G²LM|LIC Gender, Growth, and Labour Markets in Low Income Countries Programme

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Childcare Subsidies as Employment Policy for the Urban Poor

Evidence from a Voucher Experiment in Addis Ababa

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Childcare vouchers raised mothers' employment in Addis Ababa, but supply-side and quality constraints remain.

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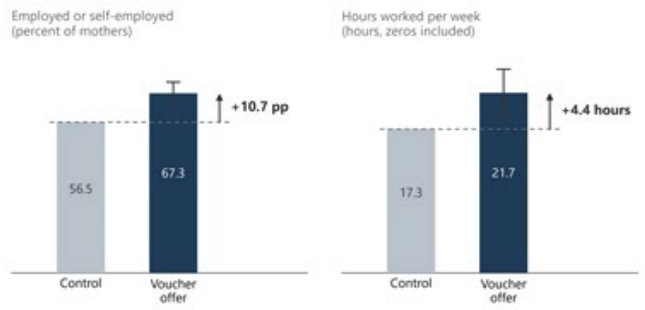
Topic at a Glance

Affordable childcare is a central constraint on women's economic participation and household welfare in Addis Ababa, particularly among low-income households and refugees. This project evaluates a demand-side childcare subsidy through an individual-level randomised controlled trial of 1,240 low-income mothers, including host-community and refugee households. Eligible women were offered a digital voucher redeemable at a pre-screened network of formal childcare providers that met criteria for affordability, available capacity, and willingness to participate in the scheme.



Offering a childcare voucher increased mothers' employment by 10.7 percentage points and weekly hours worked by 4.4 hours within six months.

The study tests whether reducing the cost and uncertainty of formal childcare increases mothers' labour-market participation and wellbeing, while also affecting child development, older siblings' schooling, and local childcare supply. The findings show that childcare affordability is a major barrier to women's employment, but that demand-side subsidies should be paired with measures to expand supply and safeguard quality.

New Insights

- **Childcare affordability is a binding constraint.** Offering the voucher increased childcare attendance during the preceding 12 months by 51.8 percentage points and current enrolment at endline by 43.6 percentage points. Cost was cited by 84 percent of control parents whose child was not in care, compared with 44 percent of treatment parents, indicating that the voucher relaxed a major affordability constraint while making residual costs and operational frictions more salient.
- **Vouchers increased mothers' employment, but the gains were concentrated in low-wage service jobs.** Employment was 10.7 percentage points higher among mothers offered a voucher, and weekly hours worked increased by 4.4 hours. Three-quarters of new entrants in the treatment group started wage employment; across arms, most new entrants worked in domestic service, other services, and trade, which is consistent with the absence of a detectable earnings difference over the six-month period.
- **Child development effects were not detectable over this horizon.** The voucher intervention had no detectable effect on overall CREDI scores or on cognitive, language, motor, and socio-emotional domains. This may reflect the short intervention period, average daycare exposure of 2.4 months in the treatment group, limited power to detect small effects, and quality constraints observed among providers.

- **The supply-side response indicates the limits of demand-side interventions on their own.** Participating providers expanded enrolment and self-reported capacity, but the demand generated by the voucher was absorbed largely through existing staff and space rather than new investment. Fees rose faster among participating centres and child-to-caregiver ratios worsened across the market, suggesting that additional demand needs to be complemented with supply-side support.

Policy Recommendations

- **Pair demand-side subsidies with supply-side support.** The results show that vouchers can move mothers into work quickly, but provider data suggest that additional demand was absorbed with limited new investment. Subsidies should therefore be accompanied by support for staffing, materials, monitoring, and minimum quality standards, including attention to child-to-caregiver ratios.
- **Design subsidies to address residual costs and implementation frictions.** Lunch, diapers, and other consumables continued to limit consistent use for voucher recipients, while some non-attenders cited opening hours, distance, voucher administration, and concerns about child wellbeing and safety. A scalable programme should account for these non-fee barriers which may affect the poorest households the most.
- **Consider lower-cost childcare models where quality can be maintained**. Simulations suggest that a subsidy of roughly one-third of the fee could sustain childcare use among 35 to 50 percent of eligible mothers in conventional centres, while the day-mother model, in which regulated providers offer childcare from their own homes, could reach the same coverage with a subsidy of 10 to 20 percent.

Limitations

- The intervention period was shortened from 10 months to 6 months to enable project completion by 31 August 2026. This was sufficient to detect impacts on mothers' labour-market participation but may not have been long enough for effects on child development, earnings, or household welfare to fully emerge.
- Voucher take-up was incomplete due to both supply-side and demand-side factors. Of the 570 treatment households interviewed at endline, 409 had a confirmed place registered on the platform, and 353 enrolled the target child. The intention-to-treat estimates therefore capture the effect of being offered the programme under real implementation conditions, not universal childcare use.
- The study cannot draw firm conclusions about impacts among refugees because the refugee stratum was a single catchment with only 51 endline households and high attrition. Refugee-specific findings should therefore be interpreted cautiously.
- The provider analysis is descriptive. Participating providers were not selected at random, so before-and-after contrasts with non-participants should be interpreted as correlational evidence on implementation and market response rather than causal estimates of supply-side impacts. Data on older siblings' educational outcomes were also incomplete at the time of reporting.

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