

Financing Education Abroad: A Developing Country Perspective*

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Abstract

Developing countries intensively promote education abroad through financial aid policies. While some financially support students with scholarships, other countries prefer to provide loans. This paper provides a novel data-set containing characteristics of world-wide government-funded scholarship and loan programs supporting education abroad. The data allows us to identify unique stylized facts on these financing policies for middle and low income countries. We find that scholarship programs more frequently select students based on merit criteria, target graduate and postgraduate study level, and require recipients to return after studies than loan programs do. We build a two-country student migration model with government intervention to qualitatively account for the observed patterns. In our model, government intervention is justified for two reasons. First, students from a developing country are financially constrained and cannot afford education abroad. Second, the government values the productivity of "returnees" higher than the market does. We argue that when students are uncertain about their future productivity and may fail at their studies, scholarship programs can insure them against potential default. Consequently, if students differ in their expected ability, under certain conditions a government with a tight budget will prioritize ex-ante high-ability students and support them with scholarships with the return requirement, and support ex-ante low-ability students with loans without the return requirement.

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