

Study Report on Childcare Sector (Summary)

June 25, 2014

Japan Fair Trade Commission

I. Background (1 of I in the report)

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 waiting lists.

In accordance with three new child-rearing-related legislations enacted in August 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 will have to wait when receiving childcare services by the end of FY2017.

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 ... to efficiently provide good-quality and low-cost services and products to the people.” For the purpose of contributing to the growth and development of Japan, the “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 demands, but also one that is expected to become a growth area of the Japanese economy.

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

The competition policy aims to promote competition among operators by developing an environment that facilitates new market entry and innovation

of operators, thereby ensuring that consumers enjoy quality products and services and encouraging operators 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 improvement of the supply and quality of childcare services, while making the childcare sector a growing sector of the Japan.

In the context of competition policy context, 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 by users, and (4) innovation by operators.

II. Survey Method (3 of I in the report)

(1) In order to understand the current status of registered daycare centers (hereinafter, “daycare centers”), a questionnaire survey in writing was conducted, targeting social welfare corporations, stock companies, etc., and municipalities.

(Valid responses: 563 social welfare corporations, 170 stock companies, etc., 430 municipalities)

(2) In order to understand guardians’ attitudes toward childcare, an online questionnaire survey was implemented, targeting users and non-users of daycare centers.

(Responses: 417 users of daycare centers, 419 non-users of daycare centers)

(3) The interview was conducted in 18 municipalities, stock companies, and persons with relevant knowledge and experience, etc.

(4) Three public meetings were held to hear experts’ views on the current status of the childcare sector.

III. Current State and Discussions at Public Meetings (III in the report)

1. New Entry (1 of III in the report)

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

Institutionally, no limit is imposed on the form of entity establishing a daycare centers, but some municipalities are reluctant to admit the entry of stock companies, etc. into the childcare sector and, for example, they limit qualified applicants to social welfare corporations in their application

guidelines. Some opinions were expressed about new entry: “Some municipalities accept only existing social welfare corporations,” “We were asked to obtain agreement for new entry from all presidents of existing daycare centers in the same area,” “Approval is not given without operational record of daycare centers in other municipalities,” “Apparently the entry of stock companies is admitted but is actually not because 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.”

As reasons why some municipalities do not select stock companies as establishment entities of daycare centers, they noted “concerns regarding bankruptcy” and “concerns about the quality of provided daycare services,” and also pointed out that “if a daycare center is operated by a social welfare corporation, it is relatively easy to provide continuous daycare services to children enrolled into the daycare center, thus protecting users, because, even when the social welfare corporation decides to close its center, the center and its facilities will be operated by another social welfare corporation or vested to the national treasury.”

On the other hand, some made counterarguments to the above concerns: “There is not a big difference between a stock company and social welfare corporations in terms of the form of corporation. In the end, it is up to individual operators,” “Lowering the quality of services is not possible, as compliance with the standards is imposed by laws,” “There are cases where even social welfare corporations also 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 regulations on residual assets upon withdrawal is declining.”

As for guardians, most of them are positive about the entry of stock companies.

2. Subsidy and Tax Systems (2 of III in the report)

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

(1) Subsidy system

Under the current system, stock companies, etc. are not granted subsidies to support expenses for construction, extension, and renovation

of daycare centers. In addition, it was found that some municipalities' subsidy systems limited subjects of subsidies to social welfare corporations or were setting differences between social welfare corporations and other corporations regarding the amounts and conditions for granting subsidies.

Regarding this, the following issues were pointed out: "If a municipality's own subsidy system 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 subsidy amount negatively affects the treatment of nursery teachers and the development of new businesses by creating differences in income among staff at social welfare corporations and stock companies."

(2) Taxation system

Social welfare corporations are exempted from corporate tax, local inhabitant taxes, and enterprise tax in principle.

On this point, some people expressed that "as the amount of surplus funds changes depending on whether or not tax is imposed, the ease of establishing day-care centers also changes" and "whether or not tax is imposed makes difference in childcare services."

3. Information Disclosure and Third Party Evaluation (3 of III in the report)

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

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

daycare centers are shown, encouraging the operators to make better efforts.”

On the other hand, there are gaps between information demanded by guardians and that actually disclosed by municipalities and childcare facility operators. While relatively many operators mentioned the placement of materials at daycare centers as a way of information disclosure, the number of guardians who gathered information through materials placed at daycare centers was very small. For guardians, the common ways to collect information are neighbors/friends, websites, and participation in orientation sessions.

As for information disclosure by municipalities, while some municipalities answered they were positively disclosing information, it was found that other municipalities did not have systems to understand what kind of information guardians asked for.

(2) Third-party evaluation

Third-party evaluation assesses the quality of services delivered by operators and is performed by fair and unbiased third-party organizations from a professional and objective standpoint. Regarding the meaning of such an evaluation, the following opinions were expressed: “Third-party evaluation is ‘C’ of the PDCA cycle^(note), and asking operators for improvement contributes to the enhancement of service quality,” “Third-party evaluation is beneficial, since children cannot express their opinions and childcare services tend to become self-approving,” and “Third-party evaluations can be a check system to a certain level to review appropriateness of information disclosed by daycare centers.”

At present, the awareness of the third-party evaluation system and the ratio of referring to evaluation results are still small among guardians. Yet, more than 90% of the guardians who referred to evaluation results mentioned the results were useful. Furthermore, many mentioned they wanted to refer to evaluation results. This indicates there is some expectation from third-party evaluation.

On the other hand, under the current system, receiving third-party evaluation is optional for operators, and the rate of reception is just 4.34% in 2012. Furthermore, some operators seemed not to recognize the necessity and meaning of third-party evaluation enough. Moreover, there were municipalities that did not know what was pointed out through third-party evaluations and whether operators were making efforts to improve the quality of their services based on the evaluation results.

Some also expressed their doubt about the fairness and reliability of third-party evaluation.

(Note) "PDCA" stands for Plan (planning), Do (implementation), Check (evaluation), and Action (improvement).

4. Additional Services (4 of III in the report)

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

Although it is institutionally possible to provide additional services at daycare centers and collect fees for such services, opinions and operations regarding additional services are varied among municipalities. Some municipalities do not admit operators to collect fees for additional services and to provide services users can choose whether to use or not.

As for guardians, there are a certain number of guardians who answered they wanted to use additional services even if extra fees were charged in addition to daycare fees. In other words, there is a certain level of need for additional services, and attitudes that accept the burden of additional fees.

It was also expressed that "only certain types of childcare services are allowed and operators have little space to be creative."

IV. Viewpoints concerning Competition Policy related to the Childcare Sector (IV in the report)

1. Basic Viewpoints (1 of IV in the report)

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

However, in the Social Welfare Act, businesses to administer daycare centers are categorized into "Type 2 social welfare services," as services with low necessity of public regulation, in order to promote self-initiative and innovation. There is no limitation for administrators of "Type 2 social welfare services" in terms of the form of corporation.

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, in 1997 as socioeconomic circumstances changed, the conventional arrangement system (administrative actions by municipalities) was changed into the selective utilization system under which users can select the facility/facilities they want to use. This change in the system was

realized in the childcare service areas the earliest among social welfare service areas. Further, in 2000, establishment entities were expanded to various forms of operators including stock companies, aiming to reduce children on waiting lists.

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.

As a matter of course, in the childcare sector, there need to be certain rules with which operators of daycare centers should 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 (2 of IV in the report)

(1) New Entry (2(1) of IV in the report)

In terms of competition policy, it is crucial to prepare an environment where a wide variety of operators can newly enter.

A. Consideration

It is essential to admit new entry of diverse forms of operators so that motivated operators are not excluded from entry into the childcare sector.

Admitting various forms of operators to enter the childcare sector contributes to the increase in the supply of childcare services, which, in turn, helps the issue of wait-listed children to be solved. Furthermore, through competition among various operators, the quality of childcare services will be improved.

Nevertheless, 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 entry 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 grounds 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 form of operators regarding the number of nursery teachers and area size of each facility to ensure the required level of quality. Rather, by admitting the entry of various forms 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 concerning social welfare corporations' residual assets when closing of 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 succeed the target daycare center before closing.

In the new system, in comparison to the current system, the transparency of the review process concerning applications for establishing daycare centers was further clarified, and it is considered that actions have been taken to prevent arbitrary measures by municipalities regarding the approval of daycare centers.

B. Viewpoints

In keeping with measures taken in the new system, municipalities should 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 should 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 newly 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 public invitation. 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 so-called “public build and private operate” approach.

(2) Subsidy and Tax Systems (2(2) of IV in the report)

In terms of competition policy, it is necessary to create an environment where operators can compete with each other under fair conditions.

A. Consideration

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^(note) regarding subsidy and taxation systems so that operators can provide childcare services under equal conditions. Establishment of equal footing is crucial to enable operators providing high-quality services to be selected by guardians and to continue their operations when the demand peaks out in future.

Regarding this, although stock companies, etc. are not granted subsidies to support expenses for construction, extension, and renovation of daycare centers under the current system, differences caused by the form of corporation are expected to be smaller under the new system. In addition, even though some municipalities' subsidy systems are treating operators differently depending on the form of

corporation, many such municipalities expressed their intentions to review their systems under the new system.

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.

(Note) Equal footing means providing fair business conditions among business operators

B. Viewpoints

Municipalities need to establish fair subsidy systems of their own irrespective of the form of corporation, so that operators can provide childcare services under fair conditions.

As for tax systems against operators establishing day care centers, sufficient consideration should be given to the taxation measures, taking into account possible impacts of tax levy on the contents of childcare services provided by operators, as well as purposes and effectiveness of giving social welfare corporations tax incentives in a comprehensive manner since a wide range of operators including stock companies are allowed to enter the childcare sector and the number of operators entering the sector is expected to increase.

(3) Information Disclosure and Third Party Evaluation (2(3) of IV in the report)

From the aspect of competition policy, it is essential to develop an environment that enables users to make appropriate selections.

A. Information disclosure

(a) Consideration

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. Considering such a situation, it is very important to ensure an environment where guardians can evaluate and think through enough about types of childcare services of daycare centers under consideration in advance when selecting daycare centers, so that they are able to make appropriate selection. It is expected that such selection by guardians will promote competition among operators, encouraging operators 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 them 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.

At present, however, it can hardly be said that information useful to guardians is disclosed in a way they can easily access.

(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 on daycare centers' websites, which many guardians use as a way to obtain information.

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

B. Third-party evaluation

(a) Consideration

Apart from information disclosure, promoting operators to receive third-party evaluation implemented from a professional point of view and disclose evaluation results is an effective way to improve and enhance the quality of childcare services, by encouraging operators 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 are also anticipated to increase. Under such circumstances, the expectation for the role of third-party evaluation will grow.

However, third-party evaluations have not been received widely at the national level so far. As a result, the public awareness of the third-party evaluation system and the utilization of evaluation results

among guardians are still low. This means that the third-party evaluation system is not so successful in influencing the selection 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 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. At the same time, they should refer to advanced efforts of other municipalities to improve the reception rate of third-party evaluation...

Operators should make efforts for more active reception of evaluation and announcement of evaluation results.

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 organizations, considering that the third-party evaluation system serves public interest, and (2) setting uniform criteria for evaluation items and methods.

(4) Additional Services (2(4) of IV in the report)

In terms of competition policy, it is crucial to develop an environment where operators can use their innovativeness.

A. Consideration

To respond to a wide range of demands from users for childcare services, it is essential to diversify the contents of childcare services and increase options for users by admitting additional services provided by operators and facilitating innovativeness among operators through competition on the premise that rules to ensure health and safety of children are complied with, considering enough attention should be paid to provide necessary childcare services to low-income people.

In addition, admitting the provision of additional services and the collection of their fees is expected to lessen differences in the amount of subsidies due to the form of corporation in an effective way, because, for operators, 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 childcare services through competition among diverse operators.

However, some municipalities do not admit operators to collect fees necessary to provide additional services and to provide services users can choose whether to use or not, preventing operators from satisfying demands from guardians sufficiently and from using their innovativeness.

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 (3 of IV in the report)

In this study, the key issues in the childcare sector were examined and summarized 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 that, 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 growth sector of the Japanese economy.