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Strengthening Childcare Markets through Social Franchising

Evidence from Kenya

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Social franchising improves childcare quality, helps high-turnover home-based firms survive, and generates positive market spillovers.

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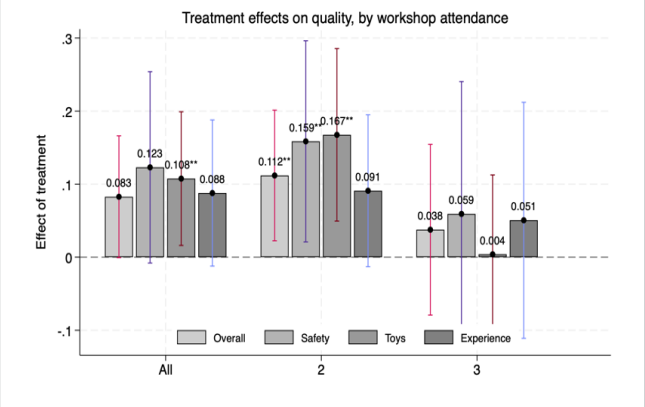
Topic at a Glance

High-quality daycare has the potential to be a "triple-win": fostering child development, increasing parental income, and increasing daycare profits in a mostly female workforce. However, in many low- and middle-income countries, the daycare industry is largely unregulated. Quality is often low—especially in poor communities—and raises child safety and health concerns. Low quality may also explain parental hesitancy to use paid care despite a demonstrated need.

We work with a social franchising organization that aims to improve daycare quality in Kenyan urban informal settlements. Through a cluster-randomized intervention, we find the social franchising model substantially increases daycare quality and meal provision. We also find benefits among competitor firms that did not enroll in the program, suggesting that social franchising may be a promising approach to generate widespread benefits. Higher quality did not lead to either higher prices or firm revenues, and enrollment also did not change, perhaps because parents have a low willingness to pay or cannot easily observe quality.



Caption: This figure shows the overall impacts on firm quality for all firms one year after implementation; firms that attended the workshop and were likely to enroll in the program; firms that did not attend the workshop and so are competitors to the firms that enrolled in the program. Coefficient estimates, standardized to the baseline mean, are above each 95% confidence interval.

New Insights

High-quality daycare has the potential to be a "triple-win," helping to foster child development, allowing parents to work and earn income, while also generating earning opportunities in a mostly female-dominated sector. However, in many low- and middle-income countries (LMICs), the daycare industry is largely unregulated and quality is low, while still being costly for families. At baseline, 40–50% of daycares report having no toys or books for children; 19% report that at least one child in their care regularly goes hungry all day; and 22% report administering medicine to calm children.

In this study, we partner with a social franchising organization that works to improve the quality of daycares operating in urban informal settlements across Kenya. Our partner's program consists of standardized, intensive training across several months, long-term mentorship, branding, and quality standard checks. Daycare providers participating in the franchise program pay a small monthly membership fee and receive monthly deliveries of fortified porridge for all children in their care. This model is intended to be scalable and cost-effective.

We evaluate the effectiveness of this social franchising approach through a cluster randomized evaluation. After first mapping and conducting a census of all daycare firms in 51 informal settlements in Kenya, we conduct a baseline survey with 978 of the firms. We then randomized treatment at the community level, randomly selecting 26 treatment communities in which the partner organization would offer its program and 25 communities as control.

Anticipating incomplete take-up, prior to partner entry we also deployed a half-day workshop in both treatment and control communities. About 60% of daycares in both treatment and control communities attended their workshop, and workshop attendance is highly correlated with take-up in treatment areas—82.5% of workshop attendees ultimately enrolled in the program and only one non-attendee also enrolled. This allows us to identify workshop attendees in both treatment and control communities as more likely to join the program if it were offered in their commu-

nity than non-attendees. This distinction allows us to measure the effect of the introduction of the social franchising program at the community level on both likely-taker firms (workshop attendees) and spillover firms (non-workshop attendees). One year later, we conduct a firm midline follow-up survey to measure impacts on quality, prices, enrollment, and revenues.

Social franchising reduced firm closures, especially among home-based providers.

Providers in treatment areas were significantly less likely to exit the market. Among home-based centers, the probability of closure fell by 12.8 percentage points—a 34% reduction relative to control. Firms that exited scored lower on baseline quality indices, suggesting that competitive pressure may lead to market selection toward higher-quality providers.

Quality improved across all dimensions of care.

Treatment increased overall quality by 0.20 standard deviations, a substantial change compared to the status quo. Results were driven by a 0.28 s.d. improvement in hygiene and safety, a 0.19 s.d. improvement in the availability of toys and manipulatives, and a 0.10 s.d. improvement in the quality of child experiences. The likelihood that a daycare reports that at least one child in their care spends all day hungry also decreased by 6.4 percentage points and is accompanied by an increase in food provision. Among home-based providers in particular, the likelihood of serving food increased by 24 percentage points, a 62% increase over the control group.

Competing providers who did not enroll also improved—indicating spillover effects.

Results suggest that even non-participating firms in treatment communities improved quality by several measures. While in the aggregate we lack statistical precision, among home-based providers, the child experience index rose by 0.36 standard deviations. Food provision more than doubled relative to control. However, medication use to calm children also increased, highlighting the need to monitor unintended behavioral responses.

Enrollment and financial outcomes remained stable in the short run.

Despite improvements in observed quality, we found no statistically significant effects on price, enrollment, or revenues at midline. Competitors similarly did not report statistically different challenges. Profitability may take longer to respond—or may require stronger parent-facing signals. While quality results suggest substantial improvements from the social franchising model for parents, these results suggest that profitability might take longer to respond or may not improve at all.

Policy Recommendations

Our results demonstrate that the quality of daycare currently in the market in informal settlements in Kenya is low but can be substantially improved over a relatively short period of time. We find that social franchising presents a viable and scalable mechanism to improve the quality and sustainability of informal childcare markets in a context where government presence or regulation of daycares is minimal. This model produces additional benefits to daycare owners, who are largely women, in terms of firm survival, which enhances the long-term sustainability of this approach. However, we do not find increases in firm revenue, suggesting that improving quality is costly overall, and firms may not improve quality without help from an external organization. In sum, policymakers should consider how this model might complement regulatory frameworks and broader early childhood efforts in low-resource urban settings, as this shows that quality improvements may be delivered through the private market rather than only through government provision of daycare.

Limitations

Our study has some limitations. First, our evidence comes from one country, and effects may differ in settings with higher regulation and capacity, or norms towards use of paid care. Second, our measures of daycare quality may not reflect the entirety of children's experiences in paid care. Our measure of provider interactions in particular rely upon self-reported data and may not capture the warmth and love that providers may give and that foster child development. Third, we caution that our results thus far reflect short-term outcomes, and impacts may differ over a longer period. Finally, the current results rely on firm rather than household data. We plan to collect additional data from daycares, households, and children in 2025–26 to partly offset these limitations.

Read more → g2lm-lic.iza.org/projects/policies-welfare/improving-childcare-quality-through-social-franchising/

G²LM|LIC is a joint program by IZA and the UK Foreign, Commonwealth & Development Office (FCDO) – improving worldwide knowledge on labor market issues in low-income countries (LICs) and providing a solid basis for capacity building and development of future labor market policies.

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