



East Asia & Pacific
Gender

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Could Childcare Services Improve Women's Labor Market Outcomes in Indonesia?

By: Daniel Halim, Hillary Johnson and Elizaveta Perova

KEY FINDINGS

- Low female labor force participation is linked with unsatisfied childcare needs.
- Urban women without access to informal childcare forego approximately US\$1,300 in earnings due to prolonged absence from the labor market.
- After childbirth, women without access to informal childcare are more likely to switch into, and remain in, unpaid family work.
- For women who return to work, childcare constraints are associated with a switch into less lucrative occupations.

CONTEXT

Increasing female labor force participation (LFP) is essential for growth and productivity gains¹ and could offset the decline in the working population of a rapidly aging economy.² At 53.5 percent, female LFP in Indonesia is far below the regional average of 67.7 percent.³

Studies from other regions show that supporting access to childcare increases female LFP; however, the magnitude of these effects varies by country and by program type.⁴ To know whether similar programs might be appropriate for Indonesia, policy makers need to understand whether low levels of female LFP are driven by preferences or constraints.

1 World Development Report 2012 – Gender Equality and Development, World Bank Washington, DC, 2011.

2 Live Long and Prosper – Aging in East Asia and Pacific, World Bank, Washington, DC, 2016.

3 World Development Indicators for 2014; <http://wdi.worldbank.org/tables>.

4 Cashing in on Education: Women, Childcare, and Prosperity in Latin America and the Caribbean, Mercedes Mateo-Diaz and Lourdes Rodriguez-Chamussy, World Bank and Inter-American Development Bank, Washington, DC, 2016.

EAST ASIA AND PACIFIC GENDER INNOVATION LAB

The East Asia and Pacific Gender Innovation Lab (EAPGIL) carries out impact evaluations and inferential research to generate evidence on what works in closing gender gaps in assets, economic opportunities and agency, and how closing these gaps can help achieve other development outcomes. Ultimately, EAPGIL seeks to increase the welfare of women and men in East Asia and the Pacific by promoting the uptake of effective policies and programs identified based on evidence.

WHAT DID WE DO?

We use household survey data⁵ to shed light on the following questions:

- Do women's labor market decisions in Indonesia reflect their preferences, or are they a consequence of childcare constraints?
- What is the maximum amount that households may be willing to pay for childcare services?
- If childcare constrains women's choices, what is the economic cost in terms of foregone earnings?

To answer these questions, we compared the labor market decisions of women with children who live in households with elderly household members and without elderly household members. The elderly may provide informal childcare services that alleviate the care burden. If labor market decisions are driven by preferences, we should not observe dramatic differences between women who have access to informal childcare and those who do not.

Due to data constraints, we can only describe trends and correlations; we cannot establish a causal relationship.

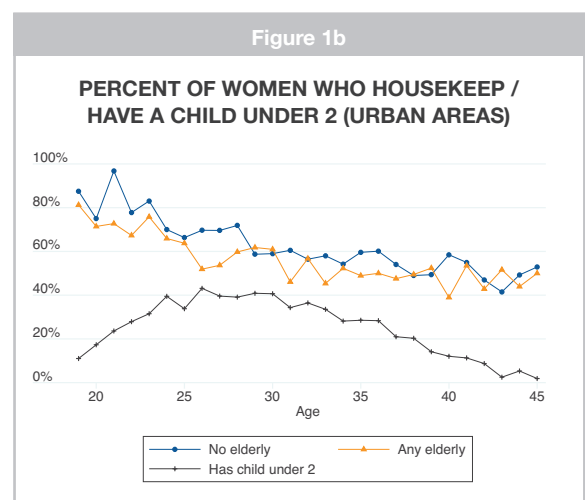
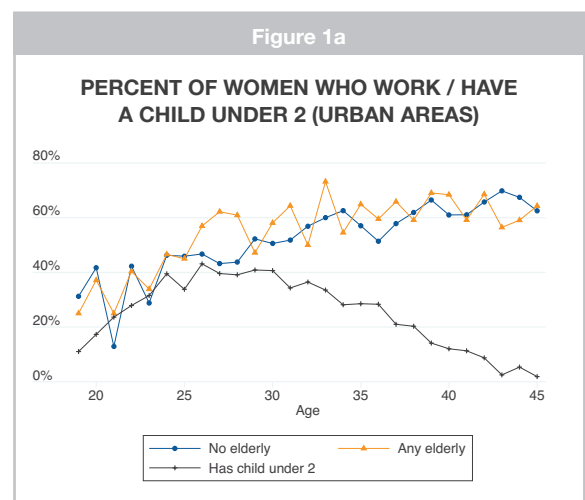
WHAT DID WE FIND?

The childcare burden seems to pose a constraint, at least for some women.

Labour force participation patterns of women who live in rural and urban households with and without elderly members are strikingly different. Figures 1a and 1b show the percent of urban women who report work or housekeeping as their main activity. Between ages 26 and 28, when fertility peaks, the percent of urban women who work is higher among those who live with elderly by a margin of 10 to 19 percentage points. The same trend does not appear in rural areas. Rural women are more likely to be employed in agriculture and less likely to be in formal employment, which may facilitate the combination of work and childcare.

In addition, between 2000 and 2014, the increase in female LFP was commensurate with an increase in households with a grandmother as the children's primary caretaker. The share of grandmothers as primary caregivers increased almost sevenfold from a nearly negligible 0.8 percent to 5.7 percent, or 4.9 percentage points. During the same period, female LFP almost mirrored this growth, increasing by 3.9 percentage points.

These trends suggest that LFP decisions are not made purely based on preferences.



5 Indonesian Family Life Survey (IFLS) rounds 1–5 (1993–2014).

Unmet childcare needs have an economic cost in terms of foregone earnings.

We conducted an event study to explore how the probability of being in the labor force and being in different types of employment changes in response to women's first childbirth. We compared five years before and eight years after childbirth to the year before giving birth. Again, we find striking differences between women in households with and without elderly and between rural and urban areas.

In urban areas, the probability of working returns to pre-pregnancy levels two years after childbirth for women in households with elderly members (figure 2). For those without elderly members, this period is twice as long, only regaining pre-pregnancy levels four years after childbirth. Using data from the Labor Force Survey, we estimate the cost of lost earnings. **Urban women without access to informal childcare forego approximately US\$1,300 in earnings due to prolonged absence from the labor market.**⁷

While informal childcare appears to accelerate the return to work only in urban areas, the type of work women return to differs by the presence of elderly in both urban and rural areas. Figures 3a and 3b show that **the probability of working as an unpaid family worker increases during the year of giving birth for women without the presence of elderly.** However, for those with elderly support, it remains unchanged in urban areas and returns to pre-pregnancy levels within a year in rural areas. Without access to informal childcare, women who transition into unpaid family work remain in it at least eight years after birth in urban areas, and in rural areas they only return to other activities after six years, which is the time of school entry for their child.

Women in households without elderly support are also more likely to move out of manufacturing occupations in both rural and urban areas (figures 4a and 4b). The destination occupation varies by area. In rural areas, the likelihood of working in agriculture increases, while in urban areas women move into sales. **These transitions are associated with US\$319 and US\$255 in foregone earnings in rural and urban areas, respectively.**⁸ Notably, the switch of sector is not temporary; the likelihood of working in a specific sector does not return to pre-pregnancy levels in either rural or urban areas.

Figure 2

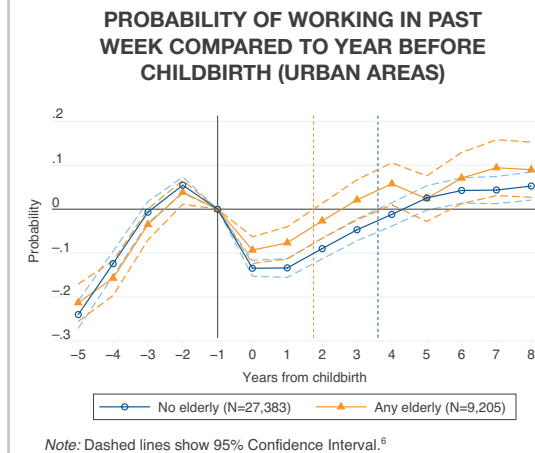


Figure 3a

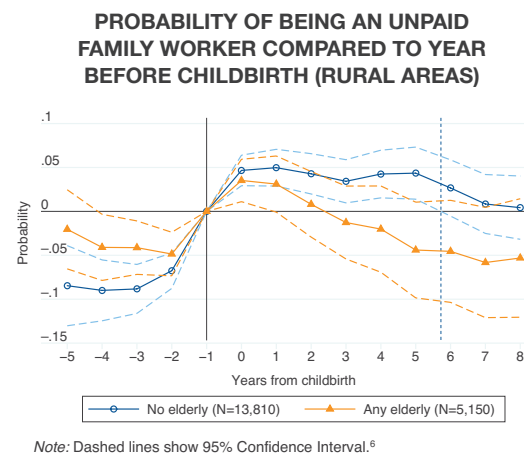
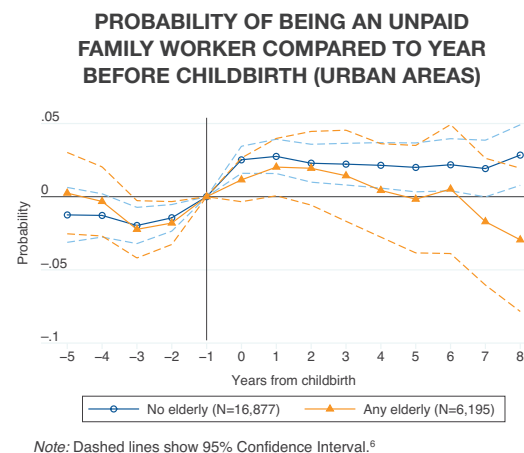


Figure 3b



6 The solid lines show the probability estimate for the individuals interviewed. The actual probability for the population may be a little more or less - the confidence interval shows the range in which we expect the actual probability to be with 95% confidence. For example, one year after childbirth urban women without elderly in the survey sample are 13 percentage points less likely to be employed than before giving birth, as indicated by the solid line in Figure 2. There is a 95% likelihood that the probability for all Indonesian women lies between -0.11 and -0.15 (shown by dashed lines).

7 Labor Force Survey data show that the median income of urban women of peak age for first childbirth (22 to 24) is US\$650 per year.

8 We estimate foregone earnings as the difference in median annual income in manufacturing and median income in agriculture or sales for women of peak age for first childbirth (22 to 24) using the Labor Force Survey (LFS).

ACKNOWLEDGMENTS

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FOR MORE INFORMATION

Elizaveta Perova

eperova@worldbank.org

Helle Buchhave

hbuchhave@worldbank.org

<http://www.worldbank.org/eapgil>

Figure 4a

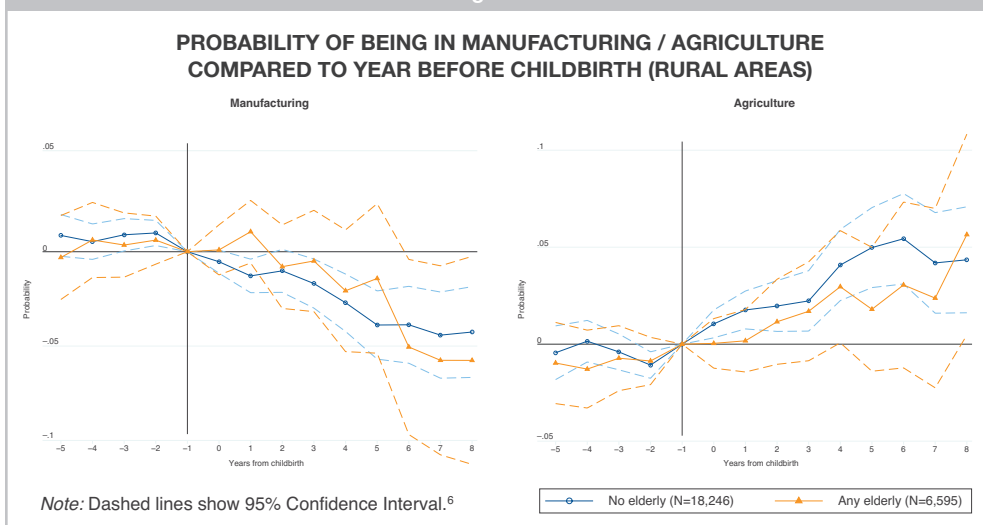
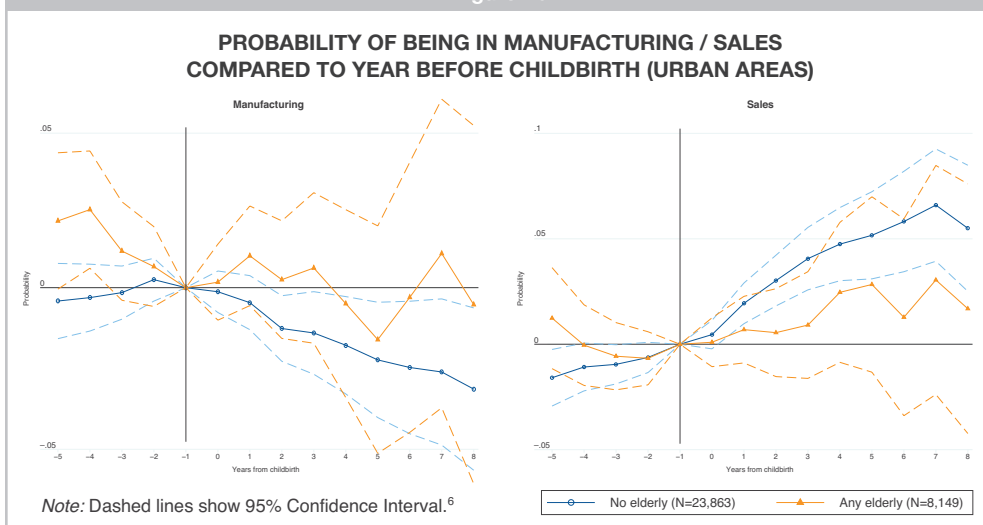


Figure 4b



WHAT ARE THE POLICY IMPLICATIONS?

First, differences in labor market decisions of women with and without immediate access to informal childcare suggest that constraints rather than preferences drive some women's decisions. **There is likely to be a demand for childcare services among women in households without elderly members** (67 percent of all Indonesian households with young children).

Second, we estimate the maximum willingness to pay for childcare using data on earnings. If able to continue working after childbirth, urban women would likely earn **US\$650** on average per year. **Public or private childcare services provided at a similar or higher cost would not provide a viable alternative to reducing LFP.**

Third, childcare constraints have economic costs due to foregone earnings and switches into lower-paying occupations. **Losses due to changing occupations are not temporary and highlight the need to explore constraints to combining market and household roles in more lucrative professions.**

Finally, future research should explore the causal relationship between childcare constraints and labor market choices and determine which public policies are most appropriate to address women's childcare needs.