

Berichte aus der Volkswirtschaft

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**Return to and Demand for Education in Eritrea
and the Role of International Remittances**

D 46 (Diss. Universität Bremen)

Shaker Verlag
Aachen 2004

Bibliographic information published by Die Deutsche Bibliothek

Die Deutsche Bibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data is available in the internet at <http://dnb.ddb.de>.

Zugl.: Bremen, Univ., Diss., 2003

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Printed in Germany.

ISBN 3-8322-2702-4

ISSN 0945-1048

Shaker Verlag GmbH • P.O. BOX 101818 • D-52018 Aachen

Phone: 0049/2407/9596-0 • Telefax: 0049/2407/9596-9

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Return to and Demand for Education in Eritrea and The Role of International Remittances

Temesgen Kifle

This research is about: the private rates of return to investment in education; the factors affecting the demand for child education; and the expenditure of remittances on child education. It is the first attempt to study the economics of education in Eritrea empirically.

The estimation of the private rates of return to education in Eritrea is important because it can be a starting point for analysing why school enrolment in Eritrea is low. A high private return to education is an important motivational factor for people to invest in education and training. However, it is difficult for a person to realise the benefits of education if the factors determining the demand for schooling are not met. Individuals who want to invest in education should incur both the direct and indirect costs of education. Most parents cannot afford to send their children to school because the cost of education is high, especially the indirect cost of education (earnings forgone while attending school). To many households in Eritrea children are invaluable assets. At the same time, it is known that household income in Eritrea is augmented by worker remittances from abroad. In such a situation one can deduce that part of the remittances received by households is spent on child education.

In this study, an extended Mincerian regression method has been applied to estimate the private rates of return to investment in education. So as to identify the different impacts each level of education has on the earnings, the schooling variable has been classified into four categories. To have very detailed information about education and earnings, the male-female earnings differentials and the public-private sector wage gap have been estimated using the Blinder-Oaxaca decomposition technique. To analyse the factors affecting the demand for child education, a binomial logistic regression that applies maximum likelihood estimation has been used. To investigate the effect of remittances on child education, a semi-log ratio function has been chosen and the equation has been estimated via ordinary least squares method.

The findings reveal that the private rate of return to education in Eritrea is high. It is also found that the rates of return to education increase with the increase in levels of education. In Eritrea, investment in education has a financially rewarding effect. This suggests that investment in education and training is a suitable mechanism for alleviating poverty. The earnings differentials (that show the existence of occupational wage discrimination between male and female employees and different pay structure between public and private sector employees) indicate the need for

corrective measures that help people to benefit from education irrespective of gender and sector of employment. Further, the research shows that child school enrolment is highly determined by household income and mother's schooling. The effect that household income has on the demand for child education signifies that investment in child education is costly, especially when one takes the indirect cost of education into account. Due to this, for parents who could not afford money for child schooling, the introduction of income supplementary scheme is desirable. The positive effect of mother's education on child schooling is a good sign of the need for adult education, which this, in turn, develops family awareness of the importance of education. In the estimation of the effect of remittances on child education, it is found that households' education ratio (the ratio of remittances spent on child education to the total amount of remittances received) decreases with the increase in remittances received. Even if the education ratio decreases with the increase in remittances, there is still positive relationship between remittances and expenditure on education out of remittances. To the extent that there is no data on the use of remittances other than expenditure on child education, it is difficult to reach the conclusion that remittances are waste. A number of expenditure items categorised as consumption might directly or indirectly have a positive effect on child education. For instance, expenditures on child health, nutrition and clothing are an essential part of investment in human capital.