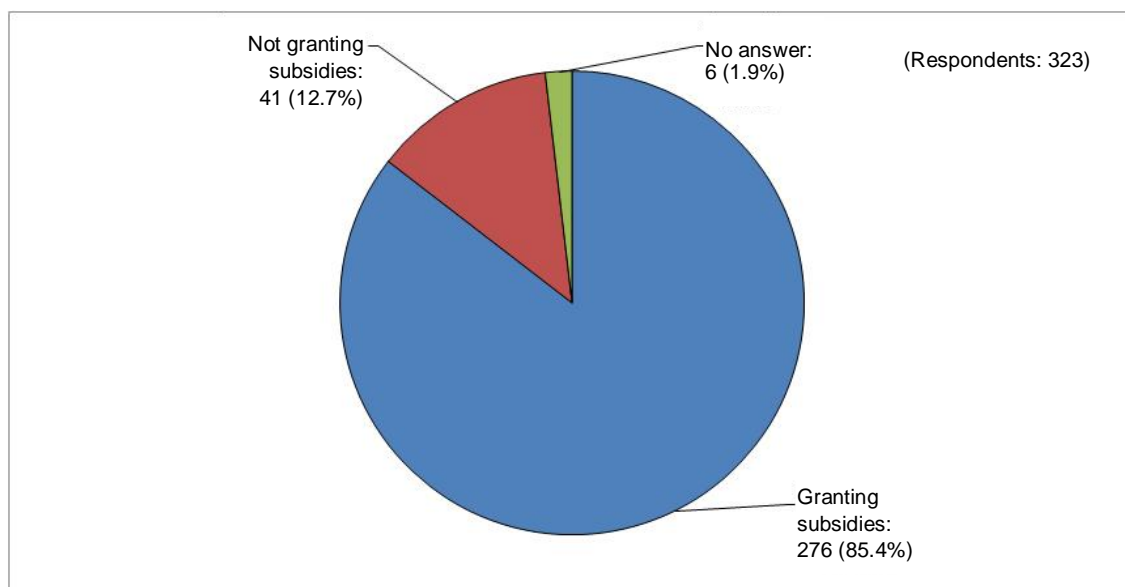
to social welfare corporations and other specific corporations or set differences for the amounts and conditions for granting subsidies between social welfare corporations and other corporations. Specific examples of such subsidy systems are subsidies granted for the establishment cost of daycare centers, rents for lands and buildings, administrative expenses of daycare centers, acceptance of handicapped children and children after disease, and interest on borrowing from financial institutions. As reasons why they set differences depending on the form of corporation, respondents answered that “there is no or almost no consultation from corporations other than social welfare corporations regarding the entry into the childcare sector, thus there is no need to consider corporations other than social welfare corporations,” “even if a social welfare corporation discontinues its business, the business continuity is ensured because its assets do not belong to individual persons unlike the case of other forms of corporations,” “granting subsidies contributes to the production of assets of establishing entities other than social welfare corporations,” and “there is a concern regarding the quality of childcare services in the case of profit-making establishing entities.”

When calculating operating expenses of daycare centers granted to each private daycare center, expenses for improving payment at private facilities, etc. are added in order to correct disparities between payment to staff of public facilities and that of private facilities. Regarding this, stock companies are legally permitted to pay dividend, even though they are operating daycare centers. Nevertheless, the public notice from the chief of the Children and Families Bureau of the Ministry of Health & Welfare<sup>63</sup> specifies that the above expenses for improving payment at private facilities, etc. are not added when dividend is paid out.

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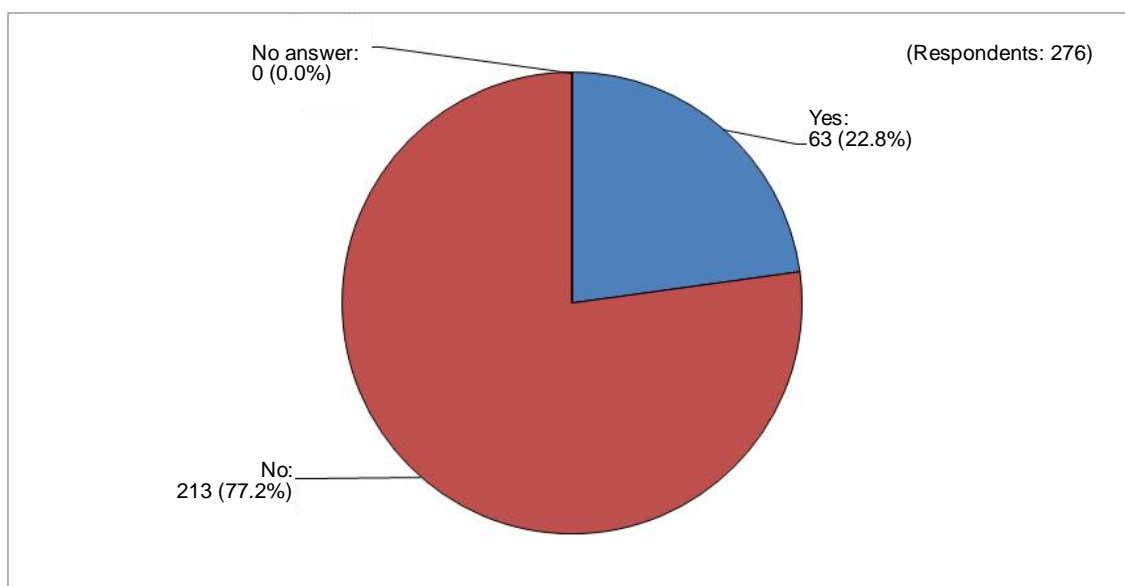
<sup>63</sup> Public notice from the chief of the Children and Families Bureau of the Ministry of Health & Welfare, “Enforcement of the notice ‘Government Financial Contribution to Operational Expenditure of Daycare Centers based on the Child Welfare Act’” (HATSUJI, No. 59-5, April 16, 1976).

**Figure 21: The ratio of municipalities granting subsidies to private daycare centers as local single projects**



[Source] Survey by the Japan Fair Trade Commission

**Figure 22: Among municipalities that answered “Granting” to the question 図表22, the ratio of municipalities setting differences in their subsidy systems depending on the form of corporation**



[Source] Survey by the Japan Fair Trade Commission

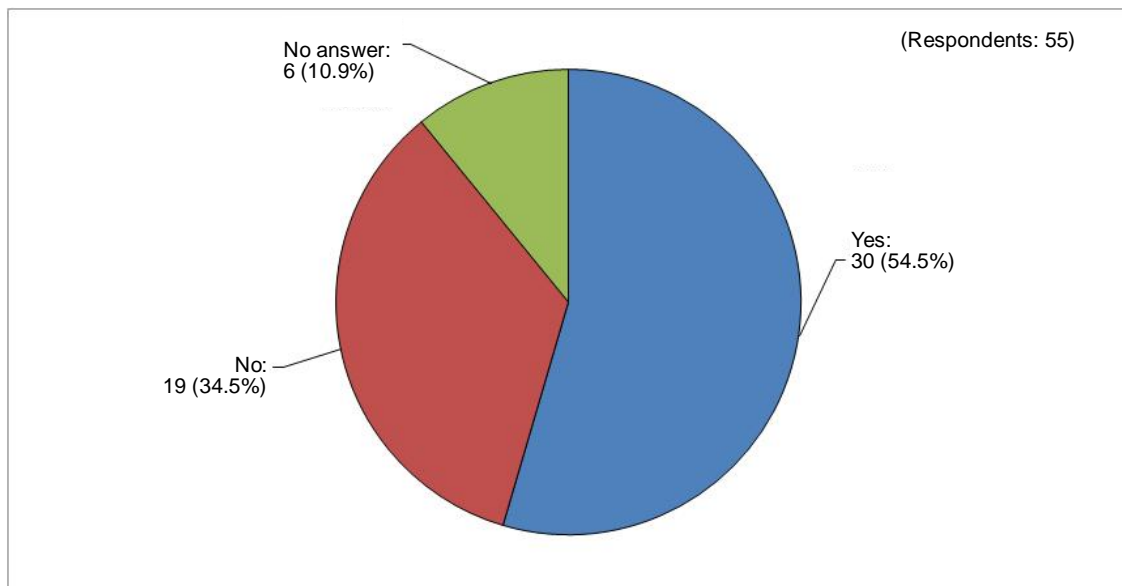


## B. Opinions on the current system and status

Regarding the fact that differences exist depending on the form of corporation in subsidy systems, some concerns were expressed at the public meetings pointing out: “If a municipality’s subsidy system, which is implemented as a local single project, does not consider stock companies as its subjects, stock companies dare not enter the childcare businesses in the municipality” and “Setting differences between social welfare corporations and stock companies in the amount of subsidy negatively affects treatment of nursery teachers and development of new businesses by creating differences in income among staff at social welfare corporations and stock companies.” Also at the interview, some voices noting problems were heard: “Since the arrangement standards for nursery teachers are common to both social welfare corporations and stock companies, stock companies receiving fewer subsidies compared to social welfare corporations are forced to reduce payroll.”

As for subsidy systems as local single projects, 54.5% of respondents consider that “stock companies are under disadvantageous conditions when it comes to local single projects” as shown in the results of the questionnaire for stock companies operating daycare centers.

**Figure 23: The ratio of stock companies, etc. considering they are under disadvantageous conditions regarding subsidy system implemented as local single project**



[Source] Survey by the Japan Fair Trade Commission

Concerning the fact that no subsidy is granted to stock companies for facility

establishment, the following opinions were presented at the public meetings: “As there is no subsidy for facility establishment in case of stock companies, it is difficult to continue business operations without subsidy systems implemented as local single projects,” “If a municipality builds a facility through the so-called ‘public build and private operate’<sup>64</sup> approach, it will become possible for stock companies to operate even in municipalities without their own subsidy systems implemented as local single projects, because initial investment for constructing facilities will not be necessary for operators,” and “‘Public build and private operate’ approach can be a means to increase new entry.” On the other hand, at the interview with municipalities, there was an opinion saying that “it is possible to privatize existing public daycare centers when they are renovated, but it will be difficult to take the ‘public build and private operate’ approach for newly built daycare centers due to financial constraints.”

Regarding the rule that stock companies are not provided with expenses for improving payment at private facilities when they pay dividend, an opinion was expressed: “Although stock companies operating daycare centers are criticized when they pay dividend, such a criticism is not fair because dividend to shareholders is same as interest on borrowing from banks and other financial institutions in its nature.” According to the questionnaire for stock companies, in addition to the above opinions, there were the following opinions: “Setting restrictions on dividend while admitting the entry of stock companies will create huge entry barriers,” “Without paying dividend, fund-raising capability, which is a strength of stock companies, cannot be utilized,” “If paying dividend is permitted while controlling stock companies through audit, etc. so that they do not focus on profit-making, the number of businesses that enter the childcare sector will increase, improving the quality of entire services through competition principle.” Yet, there were also negative voices on dividend: “Revenue earned through daycare centers should be spent for staff and users and spending it as dividend is not appropriate” and “If stock companies have extra money for dividend that means they do not need subsidies for expenses to improve payment at private facilities.”

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<sup>64</sup> The approach in which an existing public daycare center is transferred to a private corporation or the operation of a daycare center built by a municipality is transferred to a social welfare corporation or a stock company, etc.

### C. Overview of the new system

Subsidy systems for facility establishment under the new system are currently under discussion at the Council for Children and Childrearing. At the moment, details are to be decided, but it is under consideration to support the cost of establishing daycare facilities in an equalized manner in the long term by granting benefits<sup>65</sup> for part of the depreciation cost to corporations that are not subjects of the current subsidies for facility establishment and facilities that make use of rentals.<sup>66</sup> As a result, differences caused by the form of corporation under the current system are expected to be smaller.

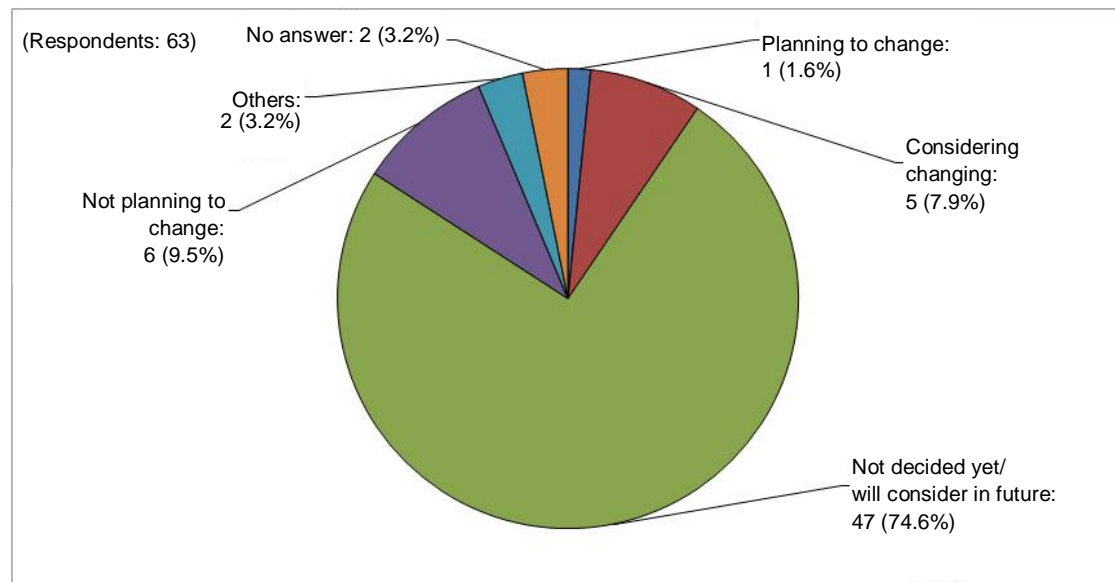
Considering the direction of this system reform, a questionnaire was conducted for municipalities granting subsidies to private daycare centers as local single projects by asking if they will change their subsidy systems, based on the system reform. The results were 1.6% for "Planning to change," 7.9% for "Considering changing," 9.5% for "Not planning to change," and 74.6% for "Not decided yet/will consider in future." At the interview with municipalities, some expressed they would "Consider when the new system becomes effective."

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<sup>65</sup> The benefits are calculated as expenses to implement childcare services based on criteria set by the government. As for private daycare centers, municipalities pay the benefits as "commission fees." See page 20.

<sup>66</sup> See materials for 14th meeting of "'Council for Children and Childrearing" and 18th meeting (joint session) of "Study Group on Criteria for "Council for Children and Childrearing e" (March 28, 2014).

**Figure 24: Plan of reviewing subsidy systems that impose differences depending on the form of corporation**

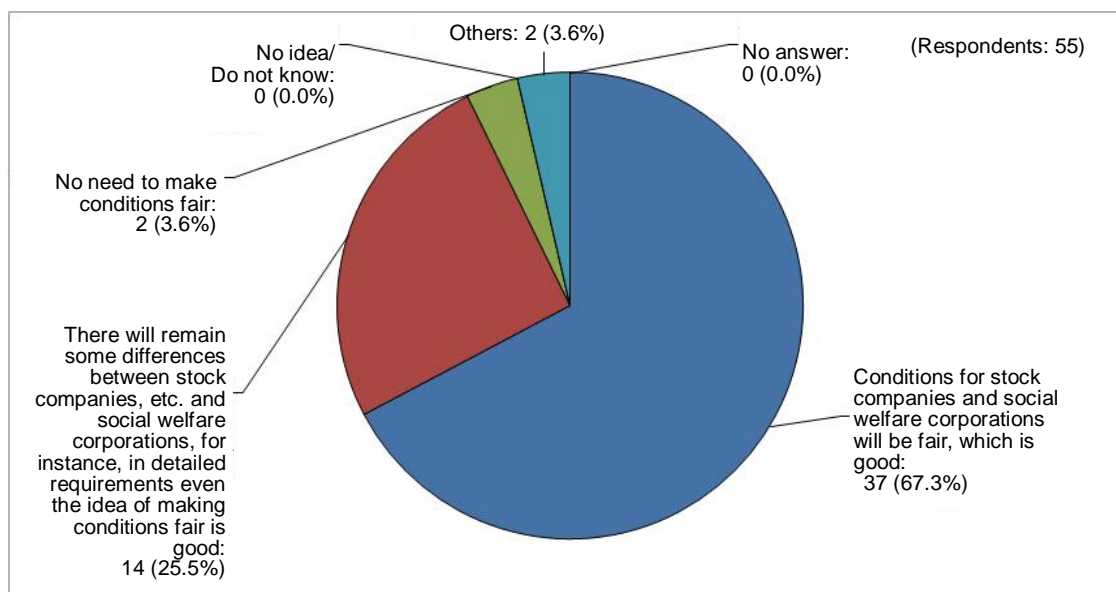


[Source] Survey by the Japan Fair Trade Commission

#### D. Opinions on the new system

Regarding the cost for facility establishment under the new system, the results of the questionnaire for stock companies and other companies operating daycare centers show that 67.3% of respondents consider that “conditions for stock companies and social welfare corporations will be fair, which is good” while 25.5% believe that “there will remain some differences between stock companies, etc. and social welfare corporations, for instance, in detailed requirements even the idea of making conditions fair is good.” This indicates that there is still doubt among stock companies, etc. about whether differences under the current system will disappear, although the new system is appreciated. At the public meetings too, some people expressed that “under the new system, differences in treatment of social welfare corporations and stock companies will institutionally be smaller, but some differences will remain, such as subsidy system implemented as local single project when looked at individually.” Even under the new system, it is possible that the above-mentioned problems remain if differences in subsidy systems caused by the form of corporation do not disappear.

**Figure 25: Opinion of stock companies, etc. on treatment of facility establishment cost under the new system**



[Source] Survey by the Japan Fair Trade Commission

## (2) Taxation system

### A. Outline of the system

Even though social welfare corporations and stock companies, etc. operate daycare centers in the same way, they are treated differently under the current taxation system. Social welfare corporations are exempted from corporate tax, local inhabitant taxes, and enterprise tax in principle. This exemption remains the same under the new system. The reasons for such a preferential tax system applied to social welfare corporations is explained as: “Social welfare corporations receive subsidies and tax benefits because they are required to provide services under certain restrictions and deal with welfare needs in communities (including responding to low-income people and poor people) as not-for-profit corporations who operate social welfare services that serve public interest as their principal business.”<sup>67</sup>

<sup>67</sup> See the material submitted by the Ministry of Health, Labour and Welfare for the 25th meeting of “The Council for Regulatory Reform” (February 4, 2014) by the Cabinet Office.

**Figure 26: Summary of taxation system by the form of corporation**

	Social welfare corporation	Educational foundation	Non-profit incorporated association/Non-profit incorporated foundation	Specified non-profit organization (excluding authorized NPOs)	Medical corporation	Social medical corporation	Stock company
Corporate tax	<p>&gt; Not levied in principle</p> <p>* Levied 19% tax only on income derived from profit-making business (15% on up to 8 million yen of income in case of business year from April 1, 2012, to March 31, 2015)</p>	<p>&gt; Not levied in principle</p> <p>* Levied 19% tax only on income derived from profit-making business (15% on up to 8 million yen of income in case of business year from April 1, 2012, to March 31, 2015)</p>	<p>&gt; Not levied in principle</p> <p>* Levied 25.5% tax only on income derived from profit-making business (however, 19% on up to 8 million yen (15% in case of business year from April 1, 2012, to March 31, 2015), while not levied on profit-making businesses classified as public benefit services)</p>	<p>- Not levied in principle</p> <p>* Levied 25.5% tax only on income derived from profit-making business (15% on up to 8 million yen of income in case of business year from April 1, 2012, to March 31, 2015)</p>	<p>&gt; Levied</p> <p>- Levied 25.5% on income (however, 19% on up to 8 million yen (15% in case of business year from April 1, 2012, to March 31, 2015). In case of medical corporation having equity interest, the above applied only to such corporations with capital of 100 million yen or less.)</p>	<p>&gt; Not levied in principle</p> <p>* Levied 19% tax only on income derived from services other than healthcare operations (15% on up to 8 million yen of income in case of business year from April 1, 2012, to March 31, 2015)</p>	<p>&gt; Levied</p> <p>- Levied 25.5% on income (however, 19% on up to 8 million yen (15% in case of business year from April 1, 2012, to March 31, 2015). The above applied only to stock companies with capital of 100 million yen or less.)</p>
	<p>&gt; Not levied in principle</p> <p>* When carrying out profit-making business:</p> <ul style="list-style-type: none"> <li>- Equally divided: 20,000 yen</li> <li>- Income divided: 5% of corporate tax</li> </ul> <p>* However, if 90% or more of profits are spent on managing social welfare business, the above profit-making business is not deemed as profit-making business.</p>	<p>&gt; Not levied in principle</p> <p>* When carrying out profit-making business:</p> <ul style="list-style-type: none"> <li>- Equally divided: 20,000 yen</li> <li>- Income divided: 5% of corporate tax</li> </ul> <p>* However, if 90% or more of profits are spent on managing private school(s), the above profit-making business is not deemed as profit-making business.</p>	<p>&gt; Levied in principle</p> <p>* Corporations engaged in establishment of museum(s) or academic studies are not levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 20,000 yen</li> <li>- Income divided: 5% of corporate tax only on income derived from profit-making business (however, profit-making businesses classified as public benefit services are not levied)</li> </ul>	<p>&gt; Levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 20,000 yen</li> <li>- Income divided: 5% of corporate tax only on income derived from profit-making business</li> </ul>	<p>&gt; Levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 20,000 yen</li> <li>- Income divided: 5% of corporate tax</li> </ul>	<p>&gt; Levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 20,000 yen</li> <li>- Income divided: 5% of corporate tax only on income derived from services other than healthcare operations</li> </ul>	<p>&gt; Levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 20,000 yen</li> <li>- Income divided: 5% of corporate tax</li> </ul>
Prefectural, municipal and city tax	<p>&gt; Not levied in principle</p> <p>* When carrying out profit-making business:</p> <ul style="list-style-type: none"> <li>- Equally divided: 50,000 yen</li> <li>- Income divided: 12.3% of corporate tax</li> </ul> <p>* However, if 90% or more of profits are spent on managing social welfare business, the above profit-making business is not deemed as profit-making business.</p>	<p>&gt; Not levied in principle</p> <p>* When carrying out profit-making business:</p> <ul style="list-style-type: none"> <li>- Equally divided: 50,000 yen</li> <li>- Income divided: 12.3% of corporate tax</li> </ul> <p>* However, if 90% or more of profits are spent on managing private school(s), the above profit-making business is not deemed as profit-making business.</p>	<p>&gt; Levied in principle</p> <p>* Corporations engaged in establishment of museum(s) or academic studies are not levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 50,000 yen</li> <li>- Income divided: 12.3% of corporate tax only on income derived from profit-making business (however, profit-making businesses classified as public benefit services are not levied)</li> </ul>	<p>&gt; Levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 50,000 yen</li> <li>- Income divided: 12.3% of corporate tax only on income derived from profit-making business</li> </ul>	<p>&gt; Levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 50,000 yen</li> <li>- Income divided: 12.3% of corporate tax</li> </ul>	<p>&gt; Levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 50,000 yen</li> <li>- Income divided: 12.3% of corporate tax only on income derived from services other than healthcare operations</li> </ul>	<p>&gt; Levied</p> <ul style="list-style-type: none"> <li>- Equally divided: 50,000 yen</li> <li>- Income divided: 12.3% of corporate tax</li> </ul>

Enterprise tax	> Not levied in principle * Levied only on income derived from profit-making business - Of income, ≤ 4,000,000: 5% 4,000,001 - 8,000,000: 7.3% ≥ 8,000,001: 9.6%	> Not levied in principle * Levied only on income derived from profit-making business - Of income, ≤ 4,000,000: 5% 4,000,001 - 8,000,000: 7.3% ≥ 8,000,001: 9.6%	> Not levied in principle * Levied only on income derived from profit-making business - Of income, ≤ 4,000,000: 5% 4,000,001-8,000,000: 7.3% ≥ 8,000,001: 9.6% (however, profit-making businesses classified as public benefit services are not levied)	> Not levied in principle * Levied only on income derived from profit-making business - Of income, ≤ 4,000,000: 5% 4,000,001-8,000,000: 7.3% ≥ 8,000,001: 9.6%	> Income and expenses derived from social insurance medical care are excluded from gross profits and deductible expenses respectively and are not levied * Levied only on income derived from services other than social insurance medical care - Of income, ≤ 4,000,000: 5% > 4,000,000: 6.6%	> Not levied in principle * Levied only on income derived from services other than healthcare operations - Of income, ≤ 4,000,000: 5% > 4,000,000: 6.6%	> Levied - Of income, ≤ 4,000,000: 5% 4,000,001-8,000,000: 7.3% ≥ 8,000,001: 9.6%
Fixed asset tax	> Not levied in principle on fixed assets used for social welfare business	> Not levied in principle on fixed assets directly used for childcare or education at school(s) > Not levied in principle on fixed assets directly used for dormitory/dormitories of school(s) or advanced vocational school(s) (senshugakko)	> Levied in principle * Not levied on fixed assets used for social welfare business or academic studies, and other buildings such as library and museum (profit-making business is levied) * Tax base is reduced to half regarding lands and buildings used for facilities provided for performances delivered by owned important intangible cultural property (applied to performances between FY2011 and FY2014) - Tax rate: 1.4%	> Levied - Tax rate: 1.4%	> Levied * Not levied on fixed assets used for training school for medical personnel such as nurse operated by some social welfare business or special medical corporation	> Levied * Not levied on fixed assets used for training school for medical personnel such as nurse operated by some social welfare business or special medical corporation * Not levied on fixed assets used for operations of business to secure emergency medical care	> Levied - Tax rate: 1.4%

[Source] Material document at the first meeting of “Commission on Status of Social Welfare Corporations” by the Ministry of Health, Labour and Welfare

## B. Opinions on the system

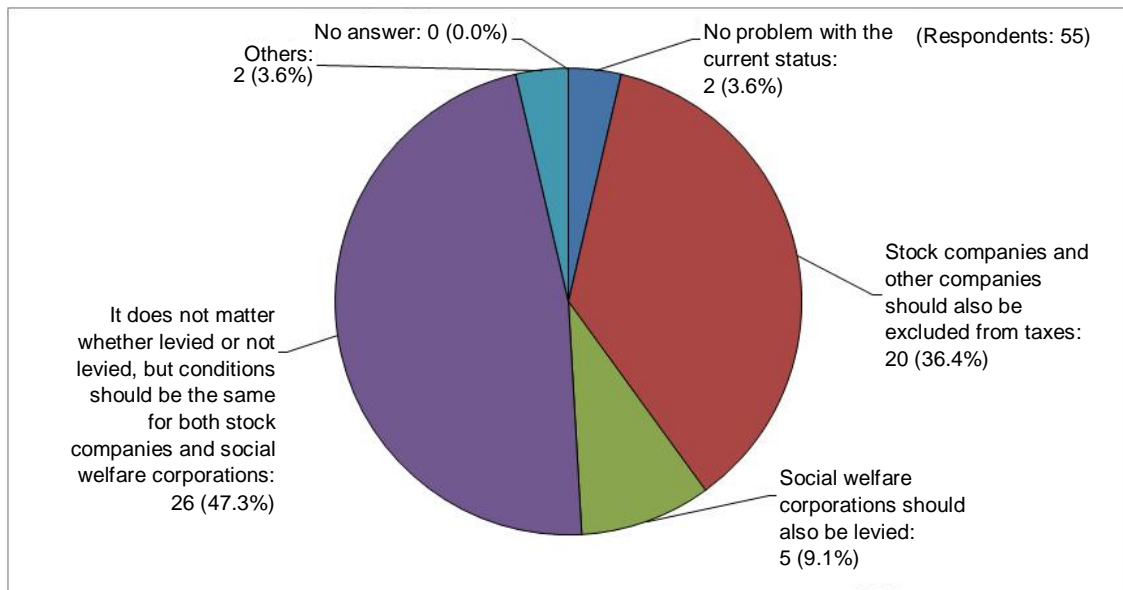
Some opinions were expressed as follows: “As the amount of surplus funds changes depending on whether or not tax is imposed, the ease of establishing of daycare centers also changes” at the public meetings, “Since there is basically no difference between stock companies and social welfare corporations in terms of incomes derived from the management and operation, whether or not tax is imposed makes difference in childcare services” for the questionnaire for stock companies, etc., and “We believe we are contributing to the society through tax payment. I am not asking for exclusion from taxation, but the impact of being levied taxes on management of childcare business, which actually brings very little profit, is big,” “A stock company does not usually pay attention to corporate tax for its daycare center(s), but the impact of corporate tax is not small for the entire corporation when looking at investment recovery,” “As stock companies are levied corporate tax, we, as a stock company, have to make more profits in one way or another if we practically want to make the same size of profits as social welfare corporations,” and “While investment is necessary in order to deliver good childcare services, the size of profits that varies depending on taxation affects the size of investment in childcare services, because banks review a company's

profit estimate as borrowing of funds used for such investment” in the interviews with stock companies.

According to the questionnaire for stock companies, etc. operating daycare centers, 36.4% of respondents answered “stock companies, etc. should also be excluded from taxes,” 9.1% said “social welfare corporations should also be levied,” and 47.3% answered “it does not matter whether levied or not levied, but conditions should be the same for both stock companies and social welfare corporations.” In other words, it is considered that more than 90% of respondents hope tax conditions to be the same among businesses establishing daycare centers. At the public meetings, some expressed that “if stock companies are not levied, the amount expected to be paid for taxes can be used as construction funds for the next facility” and “I believe stock companies should be levied, as stock companies are delivering childcare services as business, but there should be certain rules for the use of surplus generated at social welfare corporations (for instance, the surplus must be used for welfare business), as social welfare corporations are not levied.” At the interview with stock companies, there was a voice saying that “conditions for social welfare corporations and stock companies and other companies should be same, while levied or not levied does not matter.”



**Figure 27: Opinions of stock companies, etc. on the tax system**



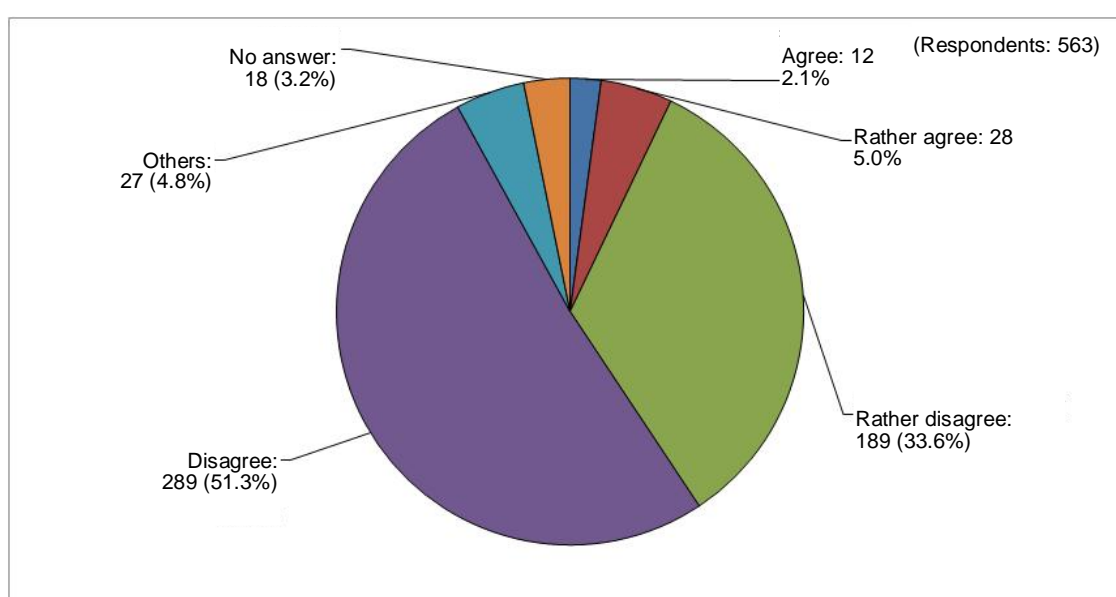
[Source] Survey by the Japan Fair Trade Commission

### (3) Opinions on equal footing for the subsidy and tax systems

Regarding equal footing, that is, providing fair conditions for childcare business between entities establishing daycare centers, the following opinions were heard: “Equal footing should be considered after discussing rules for withdrawal by entities including social welfare corporations,” “If any entity asks for equal footing before discussing rules for withdrawal, it is better for the entity to enter the childcare sector as a social welfare corporation,” “As equal footing is not achieved for social welfare corporations and stock companies, some stock companies enter the childcare sector after setting up a social welfare corporation, which actually requires a lot of efforts, such as taking almost two years,” “Even if equal footing is achieved, I believe there will not be a big problem,” and “Perfect equal footing is not necessary and it cannot be helped that there are some differences, for instance, regarding the subsidy system because stricter restrictions are imposed on social welfare corporations than on stock companies from some aspects, but differences should not be intentionally set beyond the idea of the subsidy and tax systems creating the current conditions” at the public meetings, and “It is not fair to give preferential treatment only to social welfare corporations as not only social welfare corporations but also stock companies are playing important roles in the childcare sector” at the interview. The result of the questionnaire for social welfare corporations shows that 84.9% of respondents “Disagree” (51.3%) or “Rather disagree” (33.6%) with equal footing

with stock companies. However, regarding such a disagreement, some pointed out that “disagreement probably comes from concerns for the possibility of subsidies being lowered to the same level as stock companies rather than equal footing itself” and “there may be some emotional feeling that welfare is a special area in which only social welfare corporations can engage, rather than the correctness or incorrectness of the current systems” at the public meetings.

**Figure 28: Opinions of social welfare corporations regarding equal footing in the subsidy and tax systems**



[Source] Survey by the Japan Fair Trade Commission

As for equal footing, the Council for Regulatory Reform is considering that “the field of nursing care/childcare is a special market where profit-making corporations and not-for-profit organizations are providing the same kinds of services and where various types of management entities need to compete about quality of services utilizing their own strengths in order to improve the convenience of users.” Therefore, the establishment of equal footing among management entities was discussed at the council and in June 2014, it was reported, as a regulatory reform item, that “the Ministry of Health, Labour and Welfare requests local authorities not to set differences depending on the form of management entity in their own subsidy systems.”

**Reference 3: The Council for Regulatory Reform “Second Report on Regulatory Reform”  
(June 13, 2014) (extract)**

**II. Regulatory Reforms in Each Field**

**1. Medical and Healthcare**

**(1) Purposes of regulatory reform and aspects of consideration**

**2) Enhancement of management in nursing care and childcare businesses,  
etc. and establishment of equal footing**

**(Abbreviated)**

In addition, the field of nursing care/childcare is a special market where profit-making corporations and not-for-profit organizations are providing the same kinds of services and where various types of management entities need to compete about quality of services utilizing their own strengths in order to improve the convenience of users.

Therefore, institutional measures will be taken to correct differences varied depending on the form of management entities in subsidy and other systems of local authorities, make social contribution activities obligatory for all social welfare corporations, and give them advice, such as on removal of responsible officer(s) upon acting against such an obligation, with the purpose of establishing equal footing among management entities.

**(2) Specific regulatory reform items**

**2) Enhancement of management in nursing care and childcare businesses,  
etc. and establishment of equal footing**

**B. Disclosure of information on subsidies, etc. (Obligation of disclosure is the measure taken in FY2014. The measure for clear disclosure to the public is taken when electronic information disclosure system is built. Request for local authorities is the measure that is to be taken in FY2015.)**

**(Abbreviated)**

Furthermore, the Ministry of Health, Labour and Welfare requests local authorities not to set differences depending on the form of management entities in their own subsidy systems.

(Underline above added by the Japan Fair Trade Commission)

**3. Information Disclosure and Third-party Evaluations**

In order to examine if the current environment allows users to select appropriately, a survey was implemented on systems and actual status of information disclosure and third-party evaluations that offer users the basis of childcare facility selection.

**(1) Information disclosure**

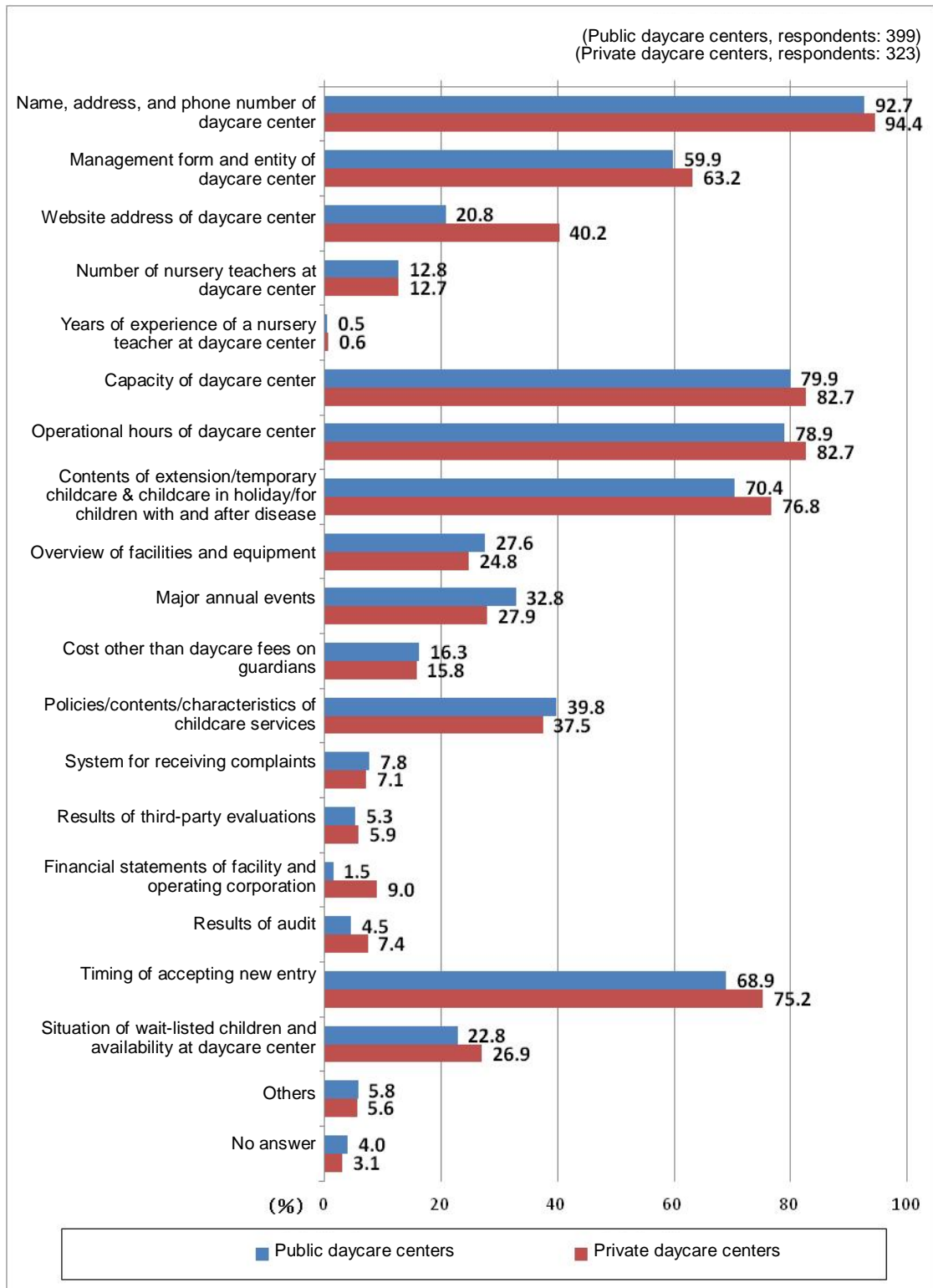
**A. Overview and state of the current system**

In the current system, the Child Welfare Act specifies that municipalities are obliged to provide information on the management situation of daycare centers (Child Welfare Act, Article 24, paragraph (5)). In addition, daycare centers are imposed a duty to provide information on their respective childcare services to residents in the areas where the relevant daycare centers are located (Child Welfare Act, Article 48-3, paragraph (1)).

At the interview with municipalities, some municipalities answered they were positively disclosing information, while it was shown that other municipalities did not have systems to understand what kind of information guardians asked for.

The following is the result of the questionnaire on information provided online by municipalities.

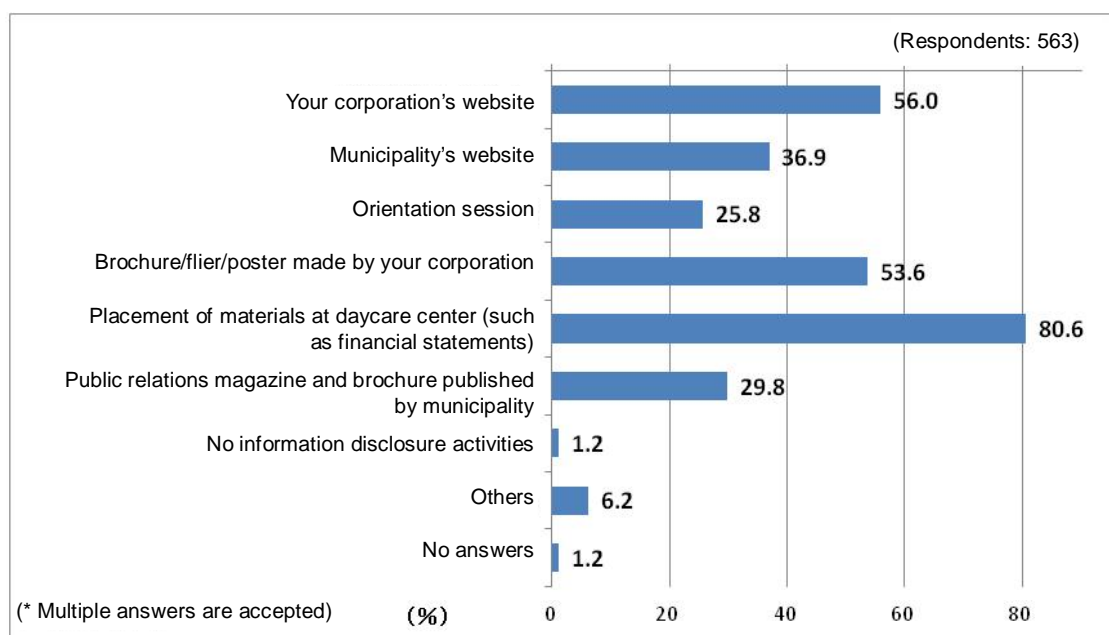
**Figure 29: Information provided online by municipalities**



[Source] Survey by the Japan Fair Trade Commission

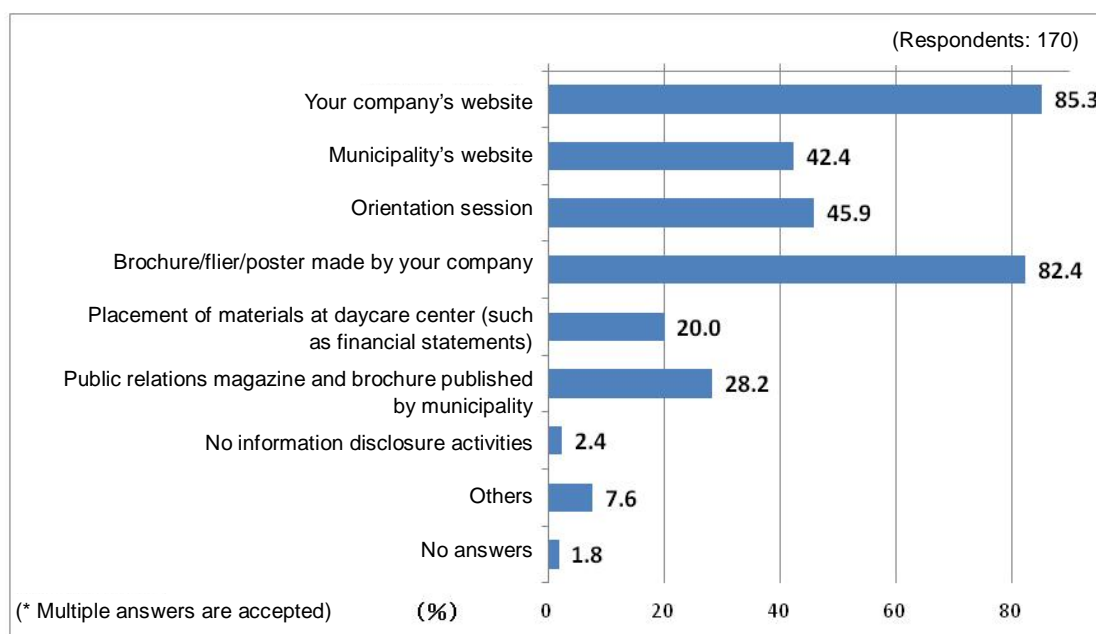
Below is the result of a questionnaire regarding the methods and contents of information disclosure by operators.

**Figure 30: Methods of information disclosure by operators**  
[Social welfare corporations]



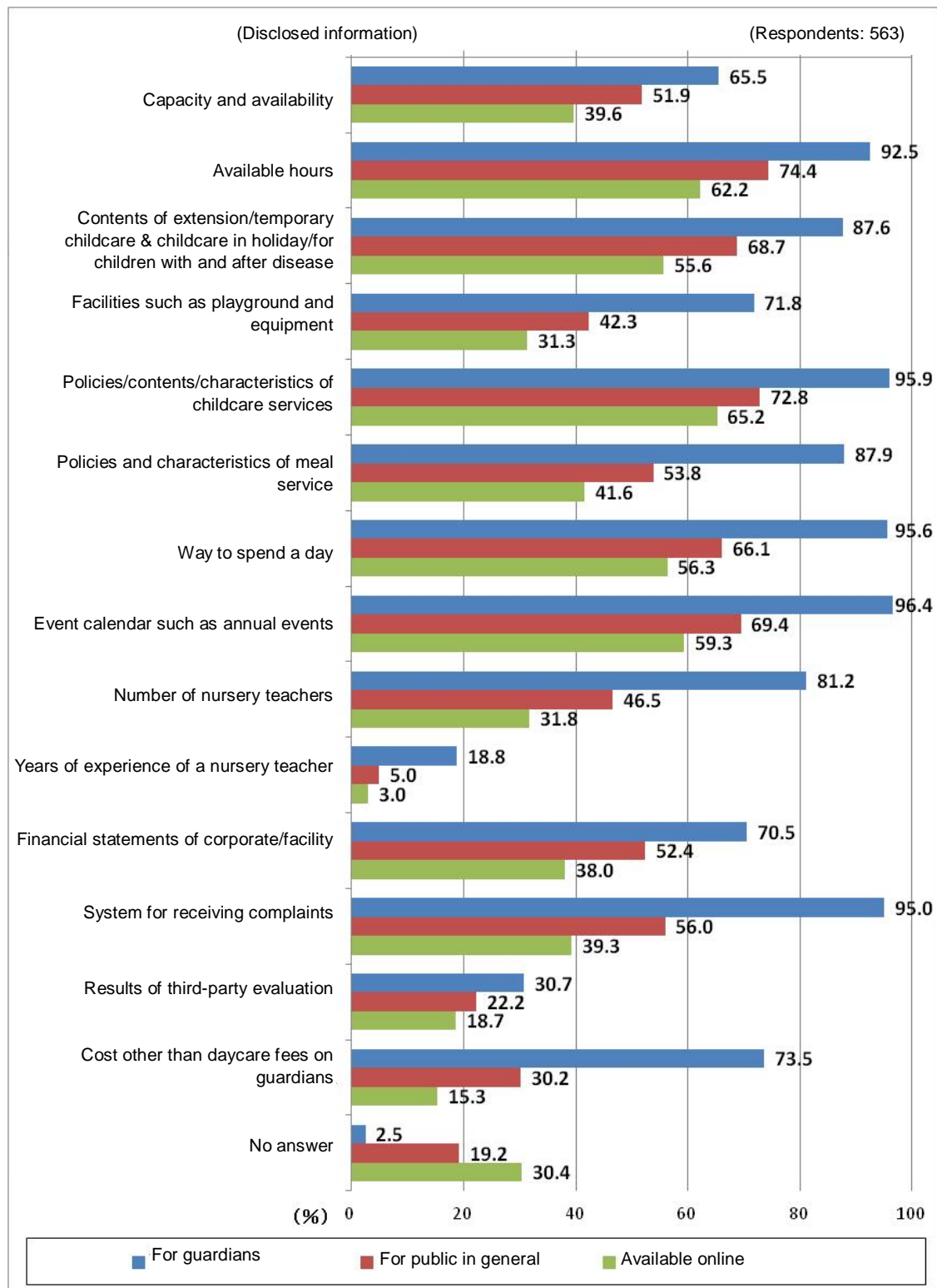
[Source] Survey by the Japan Fair Trade Commission

[Stock companies, etc.]



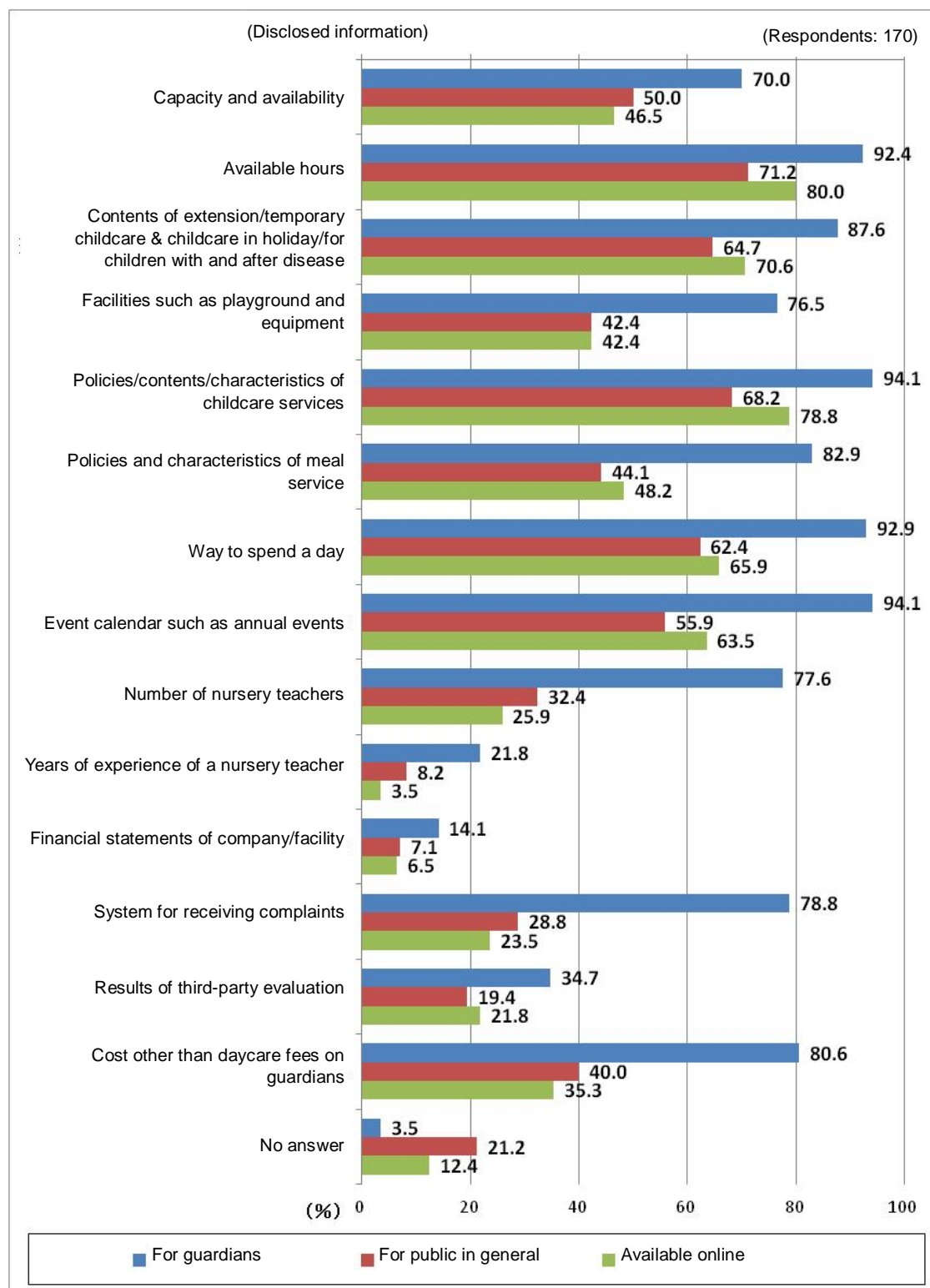
[Source] Survey by the Japan Fair Trade Commission

**Figure 31: Information disclosed by operators**  
[Social welfare corporations]



[Source] Survey by the Japan Fair Trade Commission

[Stock companies, etc.]



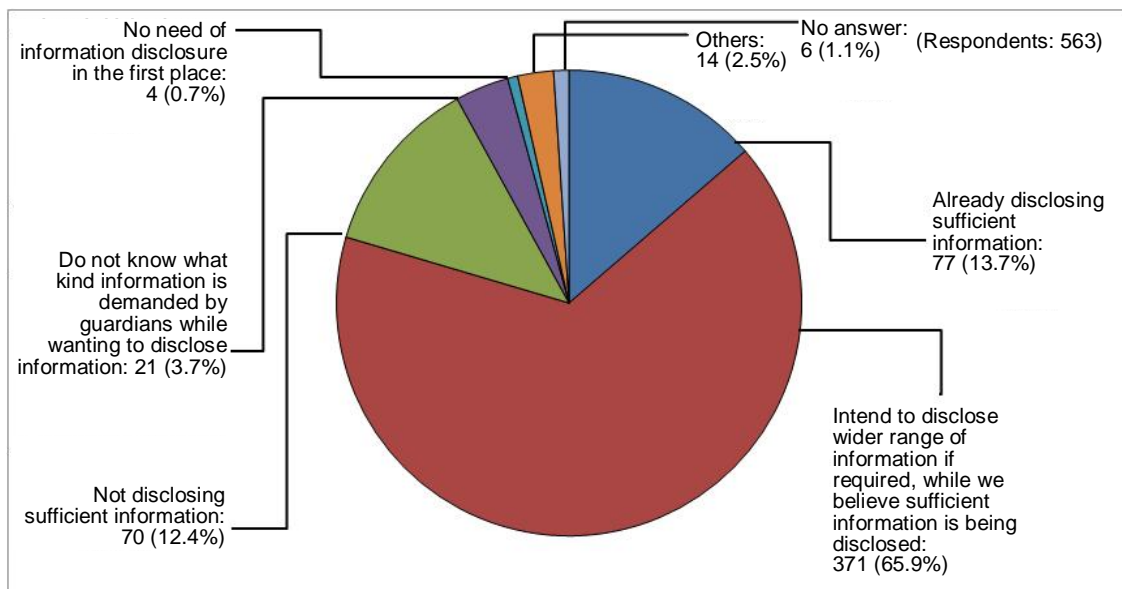
[Source] Survey by the Japan Fair Trade Commission



The results of the questionnaire on views about information disclosure indicate that, for both social welfare corporations and stock companies, etc., many respondents “intend to disclose wider range of information if required, while we believe sufficient information is being disclosed” (social welfare corporations: 65.9%, stock companies, etc.: 62.4%), whereas some “do not know what kind information is demanded by guardians, while wanting to disclose information” (social welfare corporations: 3.7%, stock companies, etc.: 2.9%). Moreover, at the public meeting, an attendant said that “many corporations and stock companies seem to think the placement of materials at daycare center and reporting to government offices are enough.”

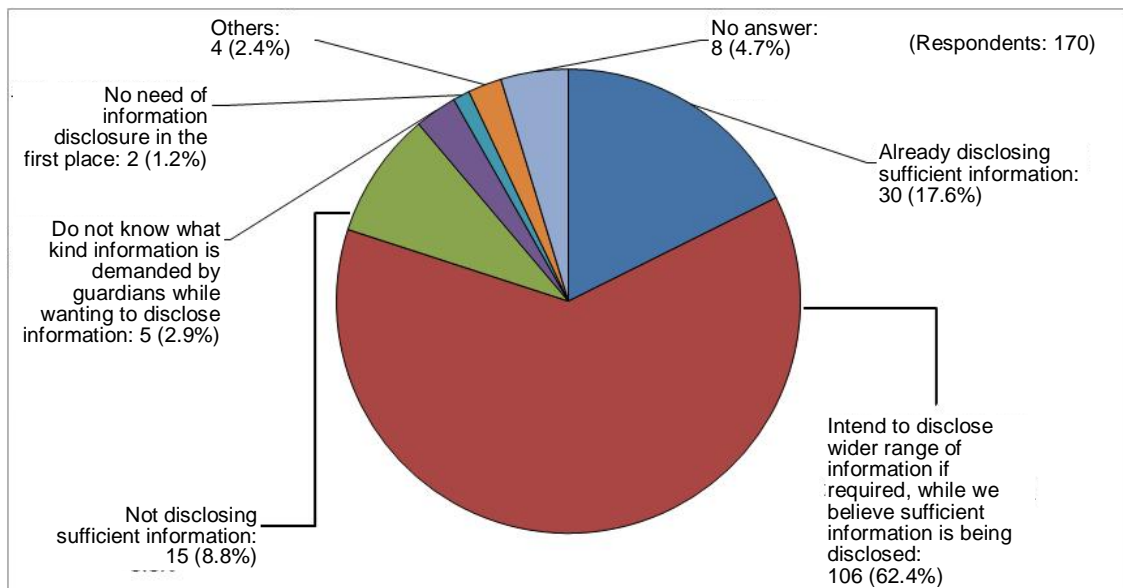
**Figure 32: Views of operators about information disclosure**

[Social welfare corporations]



[Source] Survey by the Japan Fair Trade Commission

[Stock companies, etc.]



[Source] Survey by the Japan Fair Trade Commission

Regarding views of guardians on information disclosure, on the other hand, the results of the questionnaire conducted for users of daycare centers show that “Neighbors/friends” (34.5%), “Participation in orientation session” (30.2%), “Daycare center’s website” (28.8%), and “Municipality’s website” (21.1%) are most common as a way for information gathering when selecting a daycare center. In addition, 34.3% of respondents answered, “Yes” for whether information was difficult to obtain on the website. Such information include, “Capacity and availability” (62.9%) and “Class composition” (29.0%) as well as “Facilities such as playground and equipment,” “Years of experience of a nursery teacher,” and “Additional cost other than daycare fees” (27.4% for each).

According to the questionnaire for users of non-registered childcare facilities, the most common used way of information gathering when choosing a childcare facility, etc., was “Website of childcare facility, etc.” (50.0%), followed by “Municipality’s website” (43.0%), “Neighbors/friends” (28.0%), and “Participation in orientation session” (22.0%). Furthermore, 56.5% of respondents said “Yes” for “Some information is difficult to obtain on web site.” As for contents of such information, “Capacity and availability” (54.3%) as well as “Facilities such as playground and equipment,” “Contents of meal service,” and “Additional cost other than daycare fees” (25.7% for each) were named.

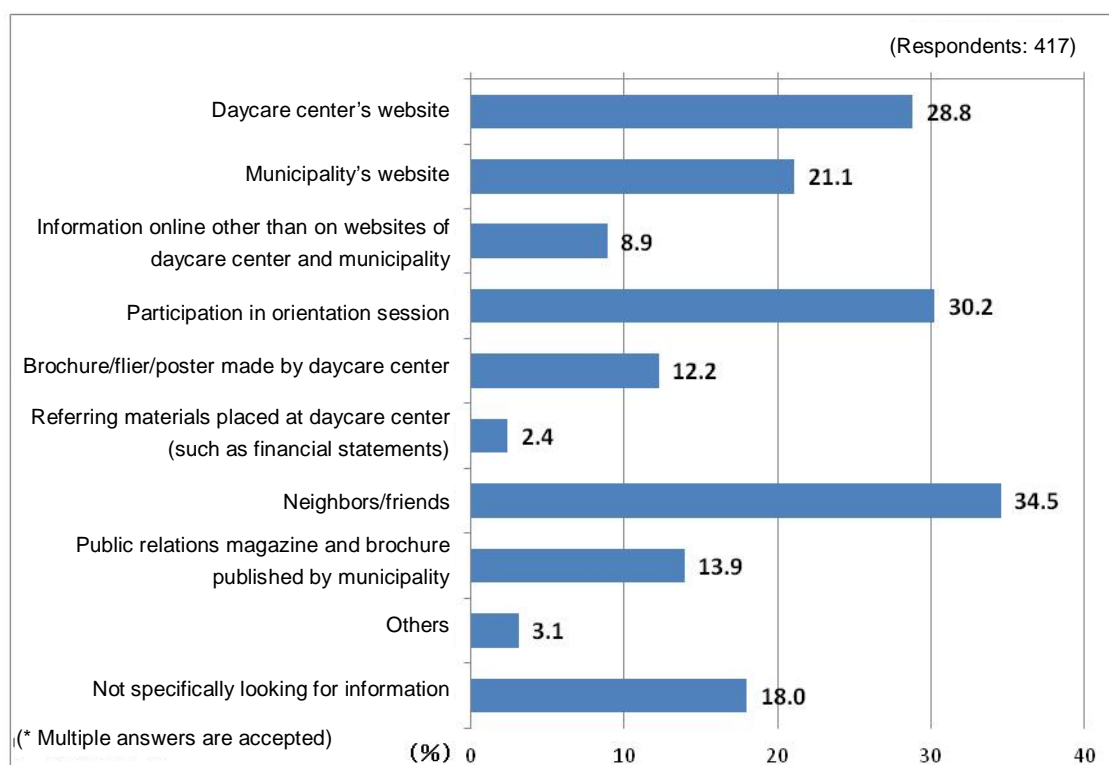
The results of the questionnaire for non-users of childcare facilities indicates that “Website of childcare facility, etc.” (34.8%) is the most common way to collect

information when selecting a childcare facility, etc., followed by “Neighbors/friends” (33.5%), and “Municipality’s website” (32.0%). In addition, the number of respondents who answered “Yes,” that is, who had difficulties in collecting information on the website, was 48.2%. The contents of information difficult to collect include “Capacity and availability” (78.5%), “Additional cost other than daycare fees” (45.6%), “Years of experience of a nursery teacher” (43.0%), and “Contents of meal service” (38.0%).

Judging from the results of these questionnaires, there are gaps between information demanded by guardians and that actually disclosed by municipalities and childcare facility operators. It is noteworthy that the most common way for information disclosure was “Placement of materials at daycare center” (80.6%) according to the questionnaire for social welfare corporations, while the number of guardians who gathered information through materials placed at daycare center was just 2.4% (daycare center users) according to the questionnaire for guardians.

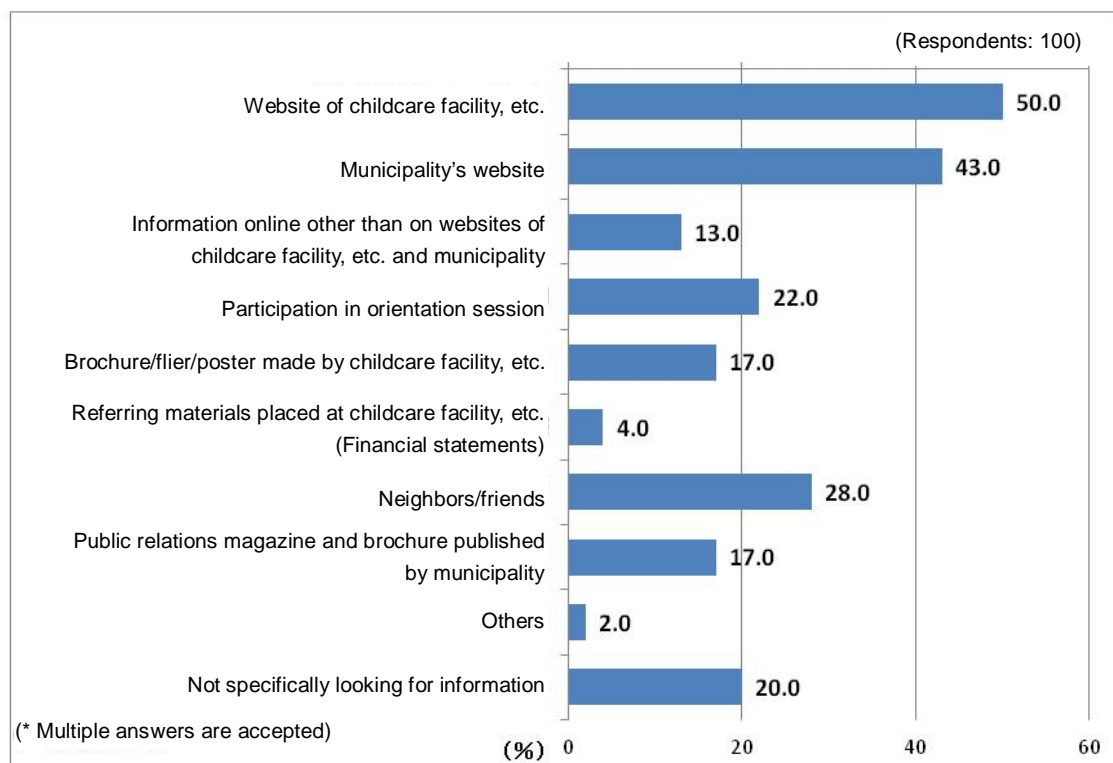
**Figure 33: Way to obtain information for guardians**

[Daycare center users]



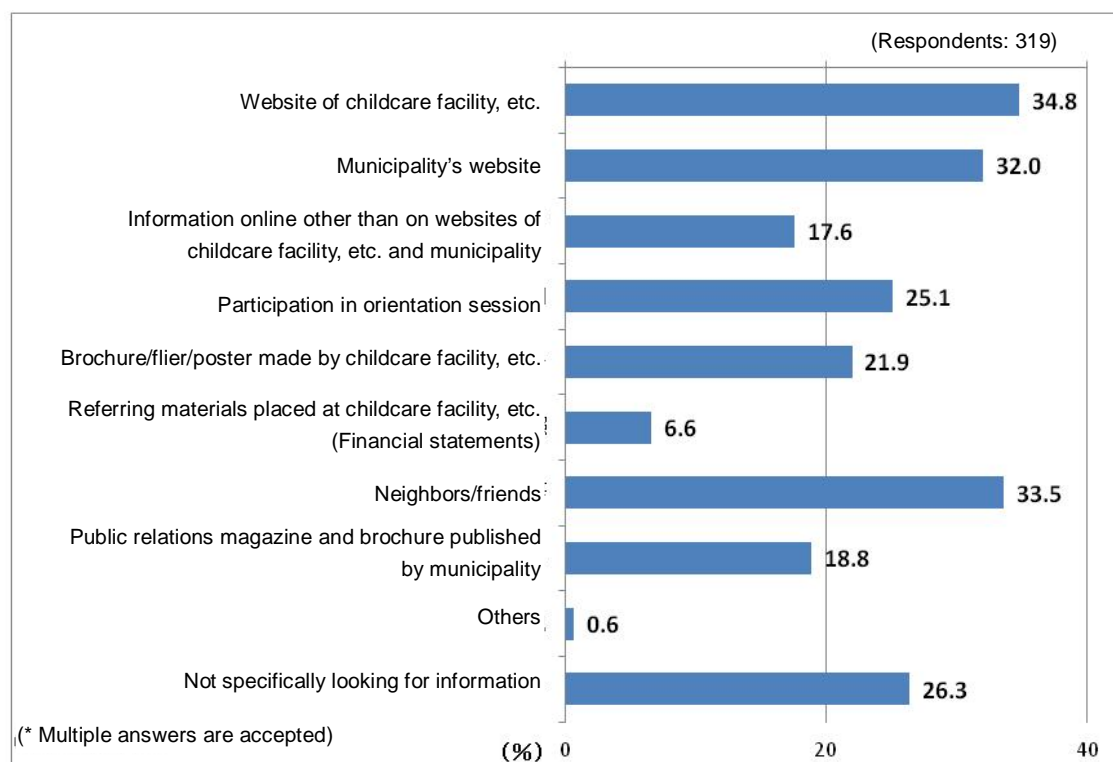
[Source] Survey by the Japan Fair Trade Commission

[Users of non-registered childcare facilities]



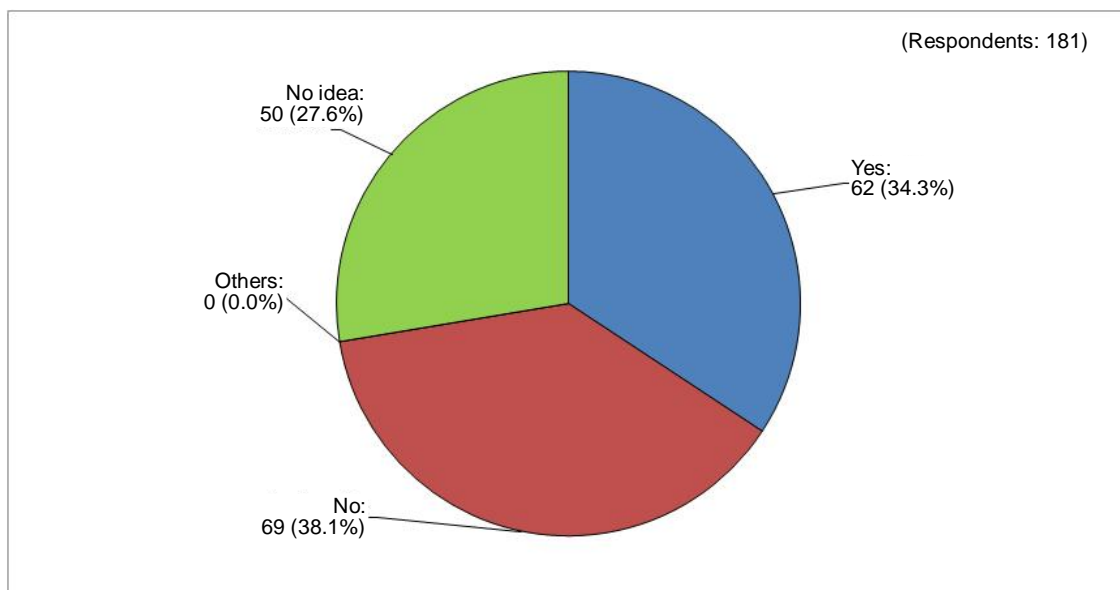
[Source] Survey by the Japan Fair Trade Commission

[Non-users of childcare facilities]



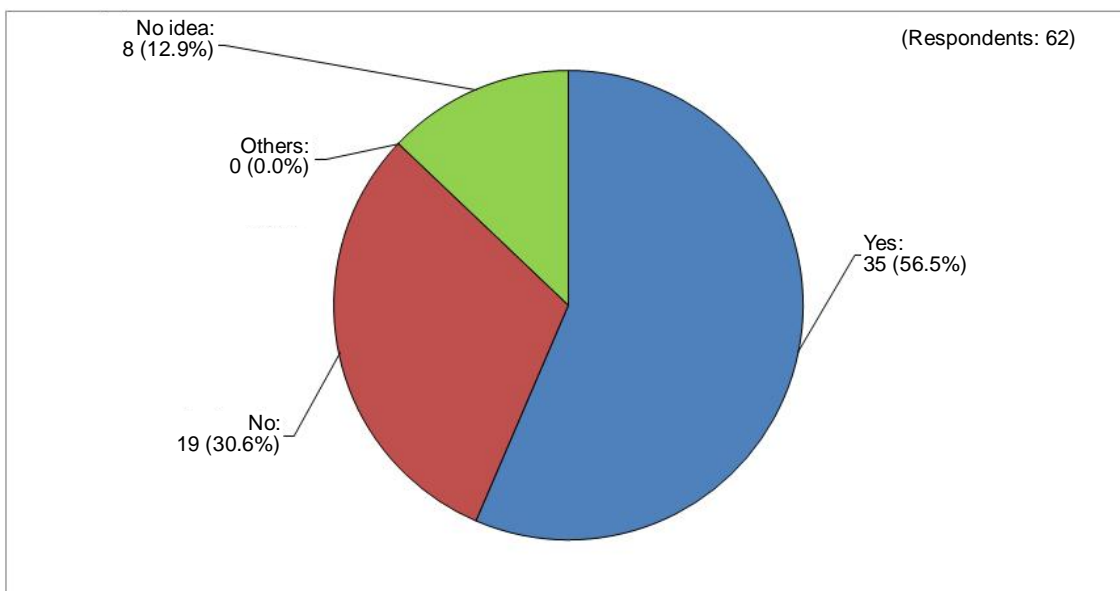
[Source] Survey by the Japan Fair Trade Commission

**Figure 34: Whether information was difficult for guardians to obtain online**  
 [Daycare center users]



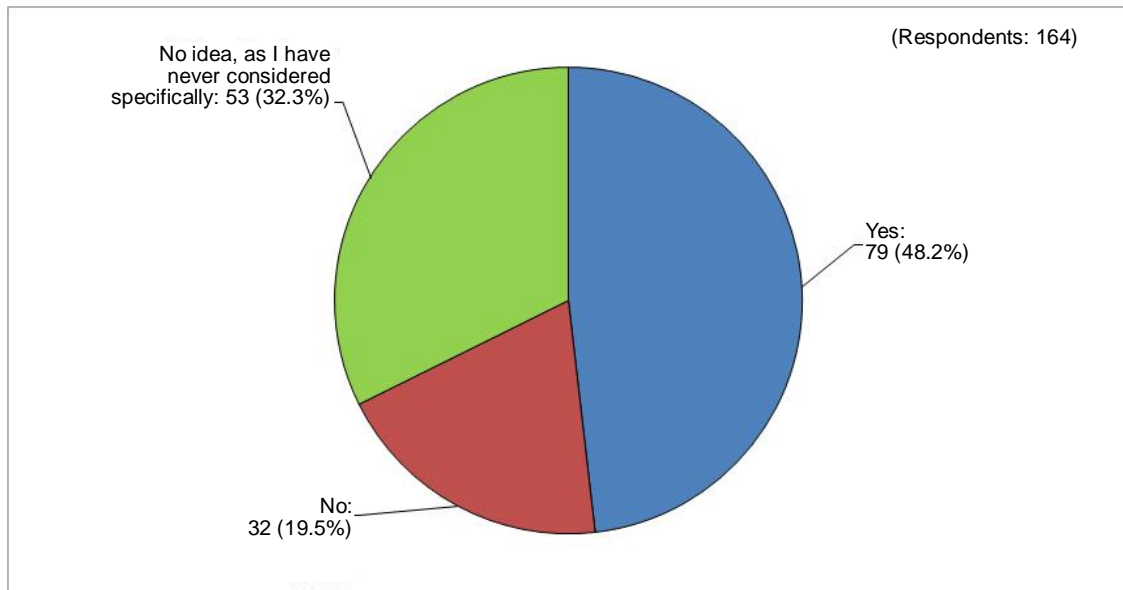
[Source] Survey by the Japan Fair Trade Commission

[Users of non-registered childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

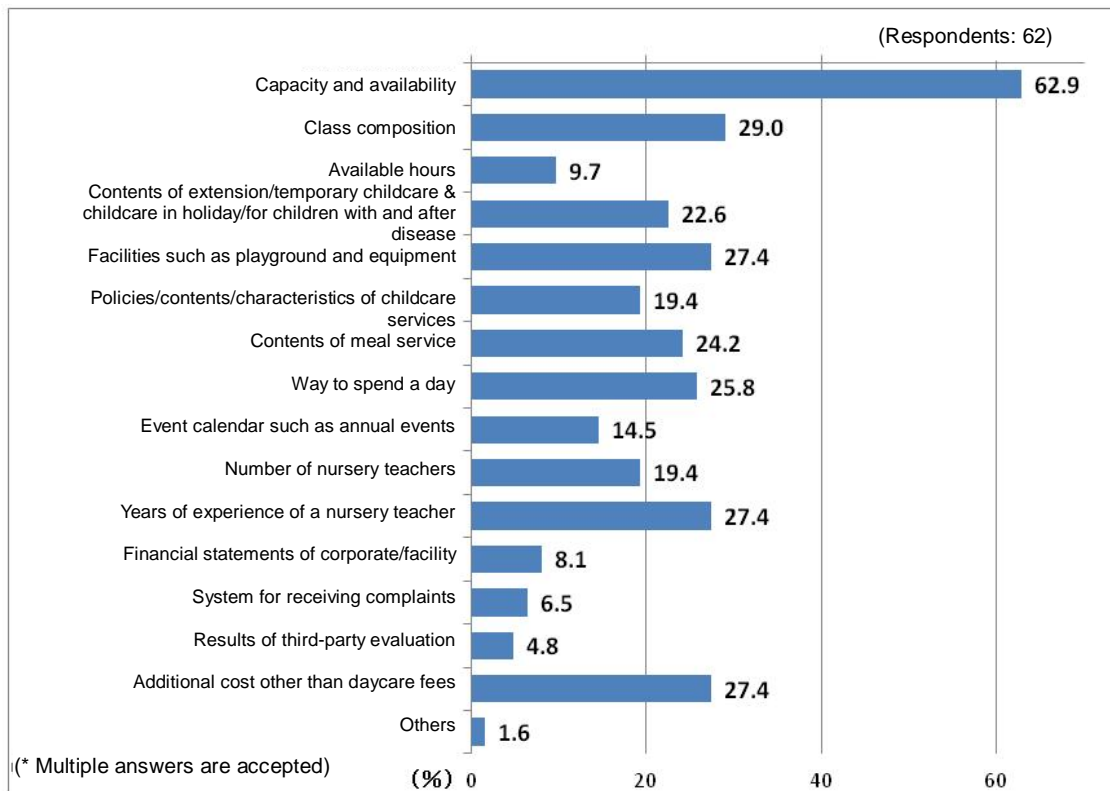
[Non-users of childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

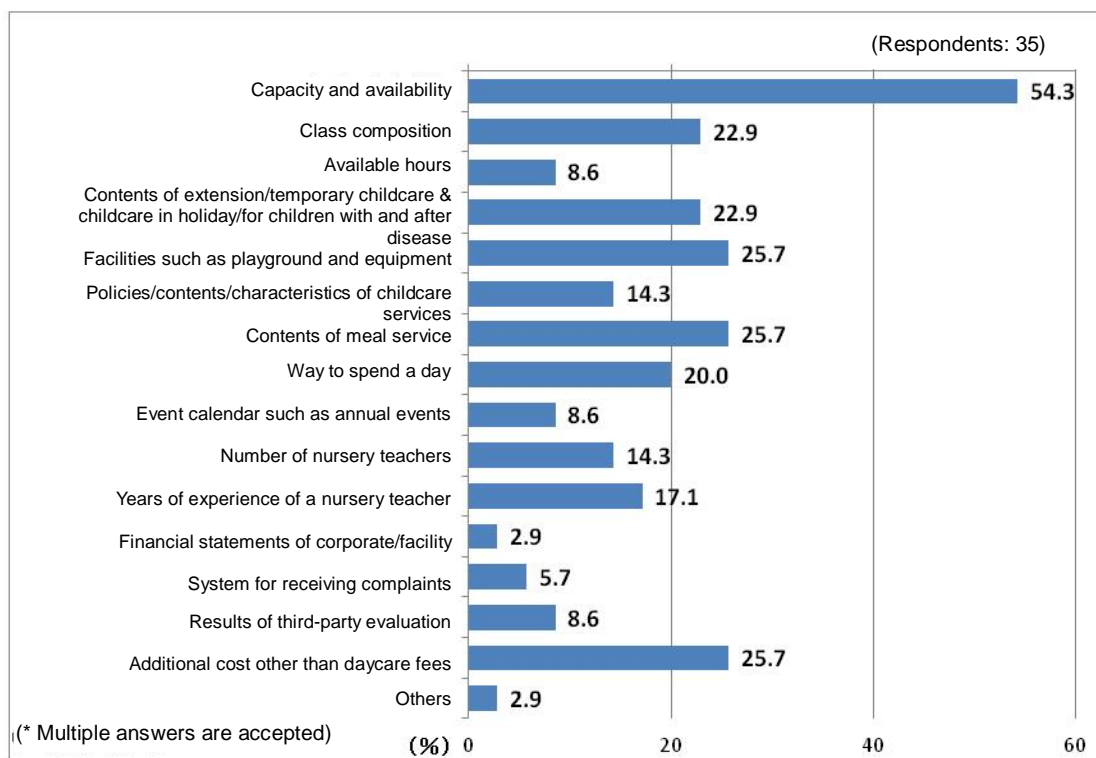
**Figure 35: Contents of information difficult for guardians to obtain online**

[Daycare center users]



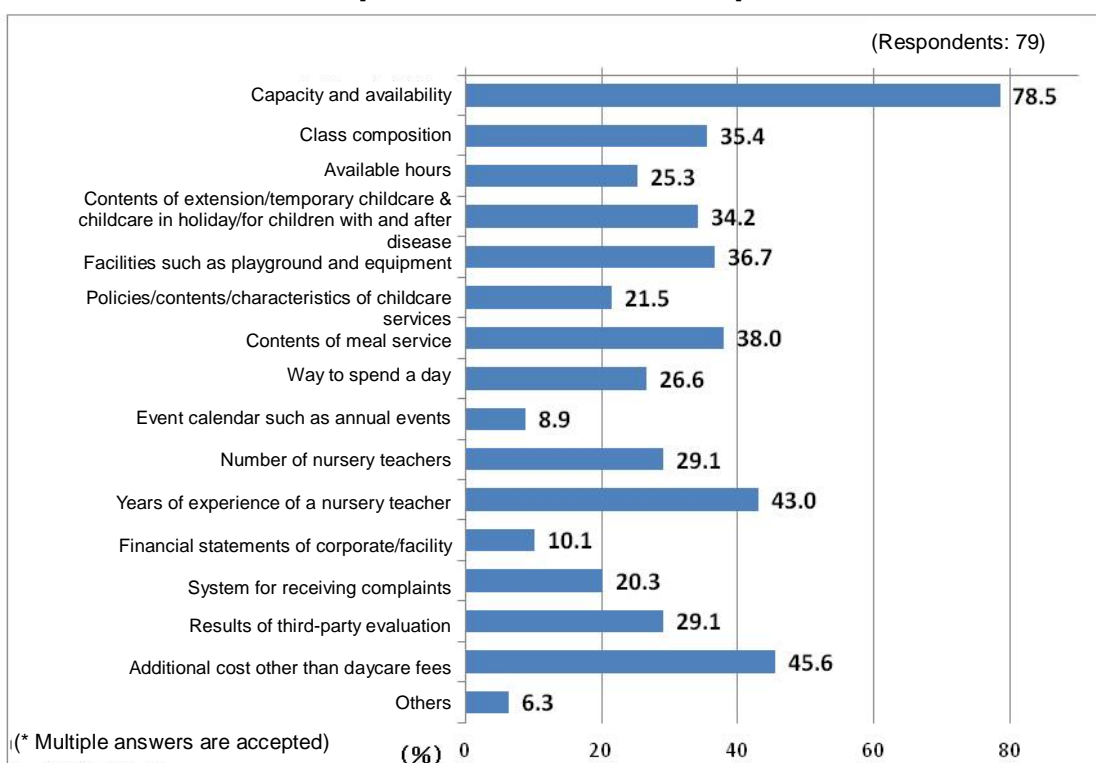
[Source] Survey by the Japan Fair Trade Commission

### [Users of non-registered childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

### [Non-users of childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

## B. Overview of the new system

In the new system, the Act on Children and Childrearing Support asks establishing entities of daycare centers and other facilities to provide prefectural governors with information on their education and childcare services when starting business operations in order to improve the transparency of the facility and business and the quality of education and childcare (Act on Children and Childrearing Support, Article 58, paragraph (1)). Being informed, prefectural governors are required to make the contents of such information public (Act on Children and Childrearing Support, Article 58, paragraph (2)).

Specific items of such information to be provided and released are considered to be as follows. This obligation of making best efforts to provide information imposed on daycare centers based on the Child Welfare Act remains the same from the current system.

**Figure 36: Specific items of information to be provided and released**

Category		Main items
Basic information	Corporation	<ul style="list-style-type: none"> <li>Name, address, name of representative, etc.</li> </ul>
	Facility	<ul style="list-style-type: none"> <li>Facility type (kindergarten, daycare center, certified children's center), type of child and childcare projects (small-scale daycare services, family style daycare services, daycare services at offices, home-visit daycare services)</li> <li>Name, address, etc.</li> <li>Status of facilities and equipment (living area, capacity, center building area, center garden area, etc.)</li> <li>Status of staff (number of staff members by job type, whether or not having license, full-time or part-time, years of service and years of experience, etc.)</li> <li>Number of children per staff member</li> <li>Capacity of users, number of classes, number of registered children</li> <li>Operational hours, etc.</li> <li>...</li> </ul>
Operational information		<ul style="list-style-type: none"> <li>Operational policy of facility and business</li> <li>Contents and characteristics of education and childcare services</li> <li>Selection criteria</li> <li>Implementation status of meal services</li> <li>Current status of consultation and responses to complaints, etc.</li> <li>Results of self-evaluation, etc.</li> <li>Responses to accident, etc.</li> <li>...</li> </ul>

[Source] Preparatory Office for the Comprehensive Support System for Children and Child-rearing. Cabinet Office, “the Comprehensive Support System for Children and Child-rearing”

## C. Opinions on information disclosure

As for the meaning of information disclosure, the following views were expressed at the interview: “As daycare centers are operated behind closed doors, information should be disclosed to monitor from outside,” “Information disclosure is necessary to contribute to convenience for users when selecting a daycare center, and it is desirable that useful information that can be used as a reference for selection is disclosed,” “Disclosing specific information promotes constant improvement of quality of childcare services, since making information public imposes obligation of implementation and compliance on daycare center operators and the more specific information is disclosed,



the more clearly differences among day-care centers are shown, encouraging the operators to make better efforts , “Because the amount of daycare fees guardians should pay is same for all daycare centers, guardians cannot select if they cannot identify differences among daycare centers. Therefore, daycare centers should disclose information voluntarily,” and “Information should essentially be disclosed on their own initiative, as information disclosure protects daycare centers from unreasonable criticism.”

## (2) Third-party evaluation

### A. Overview and state of the current system

The Social Welfare Act prescribes that “an administrator of social welfare services must endeavor to provide high-quality and adequate welfare services by taking such measures as voluntarily evaluating the quality of welfare services he/she provides, always from the viewpoint of persons receiving welfare services” (Social Welfare Act, Article 78, paragraph (1)). Based on the idea of this article, it is promoted that social welfare services, including childcare services, receive third-party evaluation.<sup>68</sup>

Third-party evaluation is the evaluation that a fair and unbiased third-party organization performs to assess, from the professional and objective standpoint, the quality of services delivered by operators. The aim is to improve the quality of services by providing operators the opportunity to recognize issues in their business operations, and it is expected that the announced results of evaluation become information that contributes to appropriate service selection by users.<sup>69</sup>

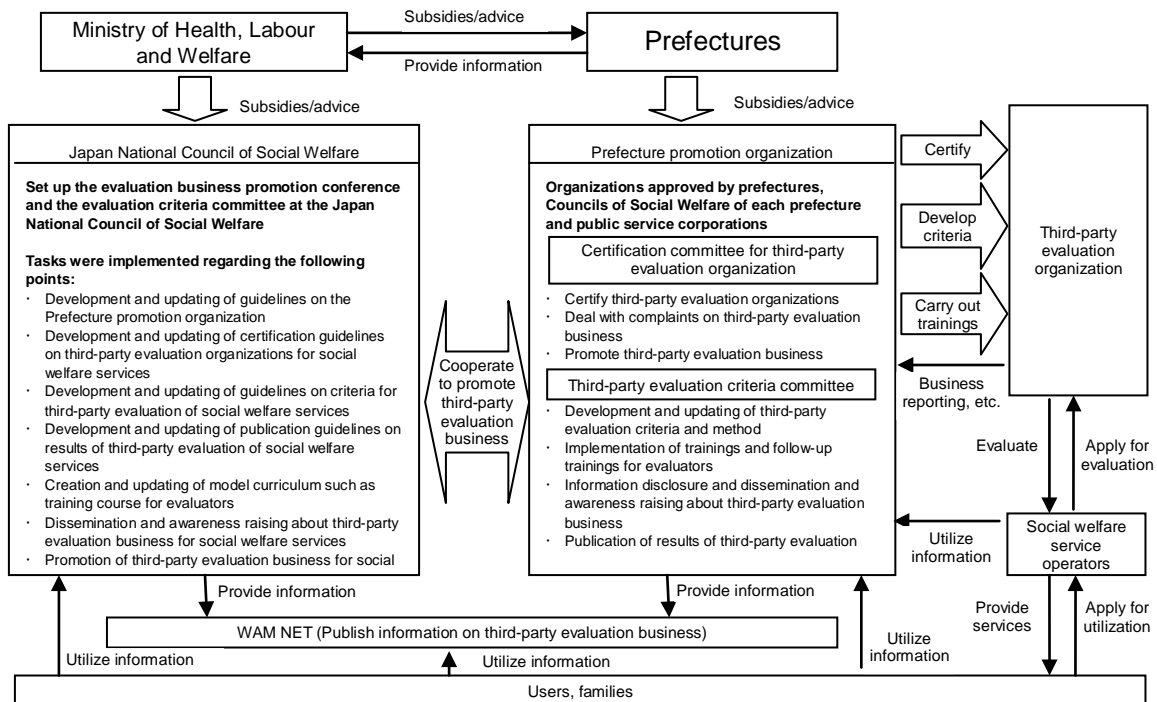
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<sup>68</sup> Public notice from the chiefs of the Equal Employment, Children and Families Bureau, Social Welfare and War Victims' Relief Bureau, Health and Welfare Bureau for the Elderly, the Ministry of Health, Labour and Welfare, “Complete Revision of ‘Guidelines on Social Welfare Service Third-Party Evaluation Business’” (KOJIHATSU, No. 0401-12, SHAENHATSU, No. 0401-33, ROHATSU, No. 0401-11 April 1, 2014).

<sup>69</sup> エラー! ブックマークが定義されていません。 Same as Note エラー! ブックマークが定義されていません。 .

**Figure 37: System to promote third-party evaluation**

System to promote third-party evaluation business for social welfare services



[Source] Website of the Japan National Council of Social Welfare

Receiving third-party evaluation on daycare centers is optional<sup>70</sup> for operators, and the rate of such reception is 4.34% in 2012.<sup>71</sup> It is assumed that the number of receptions of evaluation is unbalanced among communities.<sup>72</sup>

The questionnaire for operators also shows that many operators, both social welfare corporations and stock companies, etc., have not received third-party evaluations.

<sup>70</sup> In 2012, it became obligatory for foster homes, infant homes, short-term therapeutic institutions for emotionally disturbed children, children's self-reliance support facilities, and maternal and child living support facilities among social care facilities to receive a third-party evaluation every three years and to publish results of those evaluations ("Criteria for Facilities or Operation of a Child Welfare Institution" (Ordinance of the Ministry of Health and Welfare No. 63 of 1948), Article 24-3, etc.). As for seven types of social care facilities (family homes [small-scale residential type childcare business] and self-reliant assistance homes [Children's self-reliant living assistance services] are not obliged to receive third-party evaluation in addition to the above-mentioned facilities), third-party evaluation is conducted under the system common to the whole country (excluding some prefectures) for effective implementation of high-quality evaluation.

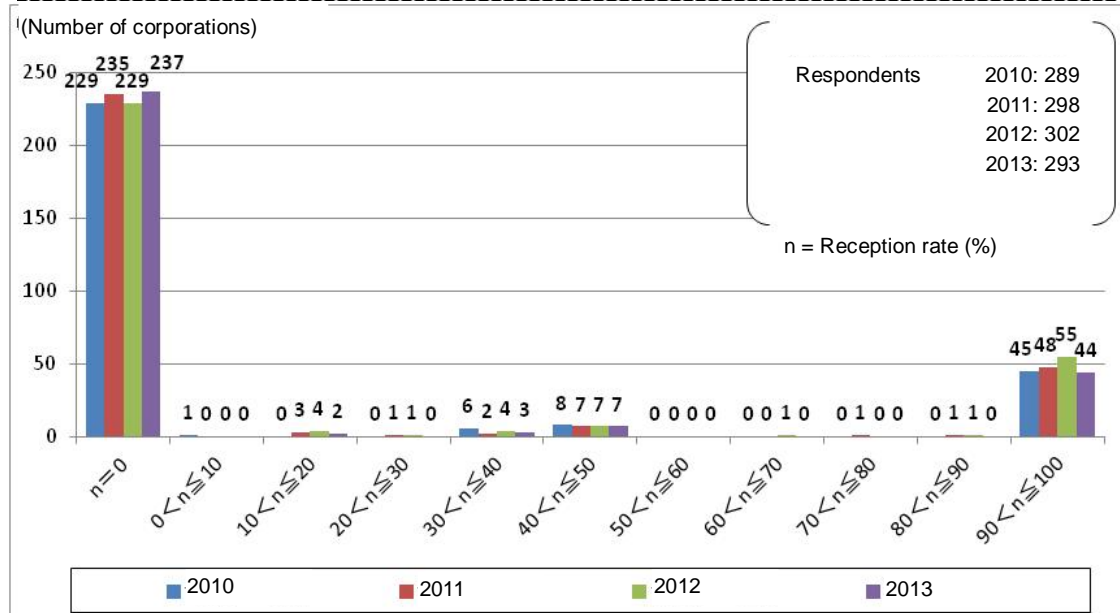
<sup>71</sup> Survey by the Japan National Council of Social Welfare. URL (<http://www.shakyo-hyouka.net/appraisal/sys-b34a.pdf>)

<sup>72</sup> According to the number of receptions of evaluation by prefecture regarding whole social facilities including nursing-care facilities in 2012, the top three prefectures (Tokyo, Kyoto, and Kanagawa) account for 83.7% of total number of receptions (Source: Survey by the Japan National Council of Social Welfare). URL (<http://www.shakyo-hyouka.net/appraisal/sys-b32a.pdf>)

**Figure 38: Status of receiving third-party evaluation**

[Social welfare corporations]

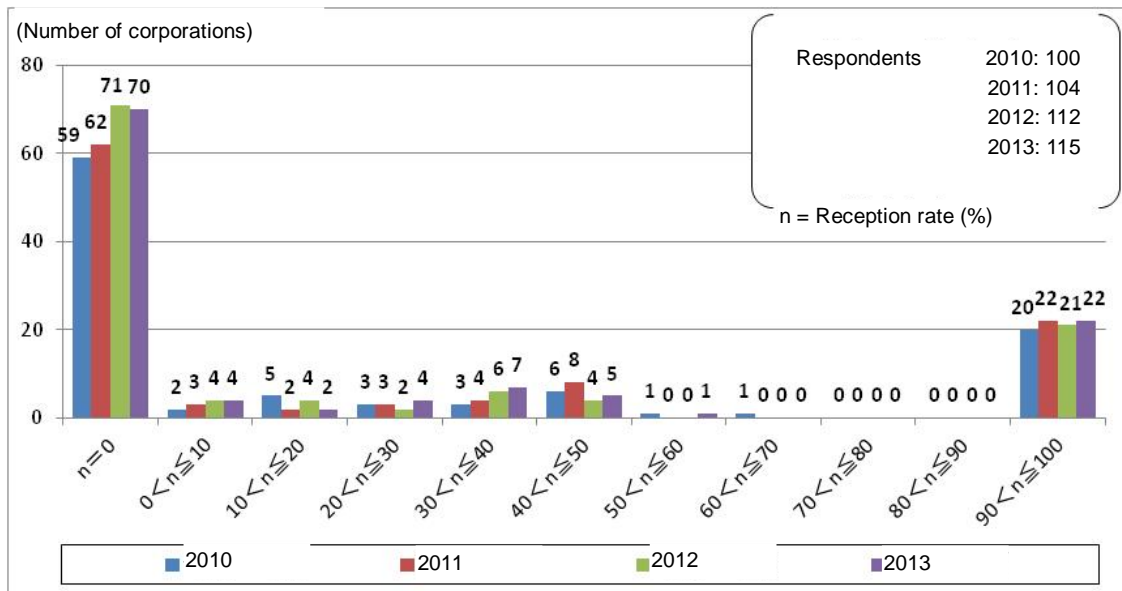
(Note) The graph below indicates the state of distribution of third-party evaluation receptions for social welfare corporations (number of daycare centers that received third-party evaluation for each year/number of daycare centers of the social welfare corporations as of the end of the fiscal year)



[Source] Survey by the Japan Fair Trade Commission

[Stock companies, etc.]

(Note) The graph below indicates the state of distribution of third-party evaluation receptions for stock companies (number of daycare centers that received third-party evaluation for each year/number of daycare centers of the stock companies as of the end of the fiscal year)

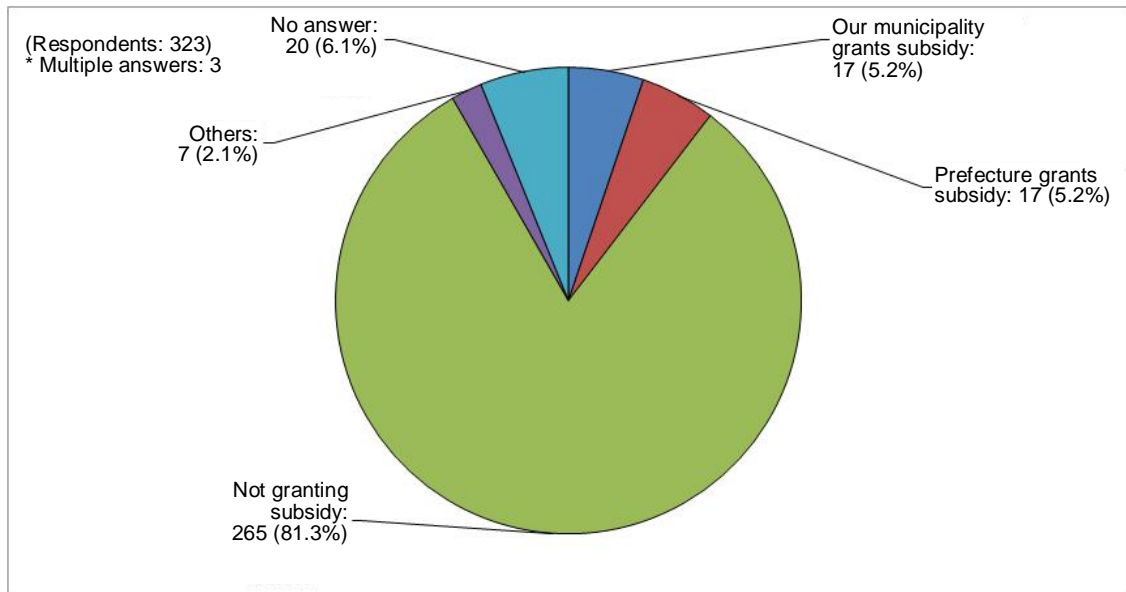


[Source] Survey by the Japan Fair Trade Commission

According to the questionnaire for municipalities, there are not so many municipalities that make it obligatory to receive third-party evaluation, make receiving evaluations conditions for granting subsidies, or encourage reception, and 73.4% of respondents answered, “no specific measures are taken.” At the public meetings, some expressed, “Most communities do not grant subsidies for the reception of third-party evaluation and public daycare centers also do not receive third-party evaluation. Besides, we have not been given any instruction from the government.”

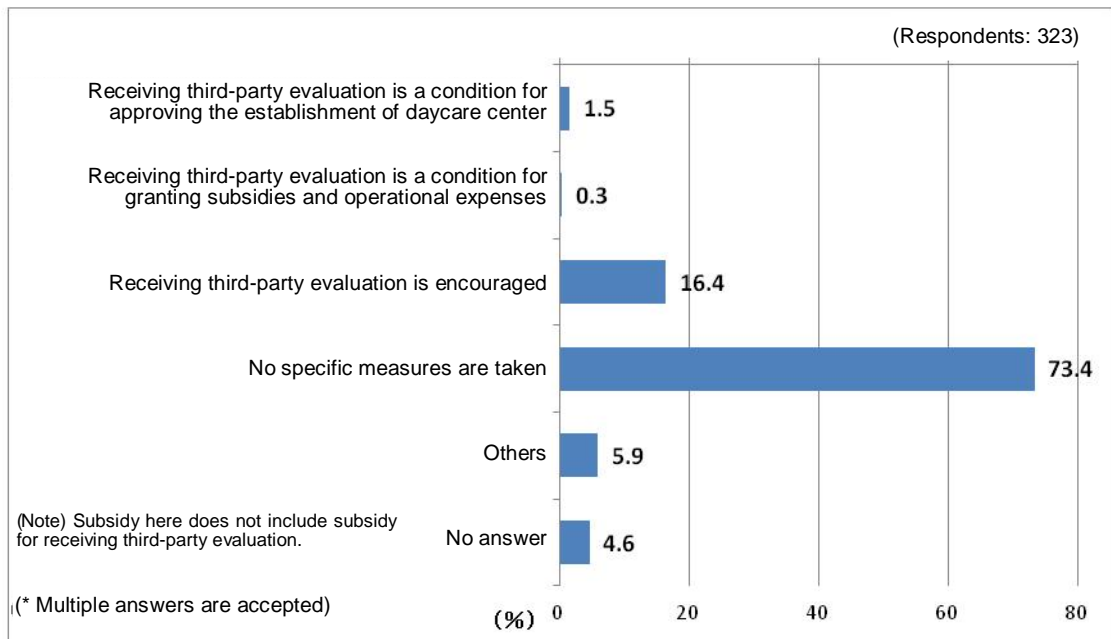
Moreover, at the interviews with municipalities, it turned out that there were municipalities that do not understand what was pointed out through third-party evaluations, how guardians would utilize the results of evaluations, and whether operators were making efforts to improve the quality of their services based on the evaluation results.

**Figure 39: Municipalities' subsidy system for receiving third-party evaluation**



[Source] Survey by the Japan Fair Trade Commission

**Figure 40: Municipalities' measures to promote reception of third-party evaluation**



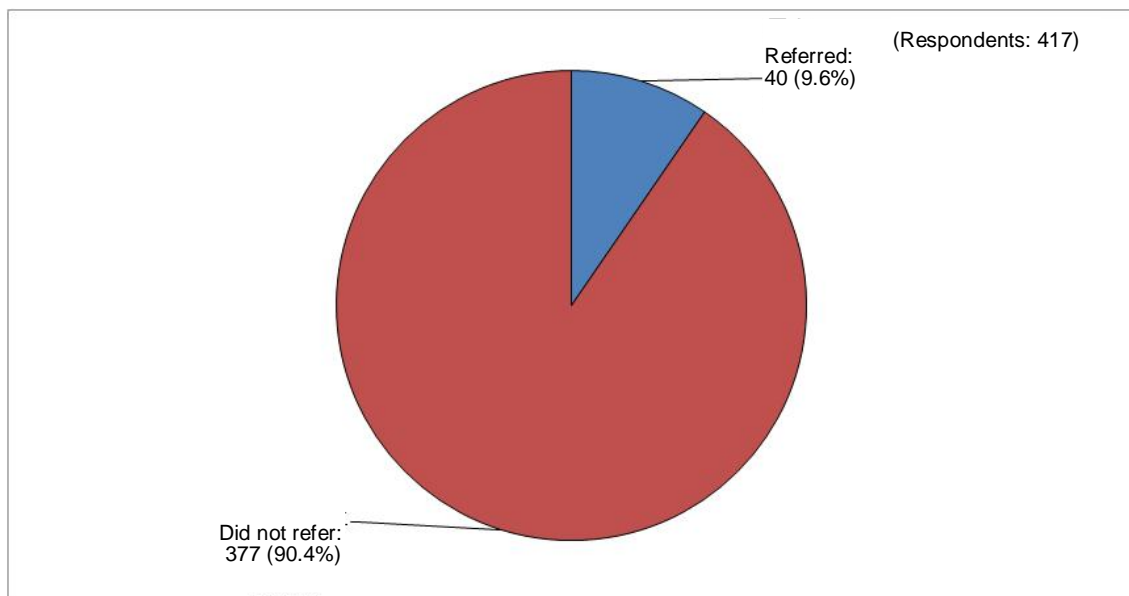
[Source] Survey by the Japan Fair Trade Commission

According to the questionnaire for guardians, only 9.6% of users of daycare centers referred to results of third-party evaluations. Of daycare users who have not referred to

results of third-party evaluation (90.4%), 63.7% said that they did not refer to the results, as they did not know about the third-party evaluation system. On the other hand, 92.5% of daycare users who referred to results of third-party evaluations noted that those results were “Useful” (25.0%) or “Rather useful” (67.5%).

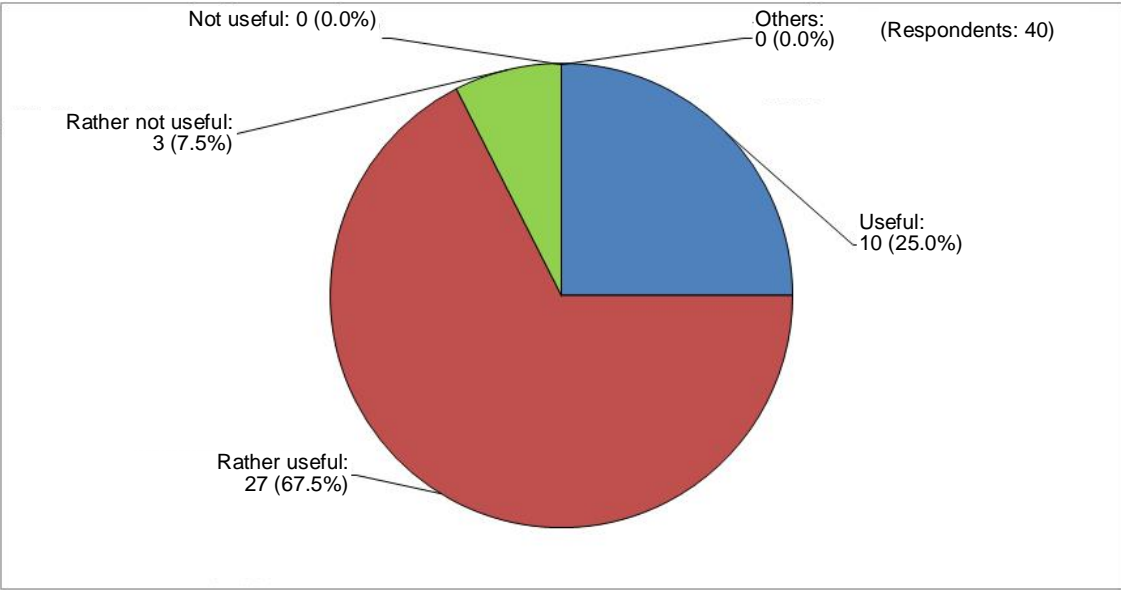
In addition, 74.0% of users of non-registered childcare facilities and 92.8% of non-users of childcare facilities said that they did not know about the third-party system. Considering these results, it is said that the awareness of the third-party system is still low in general. However, 67.0% of users of non-registered childcare facilities and 58.0% of non-users of childcare facilities answered they want to refer to results of third-party evaluations, indicating there are some expectations from third-party evaluations.

**Figure 41: Status of utilization of third-party evaluation among daycare center users**



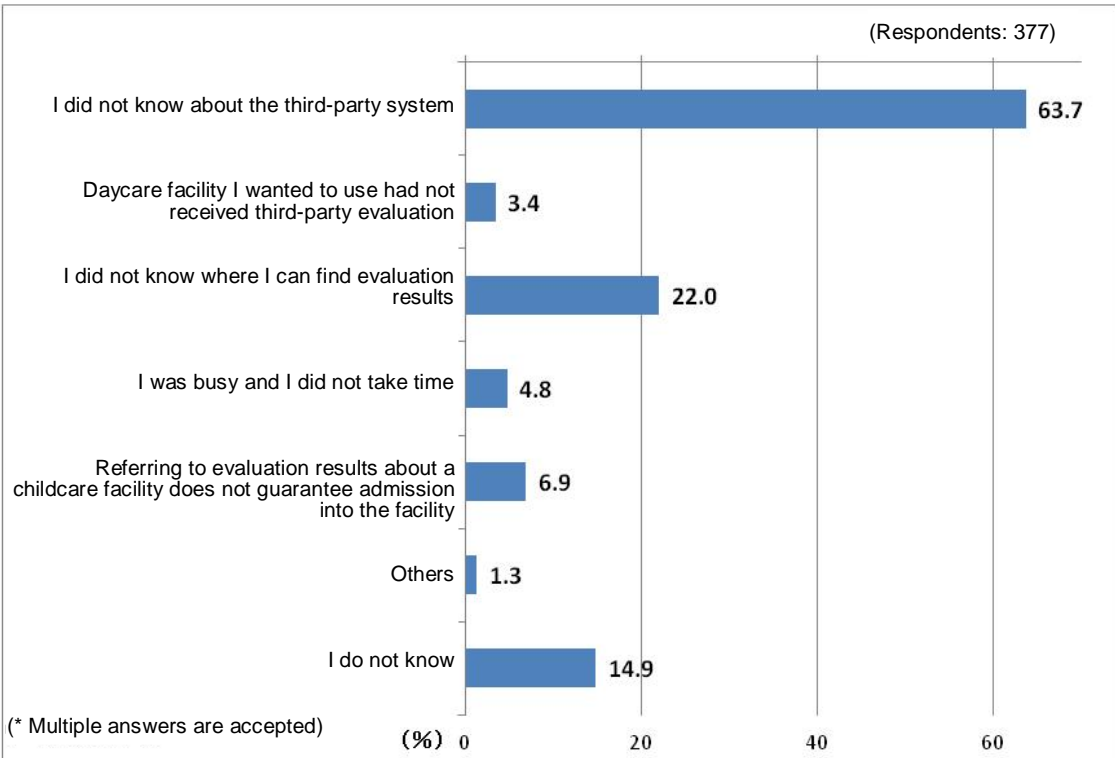
[Source] Survey by the Japan Fair Trade Commission

**Figure 42: Voices of daycare center users who referred to third-party evaluation results**



[Source] Survey by the Japan Fair Trade Commission

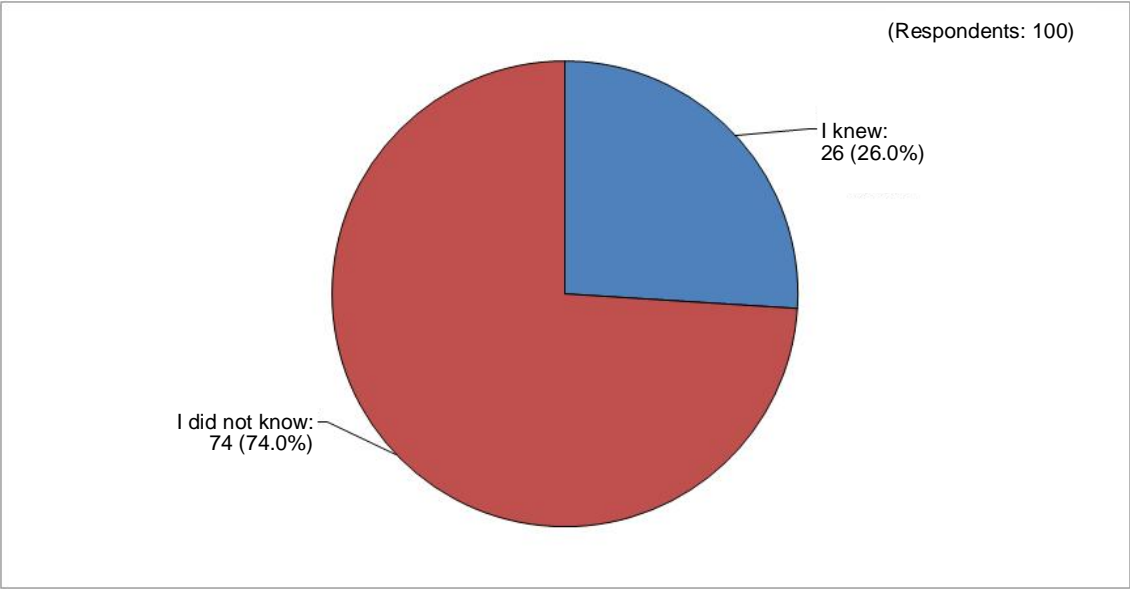
**Figure 43: Reasons why daycare users did not refer to evaluation results**



[Source] Survey by the Japan Fair Trade Commission

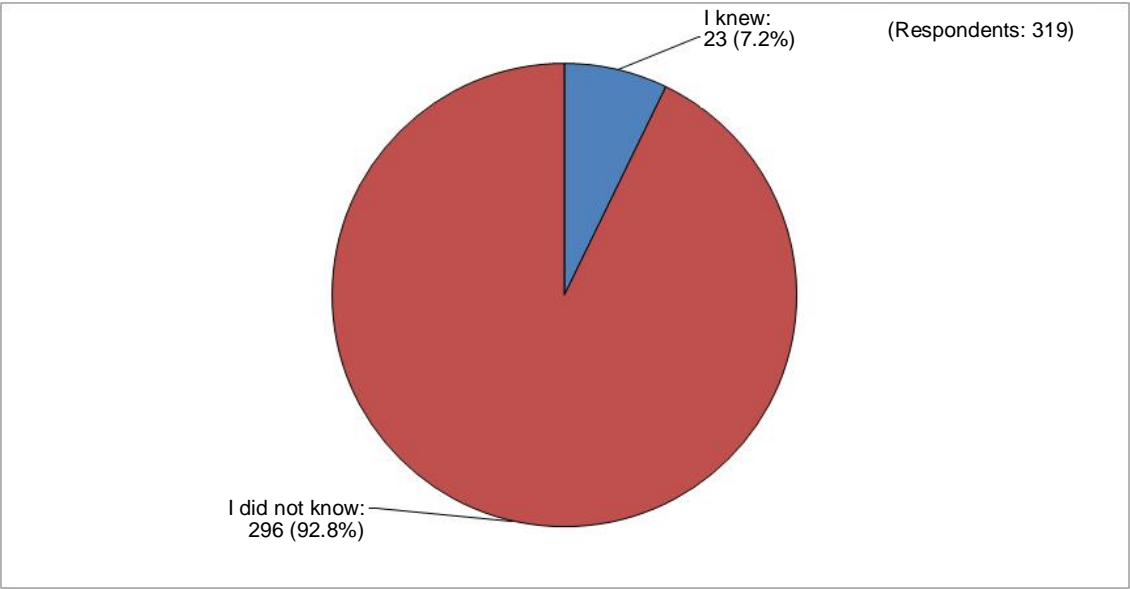
**Figure 44: Awareness of the third-party evaluation system among users of non-registered childcare facilities and non-users of childcare facilities**

[Users of non-registered childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

[Non-users of childcare facilities]

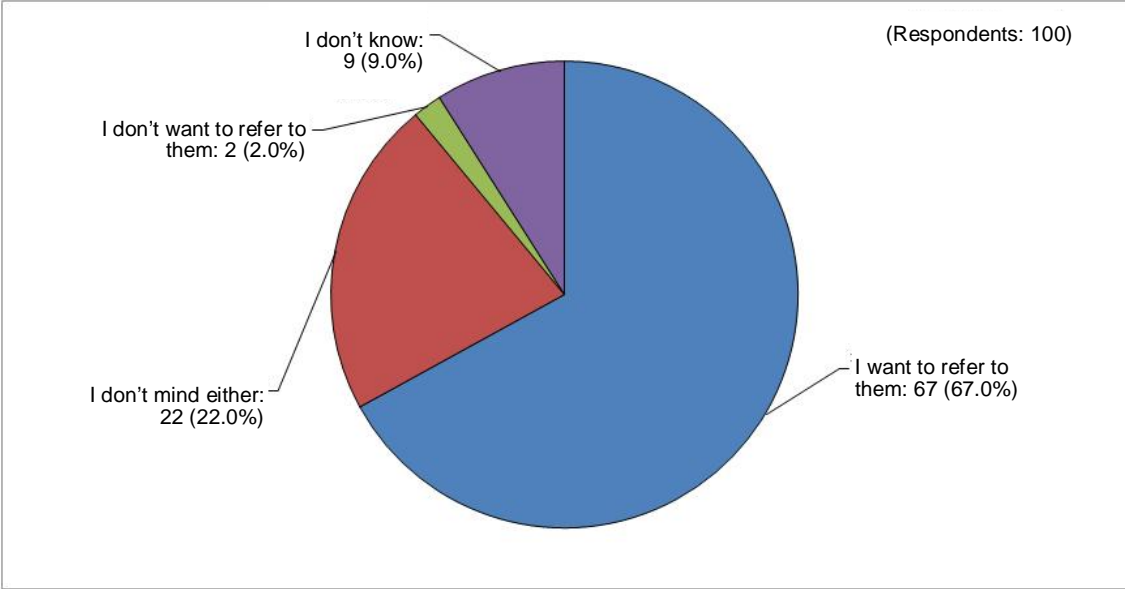


[Source] Survey by the Japan Fair Trade Commission



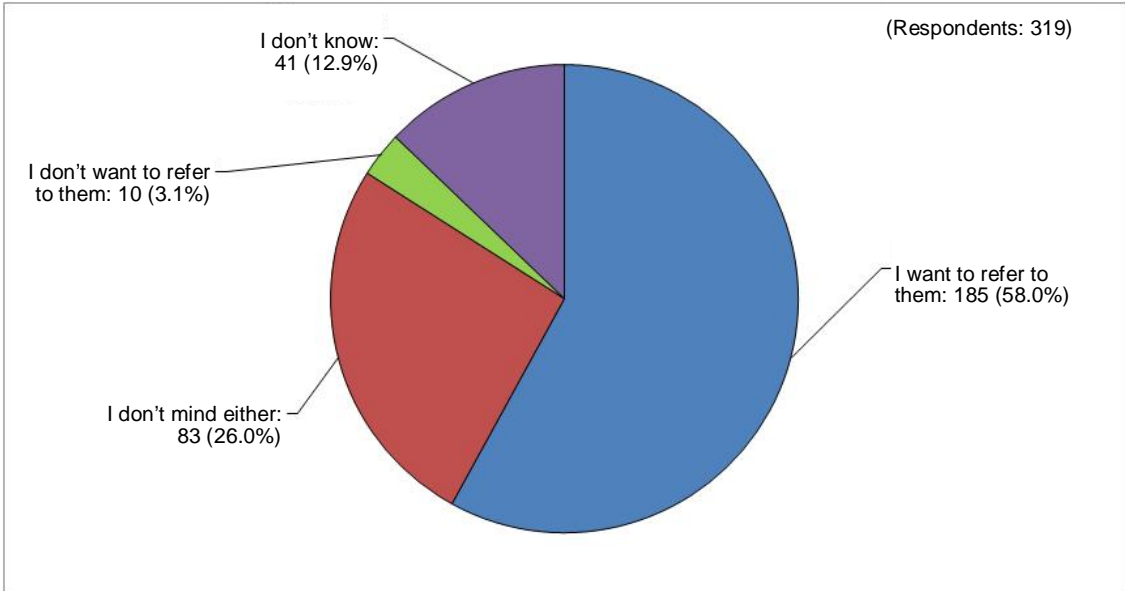
**Figure 45: Desire of users of non-registered childcare facilities and non-users of childcare facilities to refer to evaluation results**

[Users of non-registered childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

[Non-users of childcare facilities]



[Source] Survey by the Japan Fair Trade Commission

## B. Overview, etc. of the new system

Under the new system, all daycare centers are obliged to make efforts to receive third-party evaluation and disclose results of the evaluation.<sup>73</sup> It is also under consideration to support around half of the evaluation reception expenses for operators who received third-party evaluation and published its results so that those operators can receive the evaluation once every five years.<sup>74</sup>

According to the questionnaire concerning obligation to receive third-party evaluation, 49.2% of responding social welfare corporations and 68.8% of responding stock companies, etc. said, “Agree” or “Rather agree.” Reasons for such agreement are “Good opportunity for nursery teachers and staff to review their own childcare services,” “Beneficial for guardians,” “Contribute to the improvement of the quality of services by comparing childcare services of different daycare centers” and so forth. On the other hand, the reasons for “Disagree” and “Rather disagree are” “Third-party evaluation cost is high,” “Takes a lot of time,” and “Self-assessment and instruction/monitoring from municipality are sufficient”. In other words, some operators seem not to recognize the necessity and meaning of third-party evaluation enough.

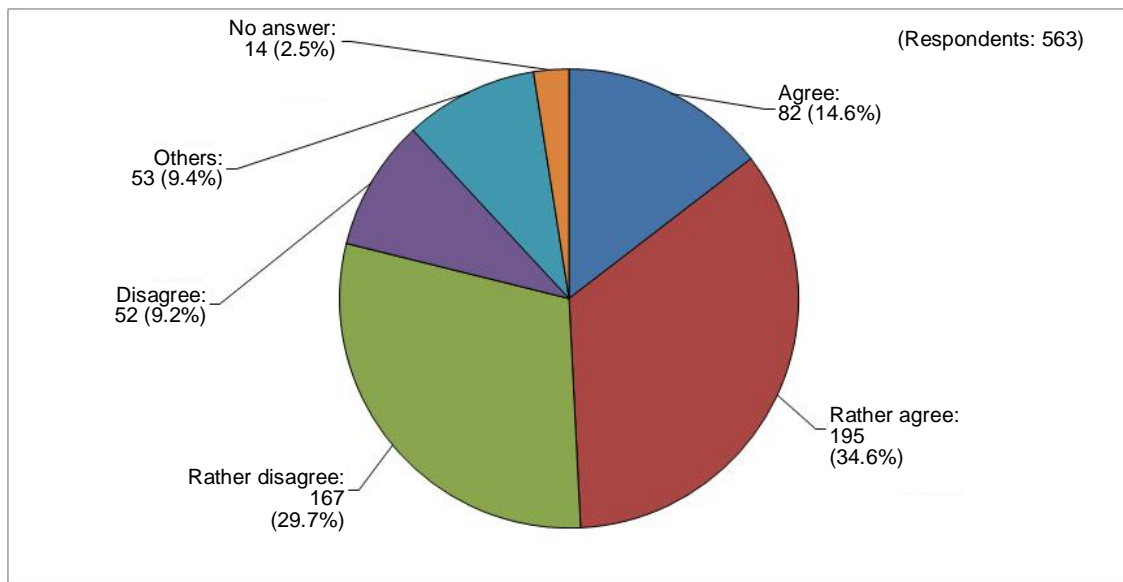
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<sup>73</sup> Article 36-2, paragraph (2) of Standards concerning Facilities and Management of a Childcare Facility revised by the Ministerial Ordinance on the Partial Revision of Standards concerning Facilities and Management of a Childcare Facility (Ordinance of the Ministry of Health, Labour and Welfare No. 62 of 2014) (unenforced).

<sup>74</sup> See materials for 14th meeting of “the Council for Children and Childrearing” and 18th meeting (joint session) of “Study Group on Criteria for the Council for Children and Childrearing” (March 28, 2014).

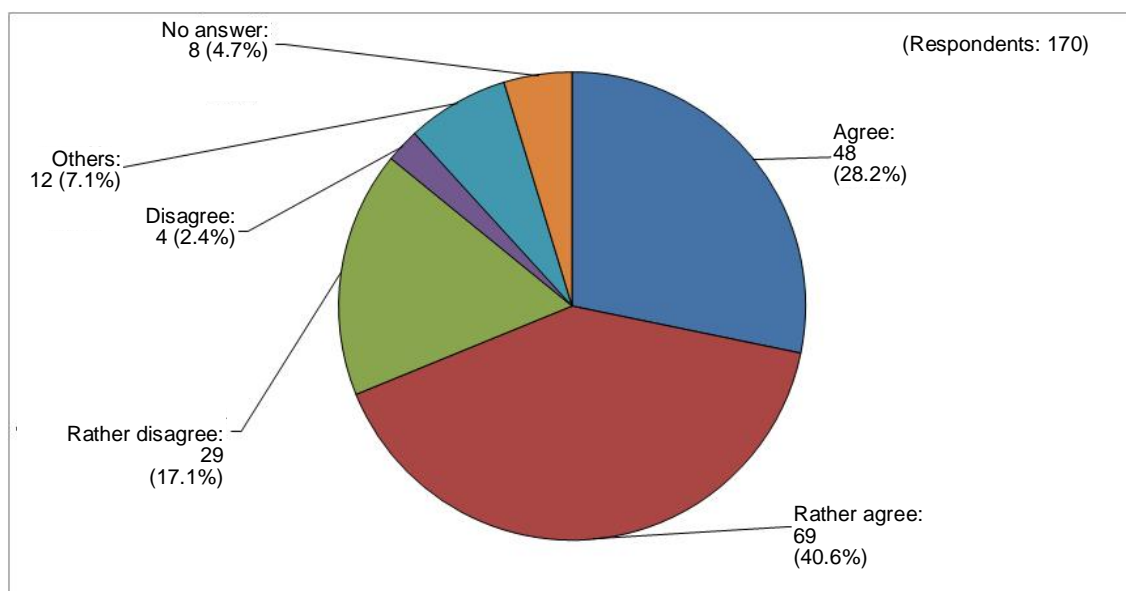
**Figure 46: Opinions of operators on obligation to receive third-party evaluation and reasons**

(1) Opinions of operators on obligation to receive third-party evaluation  
[Social welfare corporations]



[Source] Survey by the Japan Fair Trade Commission

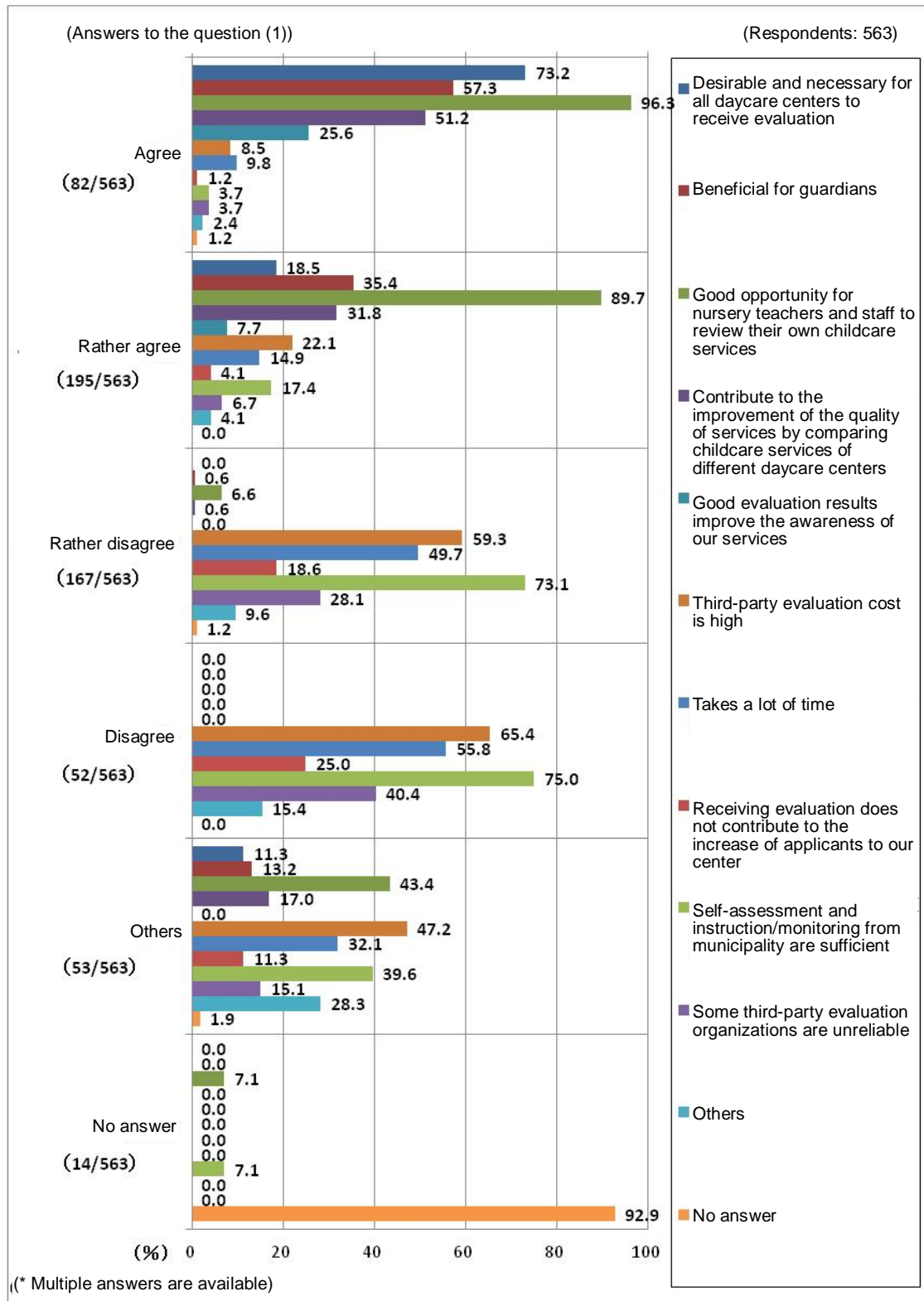
[Stock companies, etc.]



[Source] Survey by the Japan Fair Trade Commission

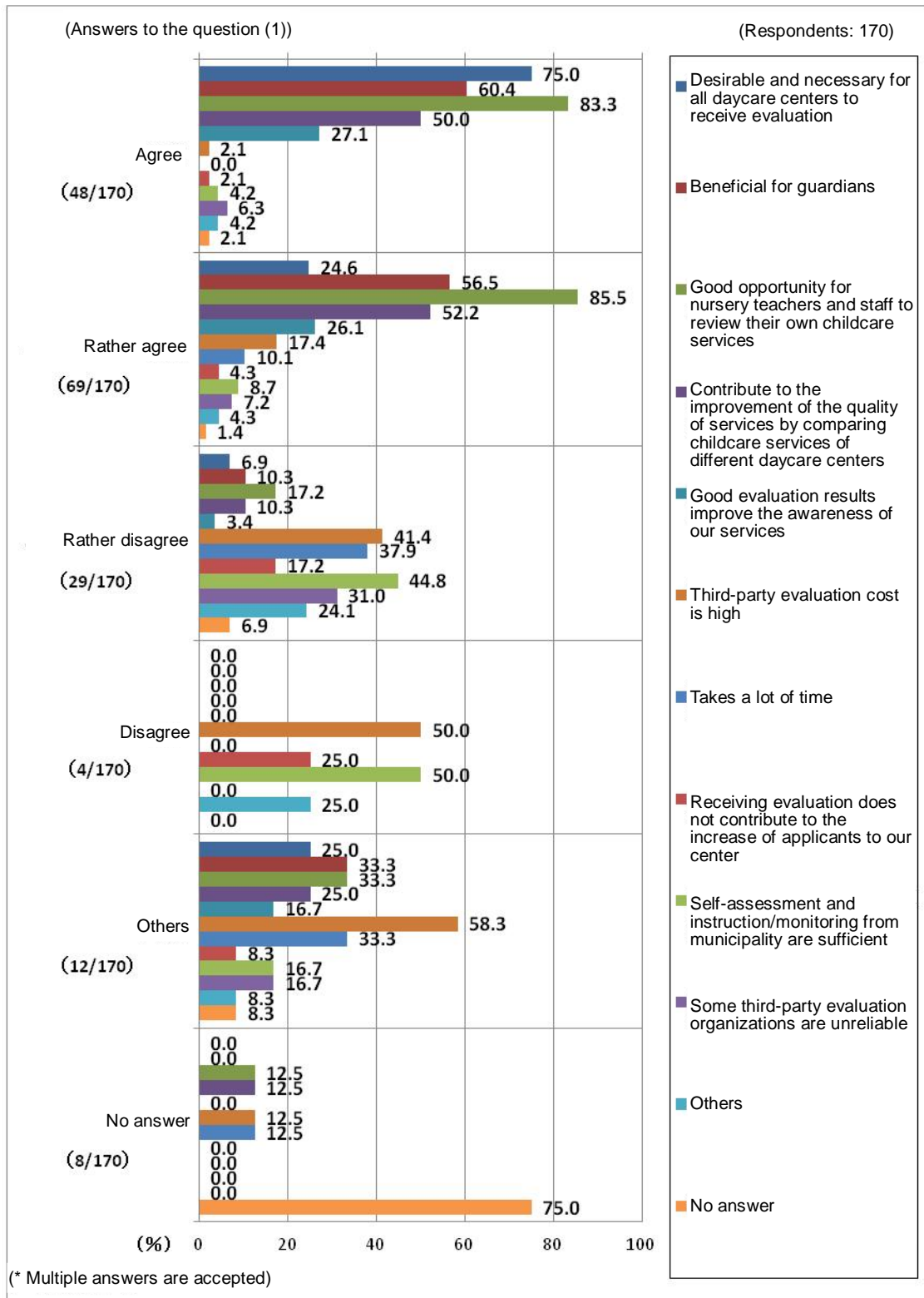
(2) Reasons for answers to the question (1)

[Social welfare corporations]



[Source] Survey by the Japan Fair Trade Commission

[Stock companies, etc.]



[Source] Survey by the Japan Fair Trade Commission

### C. Opinions on third-party evaluation

Regarding the meaning of third-party evaluation, the following opinions were expressed: “Third-party evaluation is ‘C’ of the PDCA cycle<sup>75</sup>, and asking operators for improvement contributes to the enhancement of service quality” at the public meeting, and “As the daycare center is a closed space, third-party evaluation can be a good opportunity for operators and staff to recognize users’ opinions they did not know and to review themselves,” “Third-party evaluation is beneficial, since children cannot express their opinions and childcare services tend to become self-approving,” “Third-party evaluation encourages operators whose childcare service quality is low to promote ‘visibility’ and the improvement of the quality of their services,” “External evaluation is essential, as it is difficult to compare our services with those of other daycare centers only with questionnaire for guardians,” and “Third-party evaluations can be a check system to a certain level to review appropriateness of information disclosed by daycare centers” at the interviews.

As for the current status and reasons for low reception of third-party evaluation, there were voices saying: “High evaluation cost may be causing low reception of evaluation,” “As reception of third-party evaluation is still low, evaluation results are actually not utilized by users when they select daycare center,” and “Many operators receive evaluation to improve the quality of their services but not to let users utilize evaluation results for daycare center selection” at the public meetings, and “Third-party evaluation takes a lot of time, discouraging operators from receiving evaluation” at the interview.

The number of organizations performing third-party evaluation of social welfare business is 446 as of March 2012.<sup>76</sup> However, some pointed out that “because different evaluation organizations have actually different specialized fields, the number of organizations that can evaluate daycare centers is not so many and insufficient.” In addition, some expressed that “quality of evaluation is varied across the country as evaluation items are different among prefectures,” “there are differences in the quality of evaluators,” and “there are doubt in fairness and reliability of evaluation organizations.”

### 4. Additional services

To examine if operators are provided an environment that facilitates innovation, a survey was conducted to investigate additional services delivered voluntarily by operators and their current status.

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<sup>75</sup> “PDCA” stands for Plan (planning), Do (implementation), Check (evaluation), and Action (improvement).

<sup>76</sup> Survey by the Japan National Council of Social Welfare.

## (1) Overview and state of the current system

Under the current system, daycare centers can provide additional services and collect expenses for such services. Regarding this, that contents of additional services should be appropriate and that such services should not be forced were specified in the public notice from the director of the Early Childhood Education Division of the Elementary and Secondary Education Bureau, the Ministry of Education, Culture, Sports, Science and Technology, and the director of the Day Care Division of the Equal Employment, Children and Families Bureau, the Ministry of Health, Labour and Welfare.<sup>77</sup> As for additional services that users can choose to select (optional services), operators need to explain about such services' fees and being optional in advance and obtain agreement from users. Regarding the collection of fees for services other than optional services, measures should be taken so that low-income users are also able to use the services considering the impact on their household economies, and operators are required to consult with municipalities regarding service contents and fees beforehand.

On this point, some municipalities said that the provision of additional services is admitted and some daycare centers are actually providing such services because "innovation at daycare center is promoted and providing unique childcare services becomes easier" and "we can respond to a wide range of guardians' needs," although "the collection of fees is prohibited in guidelines, etc.," and "centers are instructed not to collect fees" according to the questionnaire for municipalities. As reasons for prohibiting collecting or instructing not to collect fees for services, municipalities answered that "financial burden on guardians becomes bigger," "it is not desirable that there are differences in services children can receive depending on whether or not a guardian can afford to pay the fee," "it is not desirable that there are differences in childcare services among daycare centers," and so on.

Moreover, the results of the interviews with municipalities indicate that opinions and business operations regarding additional services are varied. For instance, the following opinions were expressed: "Optional services are widely admitted, as each daycare center provides such services voluntarily, while municipalities do not understand the total status of their daycare centers," "Providing optional services is basically not admitted, and it is required to consult with municipalities in the case where it is necessary to provide optional

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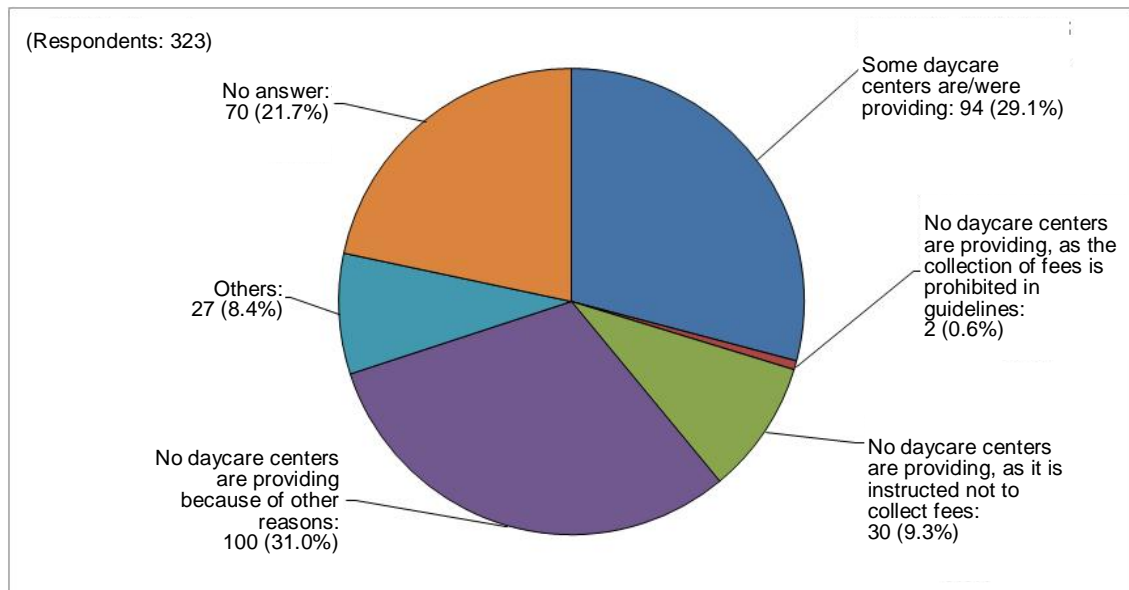
<sup>77</sup> Public notice from the director of the Early Childhood Education Division of the Elementary and Secondary Education Bureau, the Ministry of Education, Culture, Sports, Science and Technology, the director of the Day Care Division of the Equal Employment, Children and Families Bureau, the Ministry of Health, Labour and Welfare, "Points of Attention regarding Enforcement of the Act on Advancement of Comprehensive Service Related to Education, Child Care, etc. of Preschool Children, etc." (SHOYOKYO, No. 6 and KOJIHOHATSU, No. 0915001, September 15, 2006).

services in some exceptional cases,” and “The collection of additional fees for optional services is basically prohibited, but only the collection of the minimum level of fees associated with additional services is admitted.”



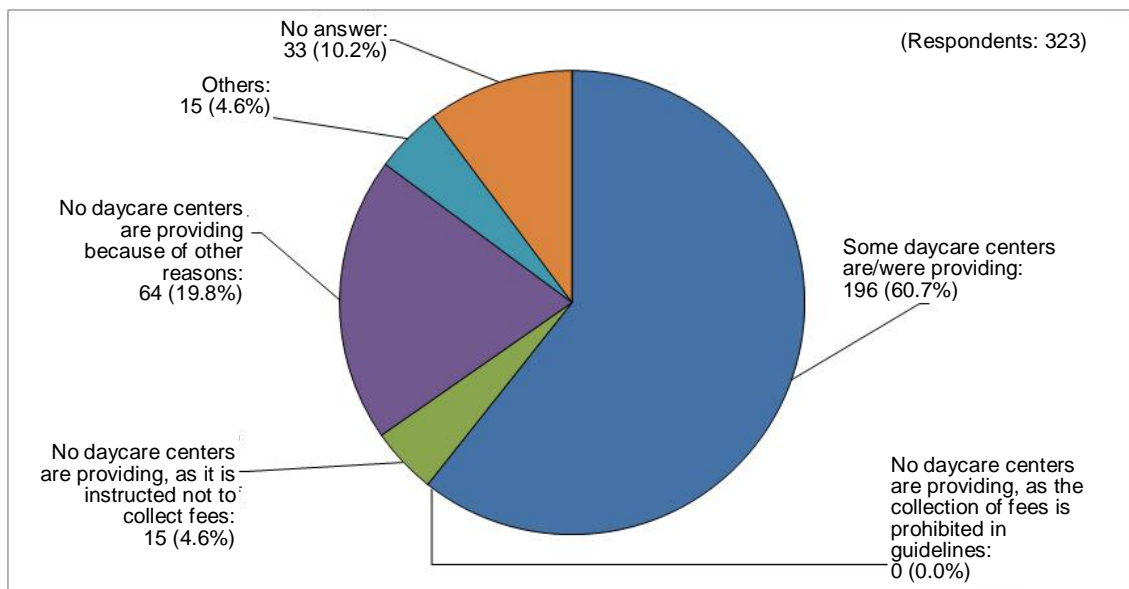
**Figure 47: Implementation status of additional services (municipality based)**

[Services whose fees are separately paid by all guardians]



[Source] Survey by the Japan Fair Trade Commission

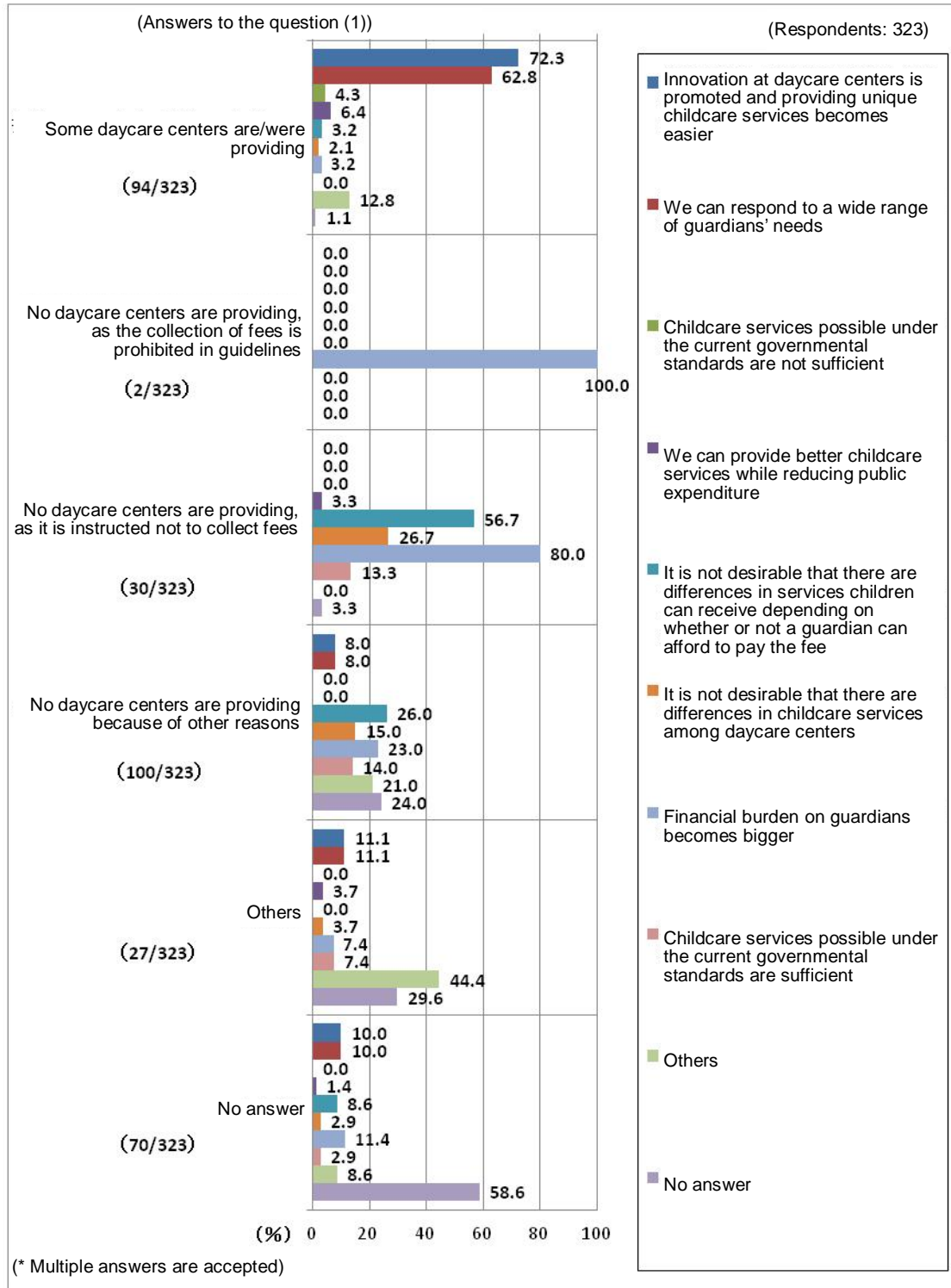
[Services whose fees are separately paid by guardians who agreed]



[Source] Survey by the Japan Fair Trade Commission

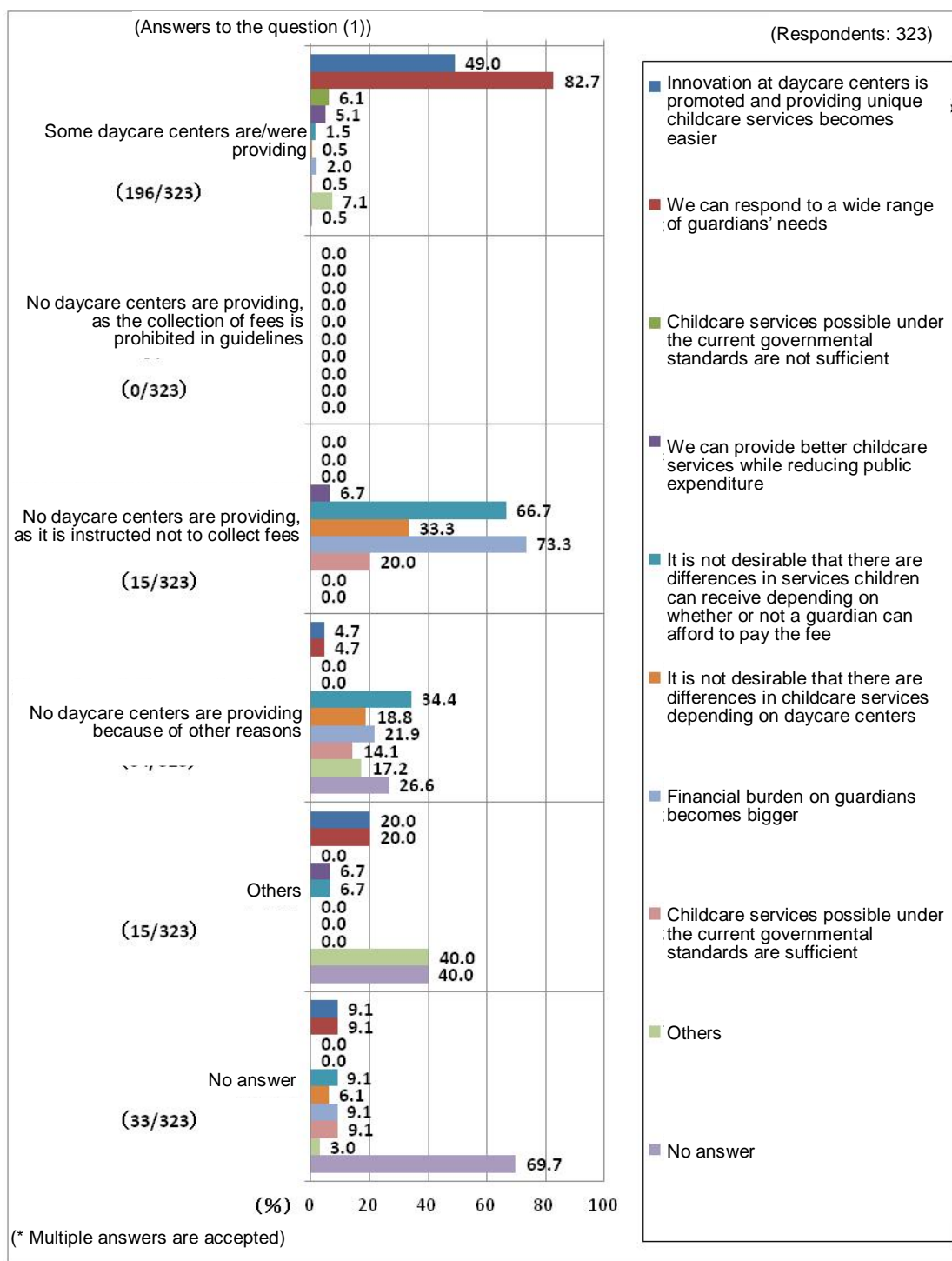
**Figure 48: Reasons of municipalities for admitting or not admitting additional services**

[Services whose fees are separately paid by all guardians]



[Source] Survey by the Japan Fair Trade Commission

[Services whose fees are separately paid by guardians who agreed]

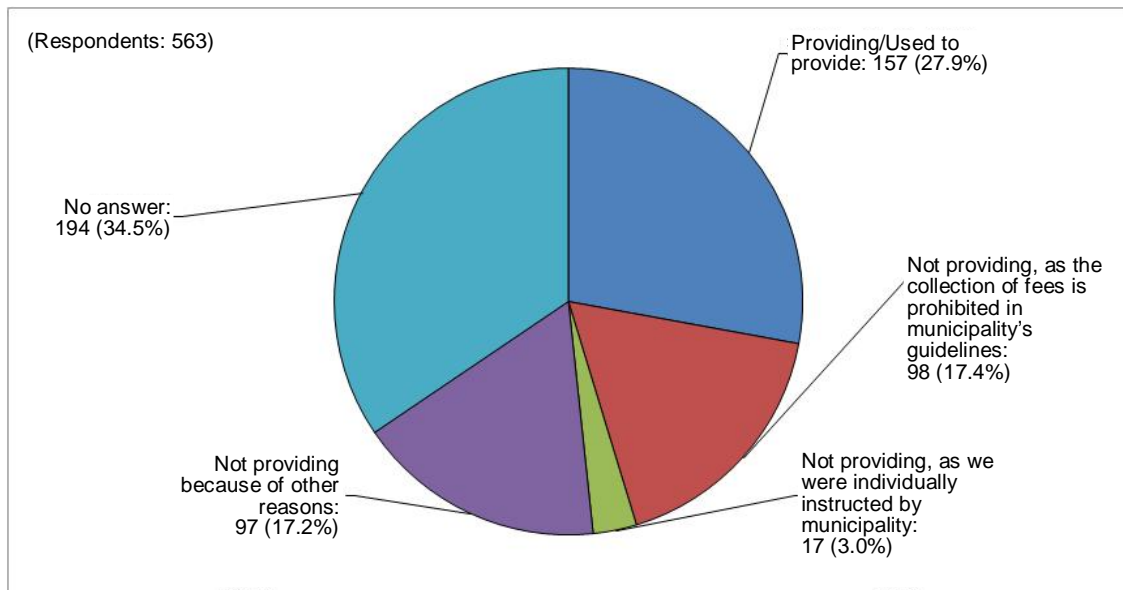


[Source] Survey by the Japan Fair Trade Commission

Some respondents to the questionnaire for social welfare corporations and stock companies, etc. also answered “not providing, as the collection of fees is prohibited in municipality’s guidelines” and “not providing, as we were individually instructed by municipality” regarding additional services. Furthermore, at the interviews with operators, some opinions were expressed: “We are sometimes instructed by municipality to follow other daycare centers even for services where we do not ask for separate fees,” “The municipality, concerned too much about fairness and being afraid of making differences among daycare centers, instructs us to follow the minimum standard of services, which prevents us from dealing with guardians’ needs,” “We are operating both a daycare center and non-registered childcare facility, but there are more complaints from guardians about the daycare center compared to the non-registered childcare facility. This is because services we can provide at the daycare center are limited due to the various instructions from the municipality and cannot satisfy the demand from guardians.”

**Figure 49: Implementation status of additional services (operator based)**

[Social welfare corporations] [Services whose fees are separately paid by all guardians]

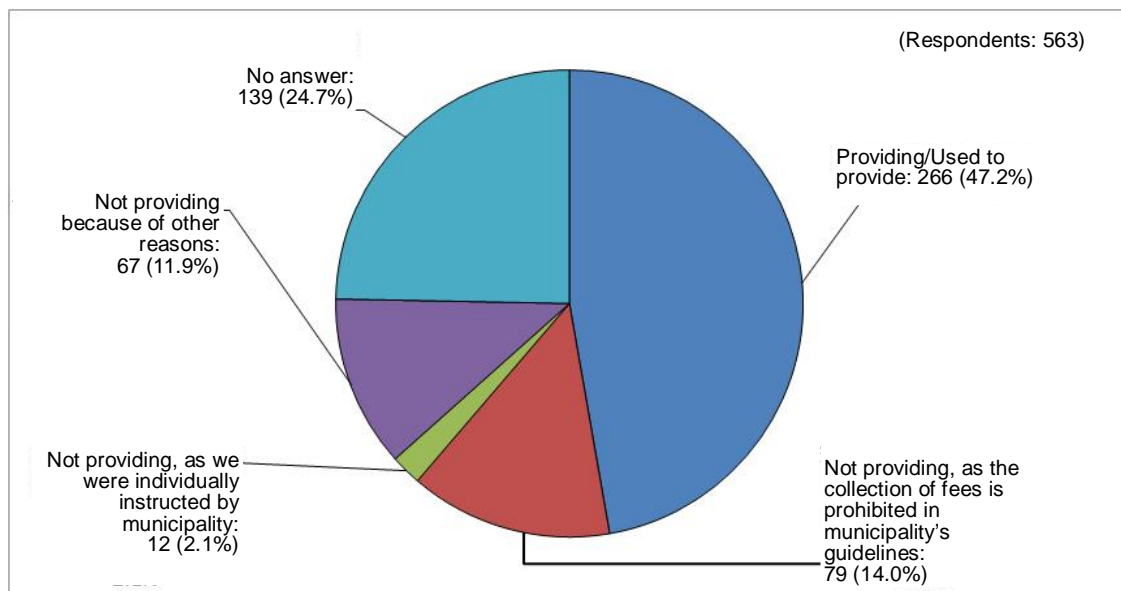


[Examples of additional services] (Respondents: 154, Multiple answers are accepted)

- Lunch fee, main meal fee	60	- Extension childcare, temporary childcare, etc.	15
- Gym clothes, center's uniform, childcare goods (toothbrush, diaper, etc.)	39	- Album, picture	9
- Childcare outside center, event	34	- Mutual aid premium, etc.	5
- Culture lesson (such as swimming, music, gymnastics, and English)	32	- Leasing futon, cleaning, bed	4
- Guardian meeting, cost on guardians	32	- Center bus	2
- Picture book, childcare materials	26	- Others	3

[Source] Survey by the Japan Fair Trade Commission

[Social welfare corporations] [Services whose fees are separately paid by guardians who agreed]

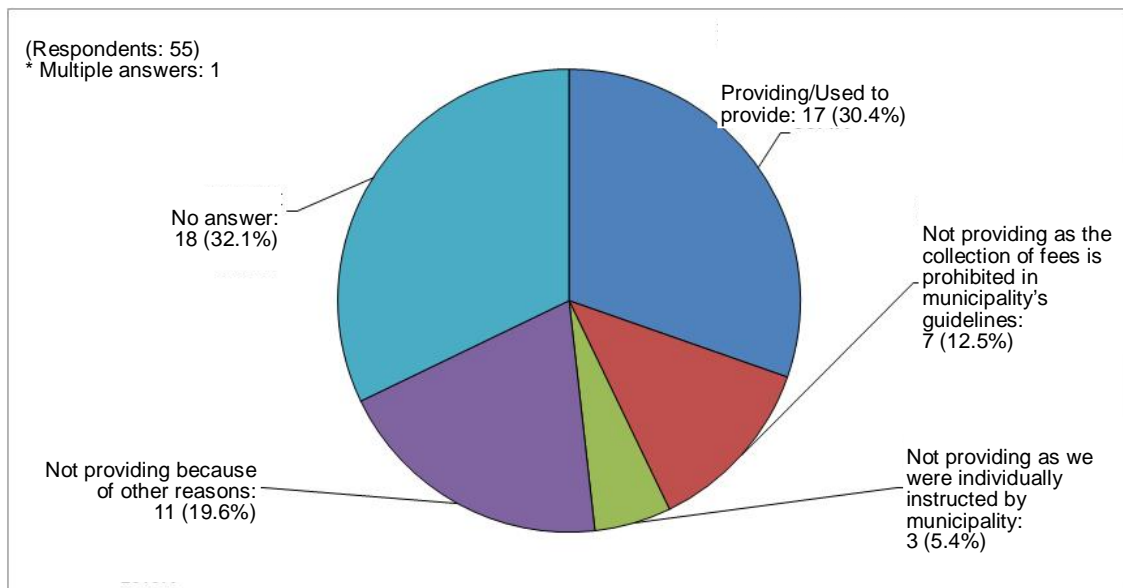


[Examples of additional services] (Respondents: 252, Multiple answers are accepted)

- Extension childcare, temporary childcare, etc.	168	- Picture book, childcare materials	18
- Culture lesson (such as swimming, music, gymnastics, and English)	92	- Lunch fee, main meal fee	11
- Center bus	34	- Snack, supplement light meal (include during extension childcare)	10
- Childcare outside center, event	21	- Leasing futon, cleaning, bed	8
- Album, picture	20	- Guardian meeting, cost on guardians	7
- Gym clothes, center's uniform, childcare goods (toothbrush, diaper, etc.)	18	- Others	7

[Source] Survey by the Japan Fair Trade Commission

[Stock companies, etc.] [Services whose fees are separately paid by all guardians]

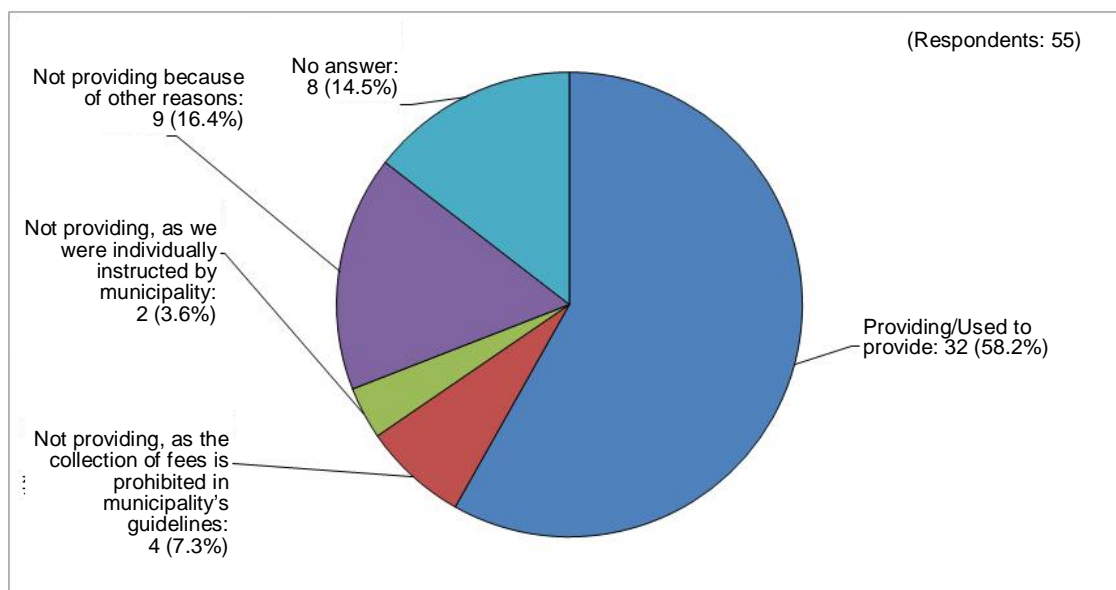


[Examples of additional services] (Respondents: 18, Multiple answers are accepted)

- Culture lesson (such as swimming, music, gymnastics, and English)	10	- Leasing futon, cleaning, bed	2
- Childcare outside center, event	7	- Mutual aid premium, etc.	2
- Gym clothes, center's uniform, childcare goods (toothbrush, diaper, etc.)	7	- Extension childcare, temporary childcare, etc.	1
- Lunch fee, main meal fee	6	- Guardian meeting, cost on guardians	1
- Picture book, childcare materials	2		

[Source] Survey by the Japan Fair Trade Commission

[Stock companies, etc.] [Services whose fees are separately paid by guardians who agreed]



[Examples of additional services] (Respondents: 33, Multiple answers are accepted)

- Extension childcare, temporary childcare, etc.	29	- Lunch fee, main meal fee	2
- Culture lesson (such as swimming, music, gymnastics, and English)	10	- Picture book, childcare materials	2
- Childcare outside center, event	10	- Leasing futon, cleaning, bed	1
- Album, picture	5	- Guardian meeting, cost on guardians	1
- Gym clothes, center's uniform, childcare goods (toothbrush, diaper, etc.)	4	- Babysitter services	1

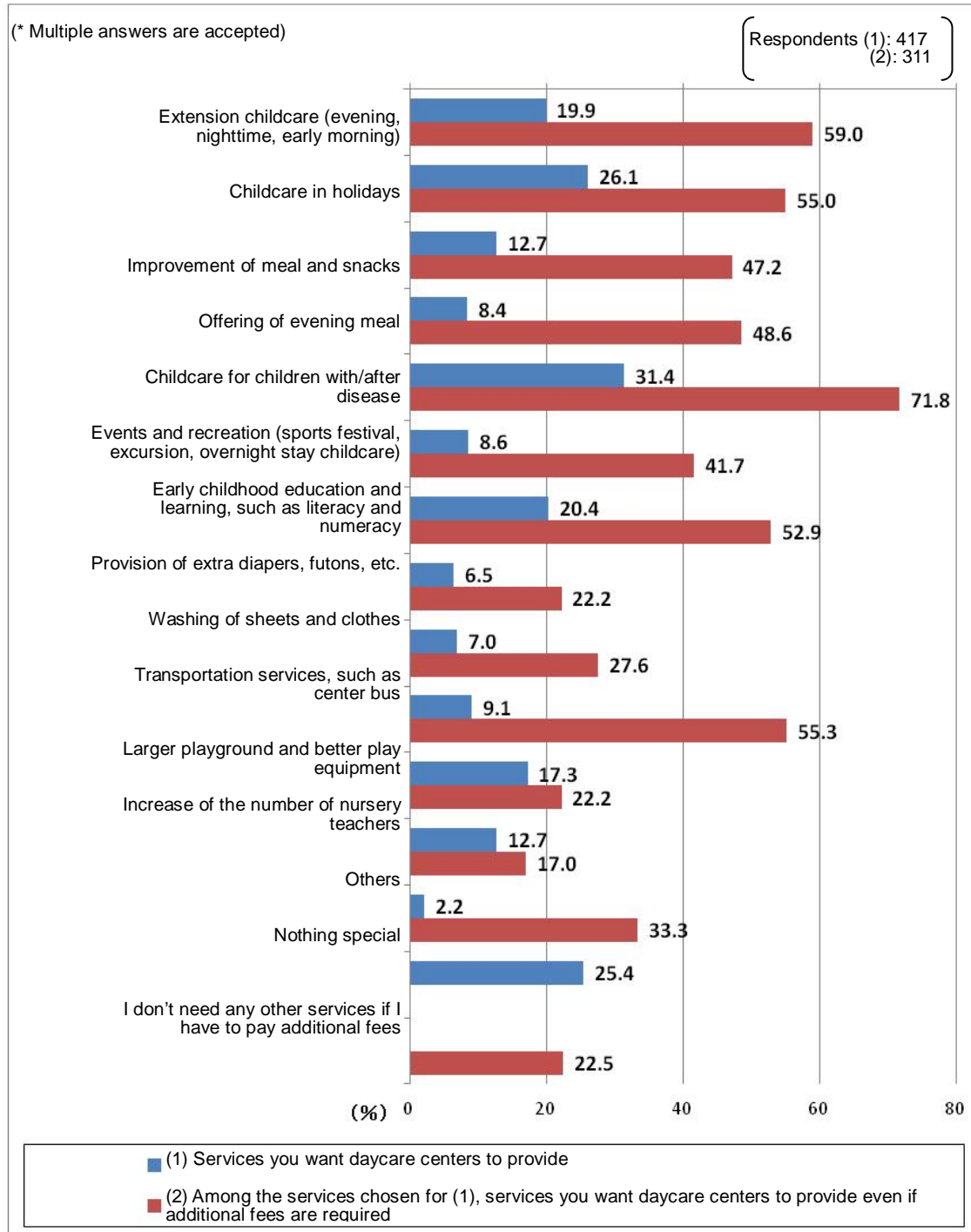
[Source] Survey by the Japan Fair Trade Commission

According to the questionnaire for guardians, there are a certain number of guardians who answered there were additional services they want to receive even by paying extra fees on top of regular daycare fees. In other words, there is a certain level of need for additional services and there were some attitudes identified that accept the burden of additional fees.



**Figure 50: Contents of demanded services from daycare centers and contents of demanded services even with additional fees**

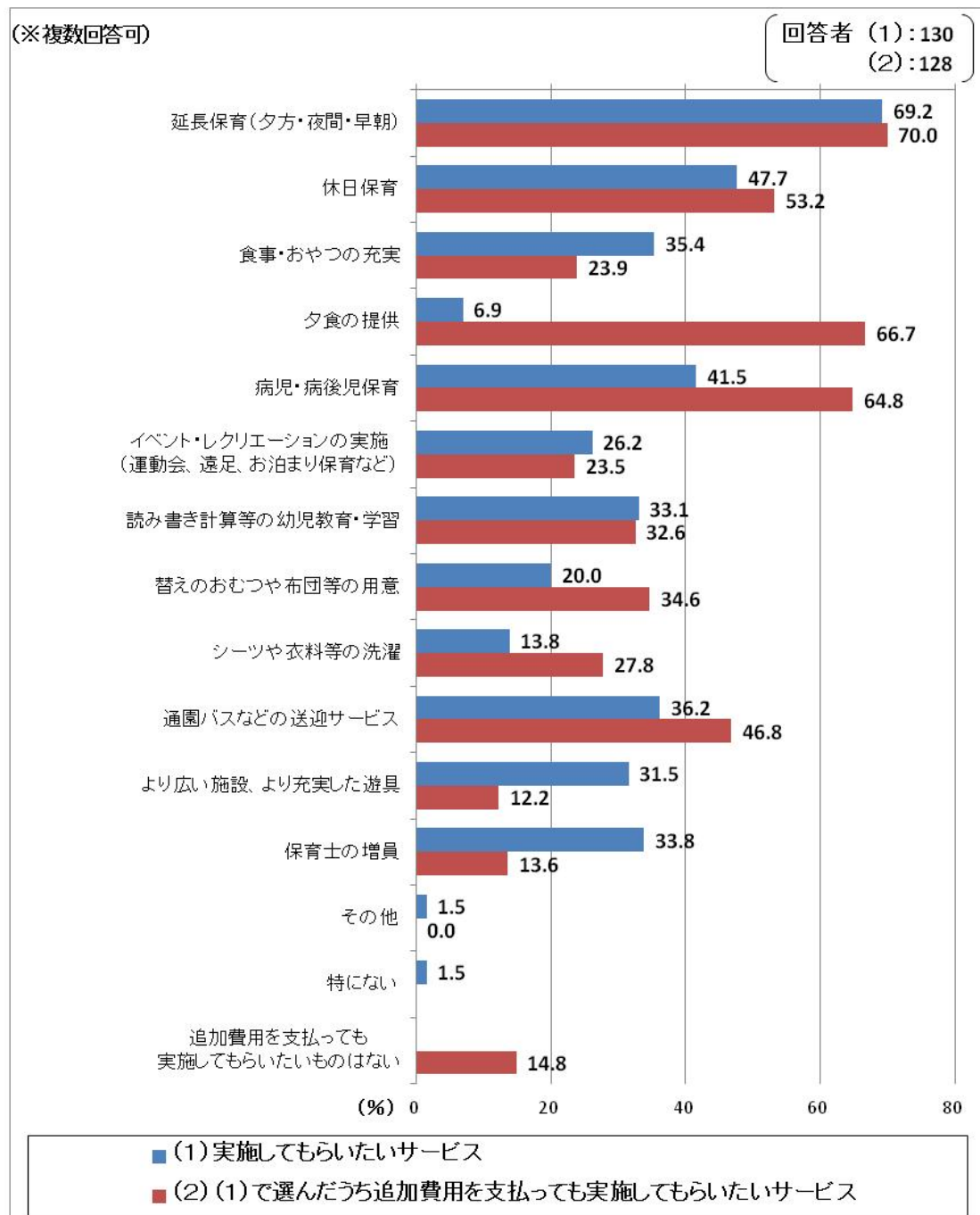
[Daycare center users]



(Note) (2) is the ratio of respondents who answered they want daycare centers to provide services even if they are required to pay additional fees regarding (1). In addition, the ratio of respondents who answered "I don't need any other services if I have to pay additional fees" is for the total number of respondents to the question (2) (311 people).

[Source] Survey by the Japan Fair Trade Commission

[Guardians who hope to use daycare centers in future]



(Note) (2) is the ratio of respondents who answered they want daycare centers to provide services even if they are required to pay additional fees regarding (1). In addition, the ratio of respondents who answered “I don’t need any other services if I have to pay additional fees” is for the total number of respondents to the question (2) (311 people).

[Source] Survey by the Japan Fair Trade Commission

## B. Overview of the new system

As in the current system, the provision of additional services and the collection of fees for such services are admitted in the new system also under the following conditions: (1) the provision of additional services is decided by each operator, (2) the amount of fees and the reasons for collection of such fees should be presented beforehand and obtaining guardians' agreement is necessary, and (3) agreement should be obtained from municipalities.<sup>78</sup>

### (3) Opinions on additional services

The questionnaire for municipalities and operators investigated how they are considering about the opinion saying that "it is necessary to admit extra childcare services apart from the services specified by the government and collect actual costs for such services so that each daycare center can use inventiveness and provide characteristic childcare services."

As for municipalities, 44.6% of respondents answered "Agree" (7.4%) or "Rather agree" (37.2%) because they consider that "innovation at daycare centers is promoted and providing unique childcare services becomes easier," "we can respond to a wide range of guardians' needs," "we can provide better childcare services, while reducing public expenditure " and so on. On the other hand, 27.5% of respondents expressed as "Disagree" (5.3%) or "Rather disagree" (23.2%) by noting reasons such as: "It is not desirable that there are differences in services children can receive depending on whether or not a guardian can afford to pay the fee," "Financial burden on guardians becomes bigger," and "It is not desirable that there are differences in childcare services among daycare centers."

At the interview, the following opinions were expressed: "There are certain types of childcare services allowed and we have little space to be creative," "If it is not possible to collect additional fees for value-added services, we have to conclude that we do not do anything in order to make profits," "Various kinds of childcare services should be allowed in order to respond to various needs for childcare services," "I do not mean to differentiate among children, but being flexible to a certain degree should be allowed in terms of service contents," and "For example, some centers think it is not a problem to serve evening meals to reduce burden on guardians, and others think children should eat evening meals at their own homes. Contents of childcare services are varied and rated

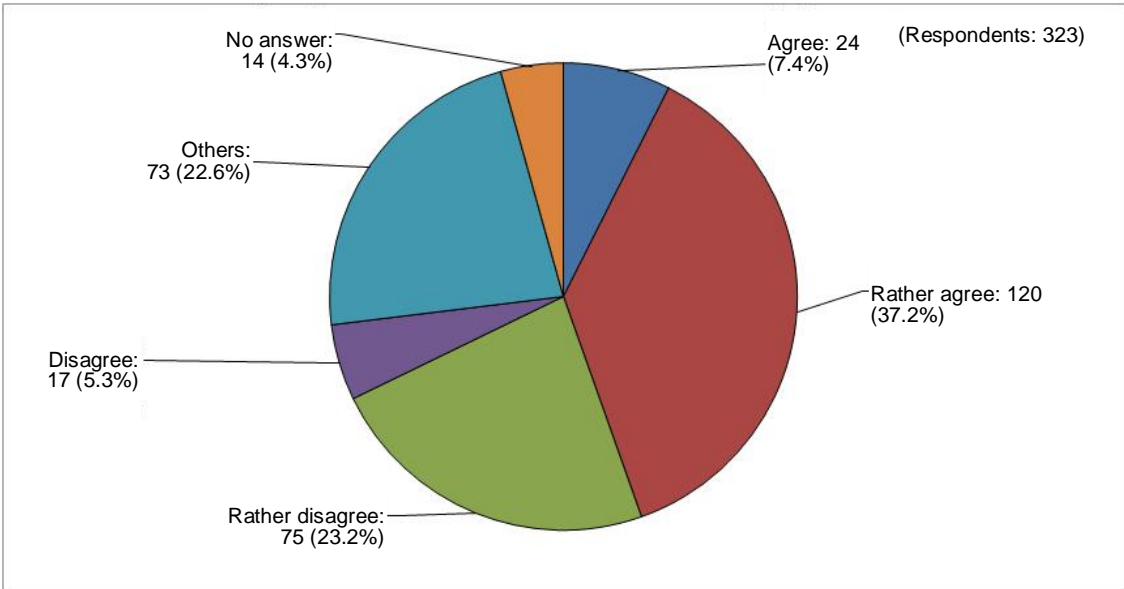
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<sup>78</sup> See materials for 14th meeting of "the Council for Children and Childrearing" and 18th meeting (joint session) of "Study Group on Criteria for the Council for Children and Childrearing" (March 28, 2014) as well as Article 13 of standards concerning management of special educational and childcare facilities and special community-based child and childcare support projects (Cabinet Office Ordinance No. 39 of 2014) (unenforced).

differently depending on individual values and policies. Therefore, it is important that guardians can choose their preferred centers and services from a wide variety of options.”

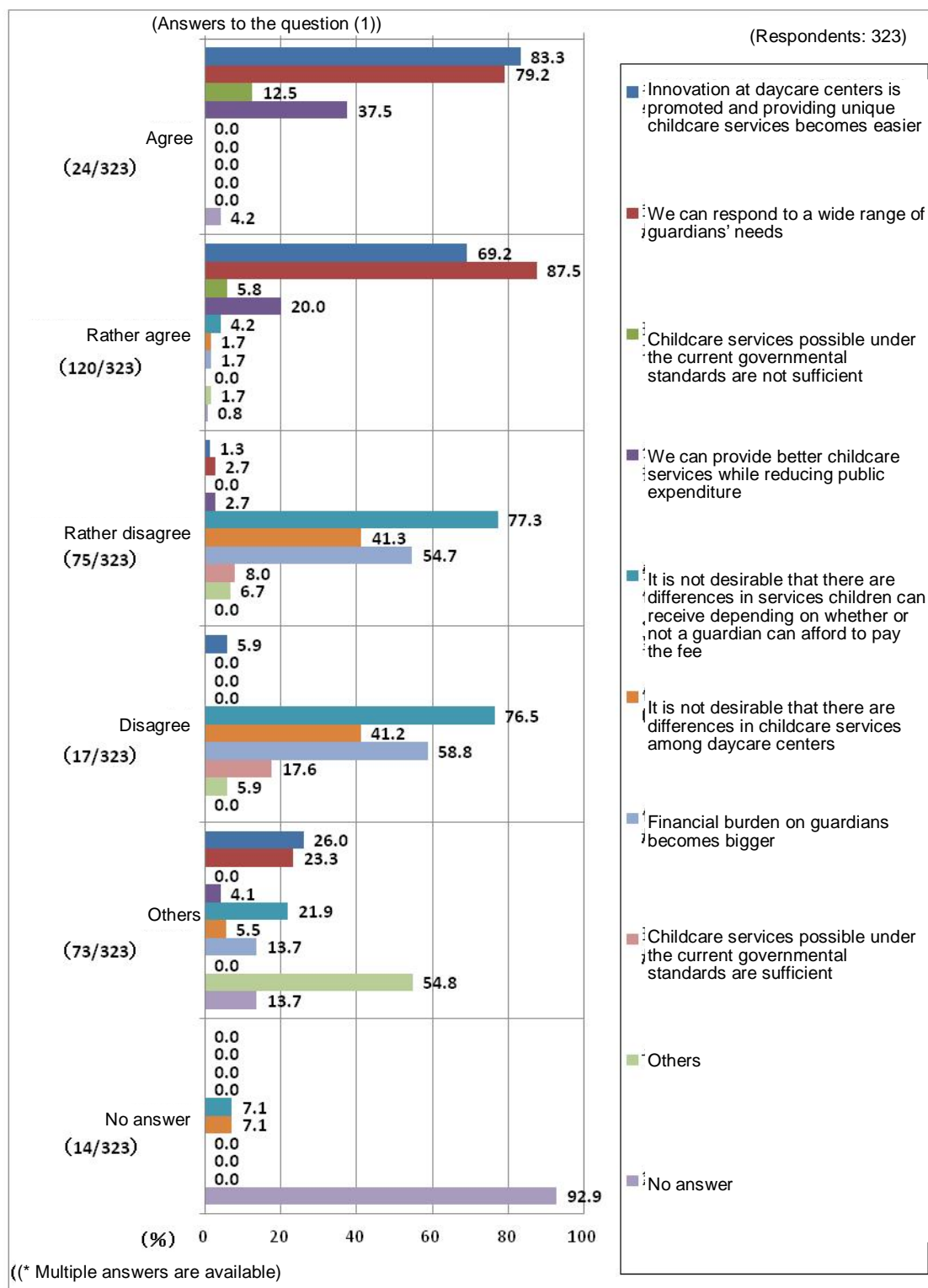
**Figure 51: Opinions of municipalities on the admission of additional services and reasons**

(1) Opinions of municipalities on the admission of additional services



[Source] Survey by the Japan Fair Trade Commission

## (2) Reasons for answers to the question (1)



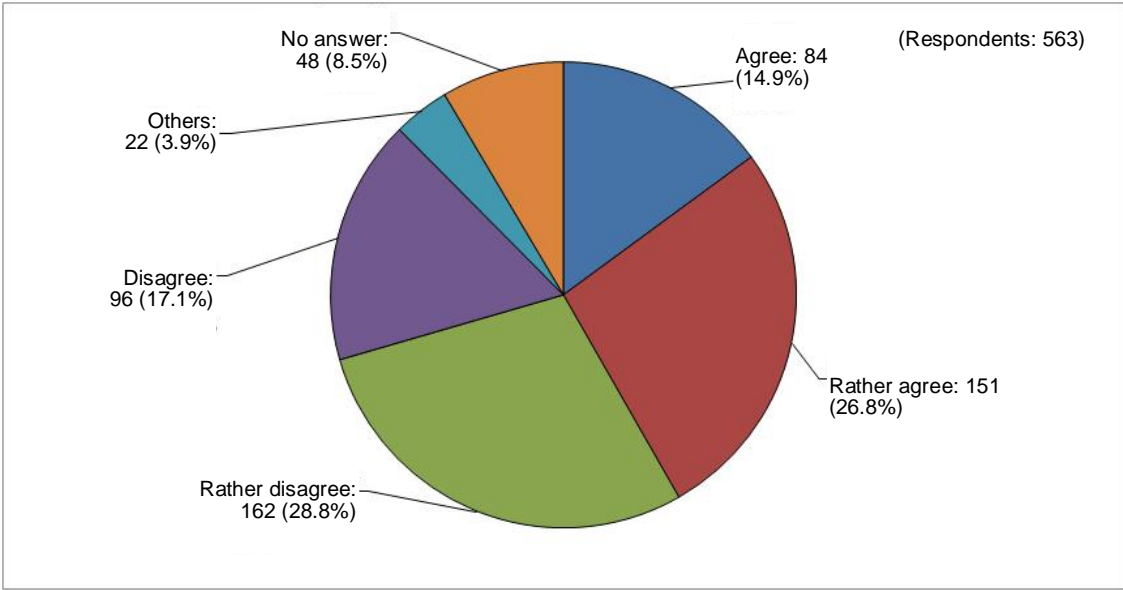
[Source] Survey by the Japan Fair Trade Commission

Of responding social welfare corporations, 41.7% answered “Agree” (14.9%) or “Rather agree” (26.8%). Concerning stock companies, etc., 69.1% of respondents chose “Agree” (32.7%) or “Rather agree” (36.4%). As reasons, they said “innovation at daycare centers is promoted and providing unique childcare services becomes easier,” “we can respond to a wide range of guardians’ needs,” “it is difficult to offer desirable childcare services with only operational budget provided by municipalities,” and so forth. On the other hand, some respondents expressed as “Disagree” (17.1% for social welfare corporations and 1.8% for stock companies, etc.) or “Rather disagree” (28.8% for social welfare corporations and 14.5% for stock companies, etc.) by noting reasons such as: “It is not desirable that there are differences in services children can receive depending on whether or not a guardian can afford to pay the fee,” “Financial burden on guardians becomes bigger,” and “It is not desirable that there are differences in childcare services among daycare centers.”

**Figure 52: Opinions of operators on the admission of additional services and reasons**

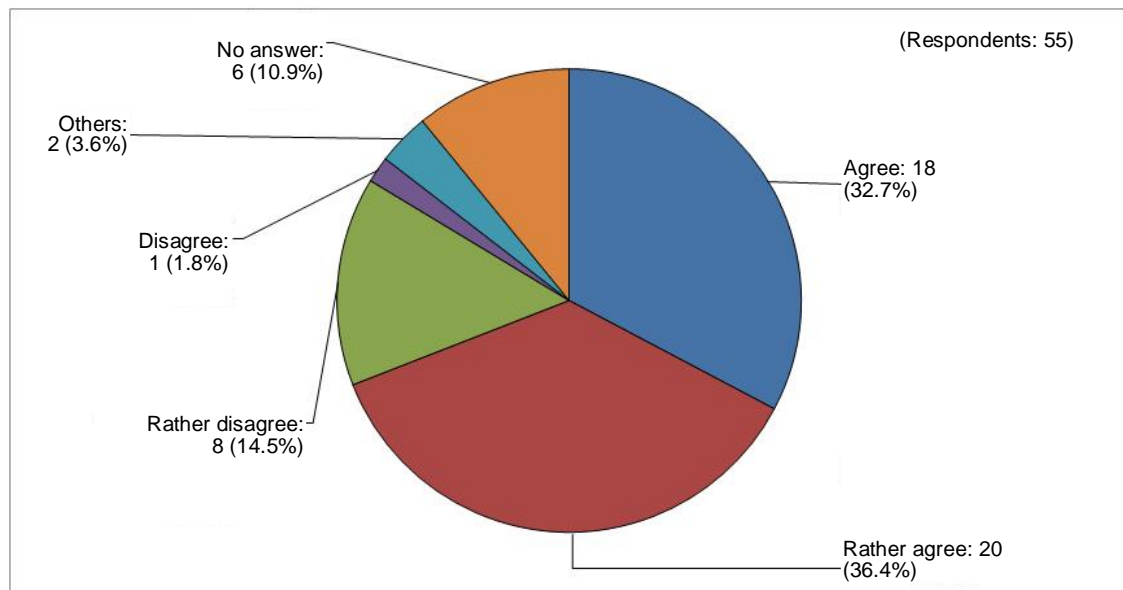
(1) Opinions of operators on the admission of additional services

[Social welfare corporations]



[Source] Survey by the Japan Fair Trade Commission

[Stock companies, etc.]



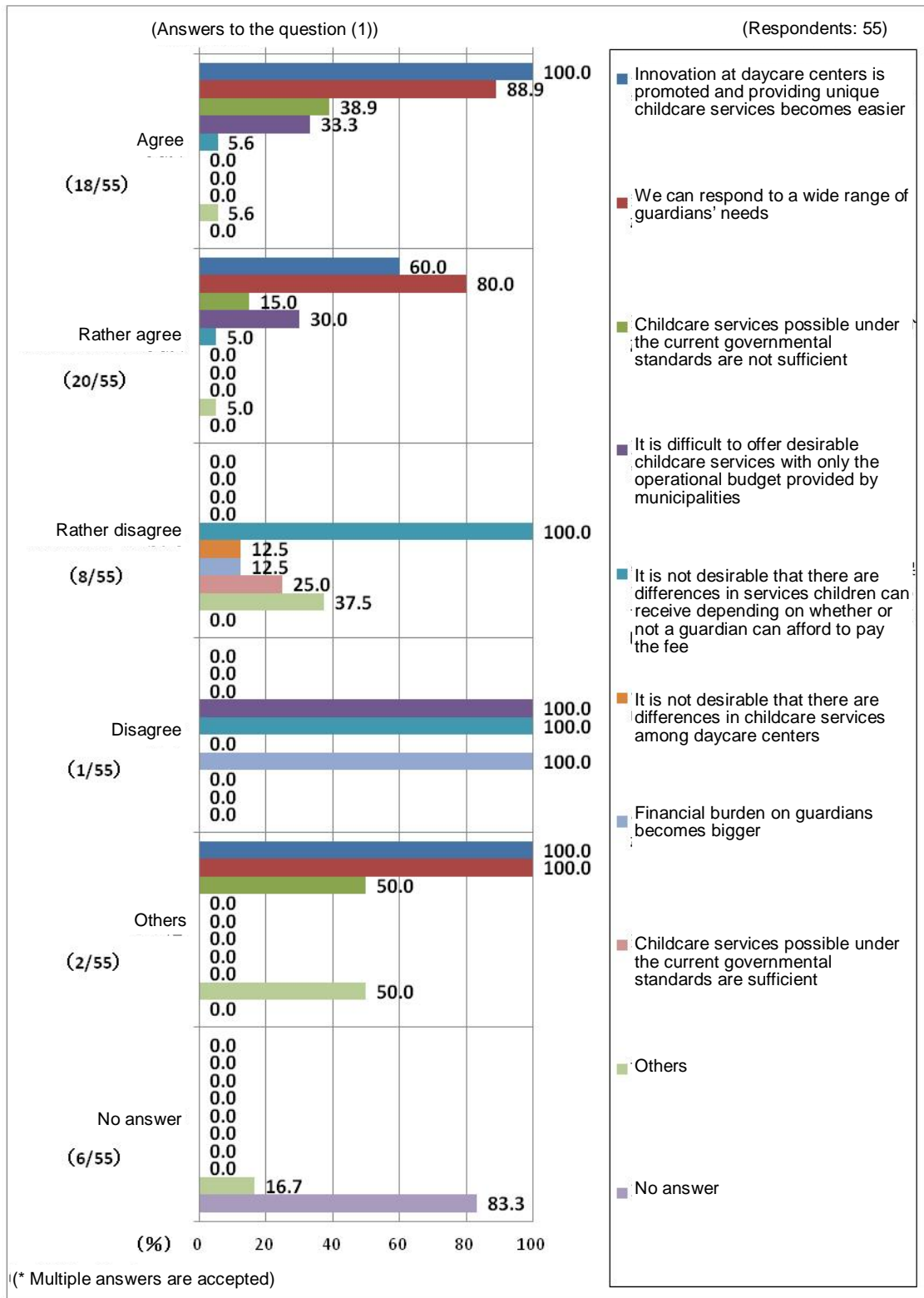
[Source] Survey by the Japan Fair Trade Commission

[Social welfare corporations]





[Stock companies, etc.]



[Source] Survey by the Japan Fair Trade Commission

#### IV. Viewpoints concerning Competition Policy related to the Childcare Sector

##### 1. Basic Viewpoints

The social welfare sector has been supported by the government in order to provide appropriate level of services to people requiring welfare services, including low-income people.

However, in the Social Welfare Act, businesses to administer daycare centers, as well as home help services and day services for the elderly, are categorized into “Type 2 social welfare services” as “services with low necessity of public regulation in order to promote self-initiative and innovation.”<sup>79</sup>

Moreover, while the provision of childcare services at daycare centers has been considered to be an administrative obligation in the Child Welfare Act for many years, the conventional arrangement system was changed into the selective utilization system where users can select facility/facilities they want to use under the idea that “there is a necessity of developing a system in which users are provided with enough information on contents and types of childcare services of daycare centers and can choose daycare centers and services based on such information”<sup>80</sup> as socioeconomic circumstances changed. This change in the system was realized in the childcare service areas earlier than in other social welfare service areas. Furthermore, establishing entities were expanded to various types of operators including stock companies, etc. based on the principle to “promote entry of diverse service providers ... in order to respond to a wide range of demand from users” and “encourage the improvement of quality and efficiency of services through the utilization of market mechanisms, including the promotion of fair competition by providing options to users.”<sup>81</sup>

Considering the above, the childcare sector is expected to improve childcare services through the utilization of market mechanisms in nature compared to other social welfare sectors, and it is considered this sector has relatively high compatibility with competitive policy that tries to ensure benefits of consumers by promoting competition under which various types of operators can use their own innovativeness.

For this reason, summarizing ideas on the childcare sector from the aspect of competition policy is beneficial to the increase of supply of and the improvement of childcare services, since it promotes active competition in the sector by encouraging new entry of a wide range of operators and their innovation. This also makes the childcare sector a growing sector.

In this survey, the importance of developing an environment was considered specifically

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<sup>79</sup> Material in Note エラー! ブックマークが定義されていません。 .

<sup>80</sup> Central Child Welfare Council Fundamental Issues Sub-Committee, “Day care system required in the society with decreasing birthrate (Interim Report)” (December 3, 1996).

<sup>81</sup> Central social welfare council's study group on structural reform, “Reform of social welfare fundamental structure (Interim Report)” (June 17, 1998).

focusing on: (1) promotion of new entry by diverse operators, (2) impartial conditions for competition among operators, (3) appropriate selection of users, and (4) facilitating innovation by operators.

As a matter of course, in the childcare sector, there need to be certain rules with which operators of daycare centers must comply for the purpose of ensuring health and safety of children. Such rules should be imposed equally on all operators of daycare centers irrespective of the form of corporation and it is needless to say that operators' compliance with the rules is a premise for competition, including friendly competition, among operators.

## 2. Consideration and Viewpoints concerning Competition Policy

### (1) New Entry

In terms of competition policy, it is crucial to improve an environment where a wide variety of operators can newly enter. Based on this idea, this report examined new entry and summarized the viewpoints concerning competition policy related ideas.

#### A. Consideration

There are currently many children on waiting lists, especially in urban areas, and it is a pressing issue to boost the supply by increasing establishing entities of daycare centers. On the other hand, some municipalities are showing negative attitudes toward new entry of stock companies into the childcare sector, and as a result, they are not successful in receiving enough applications from operators in order to achieve necessary number of new establishment of daycare centers. Since data in other countries show that the entry of stock companies into the childcare sector is contributing to the increase of the number of daycare centers, and considering that there is a high expectation for new entry of stock companies among guardians, it is essential to admit new entry of diverse operators regardless of the form of corporation, so that motivated operators are not excluded from entry into this sector. The admission of new entry contributes to the increase in the supply of childcare services, which in turn helps in solving the issue of wait-listed children. Furthermore, through competition among various types of operators, the quality of childcare services will be improved.

Regarding this point, while some institutional measures have been taken and the current system has admitted the entry of a wide range of operators, including stock companies, regardless of the form of corporation since April 2000, as has been seen in (1) of Section 1 in Chapter III, some municipalities do not admit the entry of stock companies, etc. and set conditions by which it becomes impossible for stock companies, etc. to enter the childcare sector. As a result, the number of entries of

diverse operators is still insufficient.

As a reason why these municipalities take such measures, they say they have some doubt about the quality of childcare services provided by stock companies, etc. However, refusing stock companies, etc. on the ground of the quality of childcare services is not reasonable when considering: (1) the quality of services is not decided by the form of corporation, but is up to individual operators, and (2) there exist standards for any forms of operators regarding the number of nursery teachers and area of each facility to ensure the required level of quality. Rather, by admitting the entry of various kinds of operators and letting them work hard and learn from each other, further improvement of quality is expected.

In addition, as other reasons for such an exclusion of stock companies, etc., some municipalities expressed that, in case of stock companies, etc., there are some possibilities of closing daycare centers, for instance, due to bankruptcy and it is difficult to protect users if such an operator's daycare center is closed, compared to a social welfare corporation whose closed daycare center will be operated by another operator because of regulations on social welfare corporations' residual assets when closing daycare centers. Yet, it should not be necessary to prevent stock companies, etc. from entering the childcare sector on the grounds of concerns about closure of daycare centers and absence of regulations for the cases of closing because: (1) the number of closed daycare centers operated by social welfare corporations is not so small, and (2) it is possible to take more specific and effective measures to protect users than regulations on residual assets at closure; for instance, by making operators considering closure of any daycare centers consult with municipalities before closing and give advance notice and by asking them to find another corporation that can take over their daycare center.

Under the new system, the requirements for approving the establishment of daycare centers are clearly specified in the related laws and standards for reviewing applications for establishing daycare centers. In other words, with the new system, actions have been taken to prevent arbitrary measures by municipalities regarding the approval of daycare centers in comparison to the current system, as the new system intends to improve transparency of the review process for applications for establishment.

Also under the current system, the Ministry of Health, Labour and Welfare issued a public notice to ask municipalities to operate their approval systems in a just and fair manner in view of the new system.<sup>82</sup> Under such conditions, there have been

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<sup>82</sup> Notice in Note エラー! ブックマークが定義されていません。

municipalities that approve the entry of stock companies, etc. recently.

#### B. Viewpoints

In keeping with measures taken in the new system, municipalities must operate their approval systems so that various types of operators can enter the childcare sector irrespective of the form of corporation even under the current system.

Needless to say, under the new system, municipalities must avoid unfair operation of their approval systems (for instance, setting conditions and regulations to prevent stock companies, etc. from entering the childcare sector) in order not to bring disadvantage to operators in specific forms. In addition, while refraining from imposing conditions that make it difficult for possible new operators to enter, for instance, by asking them to obtain agreement from existing operators, municipalities need to provide enough opportunities of new entry to a wide range of motivated operators, for example, by selecting establishing entities through open recruitment. At the same time, municipalities need to make efforts to eliminate arbitrariness by utilizing objective criteria when selecting specific operators on the premise that legal approval requirements are satisfied. Additionally, the same actions should be taken when selecting operators with the “public build and private operate” approach.

Furthermore, it may cause a breach of the Antimonopoly Act if municipalities ask possible operators to obtain agreement from existing operators and instruct possible operators to negotiate with existing operators on conditions for entry.<sup>83</sup>

#### (2) Subsidy and taxation systems

In terms of competition policy, it is necessary to create an environment where operators can compete under fair conditions. Based on this idea, this report examined subsidy and taxation systems and summarized the viewpoints concerning competition policy.

#### A. Consideration

There are cases where stock companies gave up entry into the childcare sector, as they were not subject to subsidies. When there are differences in the amount of subsidies provided to operators due to the form of corporation, operators who are granted small amount of subsidies have to deliver childcare services under relatively

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<sup>83</sup> 2(1) of “Guidelines Concerning Administrative Guidance Under the Antimonopoly Act” (Fair Trade Commission, Jun 30, 1994) specifies that “Guidance requiring new entrants to obtain the consent of existing firms or the trade association in the relevant field of business or to coordinate the conditions for entry with such parties” “may tempt the existing firms or trade association to make the prospective new entrants give up by refusing them consent to enter, to limit the number of firms in the field of business, or to impose conditions that would very likely place unreasonable restrictions on the business activities of the prospective new entrants.”

disadvantageous conditions, and as a result, benefits received will be unequal among users. Considering these points, it is required to promote the entry of various types of operators so that users can enjoy benefits sufficiently and equally, and to ensure equal footing regarding subsidy and taxation systems so that operators can provide childcare services under equal conditions. Through competition under fair conditions, operators will work hard to offer better services than each other, stimulating competition further. This, in turn, will contribute to the improvement of childcare services in the whole childcare sector.

In addition, with the birthrate declining, some operators may withdraw from the childcare sector when the demand peaks out in future. To deal with such a situation, it is crucial to ensure equal footing in order to develop a system that enables operators providing high-quality services to be selected by guardians and to continue their businesses.

As for the subsidy system, subsidies for facility establishment cost are not granted to stock companies, etc. under the current system. Under the new system, on the other hand, it has been considered to support costs for establishing daycare facilities in an equalized manner in the long term by granting benefits for part of the depreciation cost to corporations that are not subject to the current subsidies for facility establishment and facilities that make use of rentals. As a result, differences caused by the form of corporation under the current system are expected to be smaller under the new system.

Some subsidy systems of municipalities implemented as local single projects are treating operators differently depending on the form of corporations. However, many such municipalities expressed their intentions to review their systems under the new system. Considering that it is a pressing issue to promote the entry of diverse operators and boost the supply of childcare services when many children are on waiting lists, and that the increase of the childcare service supply will improve the women's labor force participation rate, which is beneficial to the entire society, granting subsidies itself is reasonable enough in terms of achieving an adequate balance between supply and demand of childcare services. For instance, excluding other forms of corporations than social welfare corporation from the subjects of subsidies and imposing additional requirements on other operators than social welfare corporations will hold operators receiving small subsidies back from providing good childcare services, damaging benefits users can receive.

Tax systems will remain the same under the new system, as social welfare corporations are not imposed some taxes including corporate tax as a rule.

## B. Viewpoints

Regarding subsidy systems implemented as local single projects, municipalities need to establish fair subsidy systems without irrespective of the form of corporation so that operators can provide childcare services under fair conditions and users can enjoy benefits equally.

As for tax systems, on the other hand, the current taxation measures for operators establishing daycare centers allow a wide range of operators, including stock companies, to enter the childcare sector. Also, when the number of operators entering the sector is expected to increase and when looking at possible impacts of tax levy on the contents of childcare services provided by operators as mentioned in (2) of section 2 in Chapter III, sufficient consideration should be given to the taxation measures by taking into account the possible impacts as well as purposes and effectiveness of giving social welfare corporations tax incentives in a comprehensive manner.

## (3) Information disclosure and third-party evaluations

From the aspect of competition policy, it is essential to develop an environment that enables users to make appropriate selections. Based on this idea, this report examined information disclosure and third-party evaluations and summarized the viewpoints concerning competition policy.

### A. Information disclosure

#### (a) Consideration

While guardians choose daycare centers, it is children who actually receive childcare services at daycare centers. In other words, one of the characteristics of childcare services is that the person who selects and the person who receives services are not the same. However, as a matter of course, we cannot expect children to evaluate the contents and quality of childcare services, and it is difficult to see the actual status of childcare services from outside. This means, it is unlikely that operators voluntarily make enough efforts to improve the contents and quality of their services based on demands and selections from and by users. Furthermore, in areas where there are many wait-listed children, it is difficult to move to another daycare center.

Considering the above, it is very important to improve an environment where guardians can evaluate and think through about the types of childcare services in advance when selecting daycare centers so that guardians are able to make

appropriate selections. It is expected that such selections by guardians will promote competition among operators, encouraging them to improve the contents and quality of their childcare services. In addition, disclosing information to guardians will make it possible for operators to compare themselves, encouraging operators to make voluntary efforts to improve the contents and quality of their childcare services. In order to facilitate such a function of information disclosure, operators and municipalities need to provide useful information to guardians and guardians need to have easy access to such information.

Since 1997, municipalities have been obliged to provide information on operation status of daycare centers and operators have been required to make best efforts to provide information on the childcare services of their daycare centers under the Child Welfare Act. At present, however, there are gaps between information demanded by guardians and that actually published by municipalities and operators, as seen in (1) A of section 3 in Chapter III. As for the methods of information disclosure, it is considered that just placement of materials at daycare centers is not providing guardians enough opportunities to access information, and it is hardly said that information useful to guardians is disclosed in a way guardians can easily refer. Furthermore, some municipalities do not have any systems to identify what kind of information is required by guardians.

In the new system, daycare centers are required to provide prefectural governors with information on their childcare services and prefectural governors have to publish the contents of provided information. Moreover, it is required for prefectures and municipalities to take a certain level of responsibility regarding selection of daycare centers by guardians. More specifically, the Act on Children and Childrearing Support specifies municipalities are obliged to “establish a system ensuring that various types of facilities and operators provide good-quality and appropriate education and childcare services and other child and childcare supports depending on the environment surrounding children and their guardians and based on selection made by guardians” (Act on Children and Childrearing Support, Article 3, paragraph (1), item (3)). That all daycare centers disclose information on the same items facilitates easier comparison of operators, contributing to the interest of guardians.

#### (b) Viewpoints

Operators should understand what kind of information is demanded by guardians, and disclose such information in a more proactive manner, utilizing methods that are easily available to guardians; for instance, through online disclosure including



daycare centers' websites, which many guardians use as a way to obtain information. On this point, not a small number of operators are positive by saying that they "intend to disclose wider range of information if required." It is hoped that they will make further efforts.

In order to support guardians when they select daycare centers, municipalities also need to understand what information is required through guardians, develop a system that can remove gaps between information demanded by guardians and disclosed information, and publish information by methods that are easily available to guardians.

## B. Third-party evaluation

### (a) Consideration

Considering the characteristics of daycare centers pointed out in section A, in addition to information disclosure, promoting operators to third-party evaluation implemented from the professional point of view and the disclose evaluation results is an effective ways to improve and enhance the quality of childcare services to review their childcare services and to compare them with those provided by different daycare centers. Also, this helps guardians compare and judge daycare centers. Especially when the number of daycare centers is expected to go up under the new system, options offered to guardians will also increase. Under such circumstances, the expectations from third-party evaluation will grow. It is also possible that operators voluntarily check the appropriateness of information they disclose by receiving third-party evaluation.

In 2000, the third-party evaluation system was established and third-party evaluations of daycare centers have been conducted since then. However, with the rate of receiving the evaluation remaining as low as 4.34% as of 2012, it is said that third-party evaluations have not been received widely at the national level. As a result, the public awareness of the third-party evaluation system and the utilization of evaluation results among guardians are still low. That means the third-party evaluation system has not been successful in influencing the selections of daycare centers by guardians so far.

### (b) Viewpoints

The government and municipalities should make the third-party evaluation system known to guardians and increase the awareness of the system. At the same time, they should improve the recognition of operators regarding the necessity and

meaning of the evaluation system while ensuring third-party evaluation results are disclosed in a more specific and friendly way so that guardians can use such results for comparing and judging daycare centers. Municipalities also need to understand issues identified during third-party evaluation and demands of guardians accurately and improve the quality of their childcare services, thereby enhancing their own childcare policies.

In fact, some municipalities have already taken positive measures to promote daycare centers to receive third-party evaluation and succeeded in increasing the reception. Other municipalities should refer to such advanced efforts and work to improve the reception rate of third-party evaluation.

It has been pointed out that one of the reasons for the low reception rate is the cost of third-party evaluation. Under the new system, it is under consideration to support around half of the evaluation reception expenses for operators who received third-party evaluation and published its results. Each operator should thus make efforts for more active reception of evaluation and announcement of evaluation results.

Regarding third-party evaluation itself, some are expressing doubt about reliability. To strengthen accuracy and improve reliability of third-party evaluation, it is necessary to develop a system that enhances the capabilities of third-party evaluation organizations and ensures fairness of evaluation; for instance, by (1) imposing certain regulations on evaluating organization, considering that the third-party evaluation system serves public interest, and (2) setting uniform criteria for evaluation items and methods.

That more operators take initiatives for information disclosure and third-party evaluation not only contributes to selection by users but also motivates other operators to provide better services, as they can refer to operators already providing better services as models, which in turn contributes to the promotion of improved childcare services.

#### (4) Additional services

In terms of competition policy, it is crucial to develop an environment where operators can use their innovativeness. Based on this idea, this report examined additional services and summarized the viewpoints concerning competition policy.

##### A. Consideration

As the demand for childcare services grows and more diverse childcare services are

required, it is essential to diversify the contents of childcare services and increase options for users by admitting additional services by operators and facilitating innovativeness among operators through competition on the premise that rules to ensure health and safety of children are complied with and enough attention is paid in terms of the provision of necessary childcare services to low-income people.

In addition, admitting the collection of expenses for additional services allows not only the delivery of a wide variety of childcare services that meet users' needs, but is also expected to lessen differences in the amount of subsidies due to the form of corporation in an effective way, because, for operators who are under disadvantageous conditions in terms of income due to differences in the amount of subsidies, being able to collect fees for additional services means acquiring new financial resources alternative to subsidies, which enables them to provide better quality of childcare services.

Such an admission will also raise the possibility of new entry of motivated operators and contribute to the improvement of the quality of services through competition among diverse operators.

There are demands also from guardians for additional childcare services and some operators are willing to provide additional services. Considering such demands, the provision of additional services should widely be admitted, and in the new system too, admitting of the provision of additional services and the collection of fees for such services has been positively considered.

However, as described in section 4 (1) of Chapter III, there were cases where some municipalities were neither admitting the collection of fees for additional services nor the provision of optional services, although they are admitted institutionally. Such an operation of systems makes it difficult for operators to respond to demands from guardians, and be innovative..

Indeed, there are negative opinions about making differences among childcare services depending on daycare centers. Nevertheless, when there exist demands for additional services, it is considered to be unreasonable to discourage operators from providing diverse and high-quality childcare services that satisfy needs of users depending on daycare centers. Rather, for operators to use their innovativeness, it is important to encourage each daycare center to have its own characteristics and provide various childcare services, on the premise that rules to ensure health and safety of children are complied with and while taking proper care of the provision of necessary childcare services to low-income people, so that users can receive better childcare services.

## B. Viewpoints

On the premise that rules to ensure health and safety of children are complied with, municipalities should ensure the diversification of childcare services as much as possible by admitting the provision of additional services and the collection of fees for such services and promoting innovation among operators, while paying enough attention to provide necessary childcare services to low-income people.

## 3. Conclusion

In this study, key issues in the childcare sector were identified from the aspect of competition policy. Based on the ideas indicated in section 2 above, it is crucial to establish an environment that allows new entry of diverse operators, competition under fair conditions, appropriate selection by users, and innovation by operators. By this, new entry of diverse operators will be promoted and the supply of childcare services will increase. At the same time, facilitating competition among operators and appropriate selection by users will improve the quality of childcare services delivered to users. These, in turn, will make the childcare sector a growing sector of Japan.