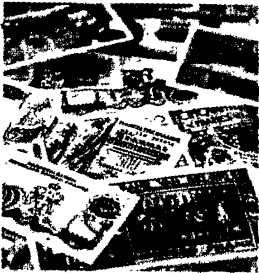


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# INTERNATIONAL

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## Student Loans: a Slippery Lifeline

As more countries institute tuition, borrowing has become crucial and fraught with problems

BY BURTON BOLLAG

**W**ITH TUITION COSTS going up worldwide, a growing number of countries are throwing young people a new financial lifeline: student loans. But those lifelines are proving to be slippery.

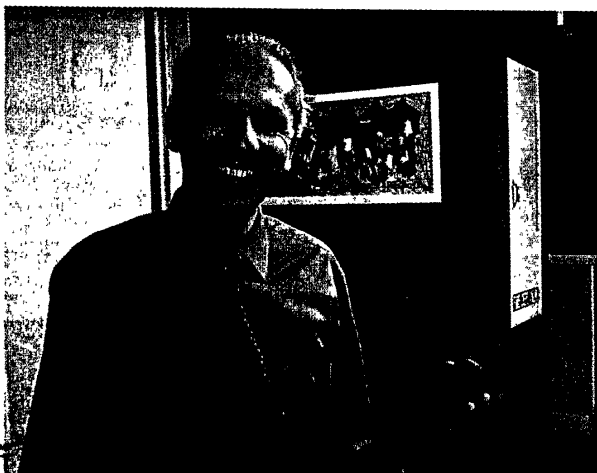
A rapid increase in enrollments in recent years has put huge strains on the budgets of countries that traditionally have had free or low-cost public higher education. More and more countries are requiring students and their families to share education costs by paying tuition. Loans are supposed to prevent higher education from becoming an exclusive privilege for the children of the affluent.

But student-loan programs, difficult to get right even in the United States, where they have been around since 1958, are proving even more prone to failure elsewhere. Three of the world's most populous countries—China, Russia, and India—have tried to start loan programs in the past two years, but the only one that could be called operational, in China, is plagued by problems. In some countries, programs have been

run so inefficiently that administrative costs have eaten up as much as a quarter of the money available for loans. Elsewhere, little of the money lent out was recovered, because few graduates bothered to repay their loans, or governments charged students such low interest rates that the loans ended up functioning largely as grants. Loan programs exist today in some 60 countries, but in many nations they reach only a small share of the young people who need them.

### FINDING THE RIGHT BALANCE

"The trick is to find a balance between providing subsidies to needy students, and making loan programs financially sustainable," says Jamil Salmi, deputy director for educational policy at the World Bank, which is currently help-



Jamil Salmi of the World Bank: "The trick is to find a balance between providing subsidies to needy students, and making loan programs financially sustainable."

### Bigger Burden for Students

As tuitions have risen at many colleges abroad, student loans have become less accessible. Here is the change in public-college tuition rates over the past six years for some countries, with the current average annual tuition:

	Percent increase, 1995-96 to 2001-2	Average annual tuition 2001-2
Britain	No tuition in 1995	\$1,523*
Austria	No tuition in 1995	618
Malaysia	97%**	429
South Africa	58%†	1,354
Canada	53%	2,398
U.S. (4-year)	48%	3,754
South Korea	18%	3,845
Japan	11%	3,978

Note: Rate of change was calculated using the local currency, without converting to U.S. dollars. Current tuition fees in U.S. dollars are based on the exchange rate on July 1, 2001.

\* Maximum; tuition is adjusted based on demonstrated need

\*\* Estimated

† Increase since 1996

SOURCE: CHRONICLE REPORTING

ing about a dozen countries establish or strengthen loan systems.

Loans may be intended to reduce the pain of rising fees, but that doesn't mean students are always happy about them. "Loans put people in a trap," says Jacob Henriksen, chairman of the National Unions of Students in Europe,

known as ESIB. "If you don't have a very large salary, you're going to have problems repaying."

In Europe, with the exception of Britain, public higher-education systems are still free or very cheap, and many governments provide students with stipends for living expenses and study materials. But as enrollments continue to climb, the stipends are beginning to come as loans, instead of grants. Mr. Henriksen, a political-science student at the University of Stockholm, says that with Scandinavia's high

■ **IN RUSSIA**, a loan program all but disappears, while students and their families struggle to pay for tuition and bribes: A36

■ **IN CHINA**, a loan program may be expanding the societal and educational gaps that it was designed to close: A37

living costs and expensive imported textbooks, it is not uncommon for Swedish students to graduate \$25,000 in debt.

Pressure from students and their families to make borrowing for college cheap leads to one of the thorniest problems policy makers face—how much to subsidize interest rates on loans. A high subsidy, with students charged low or zero interest, means that, due to inflation, students end up paying back only part of the value of the money they borrow.

Nicholas Barr, a professor of economics at the London School of Economics and Political Science, says that when subsidies exist they unfairly benefit the middle class. Students usually come from the middle or upper middle classes and can afford to pay back loans at close to commercial

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rates, he argues. Without subsidies, loan programs are cheaper for the taxpayers, and more money can be made available to more students. Special assistance can then be provided to students from poor backgrounds, or graduates who go into low-paying but socially beneficial professions. But the middle class has considerably more political clout than the poor, Mr. Barr says, and policy makers often give in to their demands for cheaper loans for all.

That has been the case in Britain for the last decade. Interest on student loans has been kept so low—generally equal to the inflation rate—that the government has gotten back only about half of the value of the money it has lent out. Now there are strong demands to reduce the interest-rate subsidy and give more help to those in greatest need.

#### SHARING THE BURDEN

One method for spreading out students' debt burden that has attracted international attention is Australia's national loan system, the Higher Education Contribution Scheme. Repayment is pegged to a graduate's income; repayment starts when he or she is earning at least \$12,000 per year, and is set at 3 percent to 6 percent of his or her income above that. So low earners pay back smaller amounts, but for a longer time. Another feature of the program is that administrative costs are kept down by piggybacking on the income-tax system. Payments are billed as a surcharge to income taxes and are generally deducted by employers.

Yale University tried another approach to promoting social equity in the 1970s. Some view the program as having been an embarrassing flop, others as a noble but flawed experiment. The World Bank's Mr. Salmi says it "illustrates how the implementation of a theoretically sensible and generous concept turned into a nightmarish adventure."

Under Yale's Tuition Postponement Option, graduates had to repay yearly 0.4 percent of their salary for each \$1,000 they had borrowed. (Tuition was considerably lower then.) Each borrower had to continue paying until the debt of their entire graduating class was repaid. The program unraveled when high-earning graduates realized they would have to repay far more than they had borrowed, subsidizing not only students in low-paying professions, but the 15 percent of graduates who were deadbeats. Few students realized how many classmates would renege on the loans.

Even where controversial social-policy issues have been resolved, collection of debts has often been a problem, especially in developing countries with poorly functioning or nonexistent tax and credit systems.

In the 1980s, Brazil, Venezuela, and Kenya each had loan programs with roughly 90-percent default rates. In an even worse case, an official body in Ghana recently reported that out of \$27.5-million loaned to more than 400,000 college students since 1988, only \$1.1-million has been paid back. "In many cases," says Mr. Salmi, "it would have been cheaper to substitute loans with outright grants or scholarships." But, he adds, "many countries have learned from their mistakes."

#### LESSONS LEARNED

Jamaica's government-sponsored loan system was near collapse three years ago because only about a third of loans were repaid. The biggest deadbeats were not low-income students, but those who became physicians and lawyers. As part of efforts to make the system more financially viable, the Student Loan Bureau began an advertising campaign appealing to students' civic duty, and published "shame lists" with the names and photographs of those with outstanding debts. Within months, repayments improved substantially.

Even the United States and Canada were plagued by high rates of default in the 1980s. At the end of the decade, U.S. officials began to refuse loans for study at institutions with graduates who had very high default rates—generally for-profit colleges with poor programs that did not lead to good jobs. The default rate for most student loans—government-guaranteed but provided by commercial lenders—was 21.4 percent in 1989. Now, the rate is 5.6 percent. A strengthening economy contributed to the improvement.

A number of poor quality, for-profit institutions that lost the right to provide federal loans to their students were forced to close. The loan system thus played an important

secondary role as an instrument for quality promotion. Some loan programs in developing countries, such as one in the state of Sonora in Mexico, have used a similar approach to try to steer students to stronger institutions.

The world's first national student-loan program, according to Mr. Salmi, was established because one graduate wanted to share his good fortune with others. In the late 1940s, Gabriel Betancourt, a young Colombian from a poor family, persuaded the manager of the company he worked for to lend him money to study abroad. He was so grateful for the opportunity that, after graduating, he successfully lobbied the Colombian government to establish a permanent loan mechanism. In 1950 he became founding director of the Colombian Student Loan Institution.

The institution continues providing loans today, but only to 6 percent of students—down from a high of 12 percent—due to a lack of government support.

In many poor countries with largely black-market economies and no formal income taxes, economists are skeptical about the possibilities of creating viable loan programs. "Without any means of tracing income, loan programs are

not going to work, except on a small scale," warns Bruce Johnstone, a professor and director of the Center for Comparative and Global Studies in Education at the State University of New York at Buffalo.

#### CREATING THE INFRASTRUCTURE

Although this means abandoning the pretense of making higher education available to rich and poor alike, Mr. Johnstone says very poor countries may have to settle initially for modest loan programs, perhaps providing the money only to those who can provide collateral, or to graduate students, since they would be more likely to obtain gainful employment after graduation.

With many poor countries, especially in Africa, only now contemplating the controversial decision of introducing tuition, the question of whether broadly available loans can work remains unanswered. But the World Bank, stung by past criticisms that its policies have hurt the poor, is committed to the idea. "No country should introduce cost sharing," says Mr. Salmi, referring to tuition payments, "without a proper mechanism for student loans and student aid."

## In India, Government Loans Do Little for the Poor or for Private-College Students

BY MARTHA ANN OVERLAND

NEW DELHI

WHEN INDIA'S FINANCE minister presented the government's annual budget last April, students heard the words they had long been waiting for. Everyone who wanted to go to college could now afford to, thanks to the government's new educational loan program, claimed the minister.

For Dinesh Kapur, who wanted to earn an M.B.A., the announcement was encouraging. He had applied to a private business college—one of many recently opened to meet the huge demand for higher education in India—and the tuition was far beyond his means. Even though Mr. Kapur's family is comfortably middle class by Indian standards, \$8,132 for two years of tuition is a rich man's prerogative.

Unlike his parents, who had never considered going to a bank for a loan, Mr. Kapur was not put off by the idea. During his visits to bank offices to check out the government's new loan program, he wasn't surprised by the high interest rates, which started at 12 percent, or the short repayment period of three years, nor that his parents had to

show that they earned enough to pay back the loan if he couldn't. What surprised him was that he didn't qualify.

"Every bank has its own catch," says Mr. Kapur. One of the stipulations of the student-loan program is that the educational institute the student wants to attend must be government-approved. Even though it is regarded as among India's finest, the Infinity Business School, in New Delhi, Mr. Kapur's institution, still hadn't been certified. In addition, the bank wanted Mr. Kapur's undergraduate exam results, which were not available when he applied, nor was being ranked in the top 20 percent of his class good enough. "It's not just that the process is complicated and time-consuming," according to Mr. Kapur. "You have to read between the lines in every clause."

#### FEELING DUPED

Looking back on the process, Mr. Kapur says he feels duped by the government's promise to make it easier for students to borrow money. He had paid close attention to

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Dinesh Kapur, with his mother, found that the government's loan program did little for him when he wanted to earn an M.B.A. "Every bank has its own catch."

RAKESH SAHAI, BLACK STAR, FOR THE CHRONICLE

## INTERNATIONAL

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the finance minister's budget address to the nation—he had studied it for his undergraduate examinations—and had believed that the government was committed to helping students meet the rising cost of education. In retrospect, he says, the government's words were disingenuous. The Finance Ministry simply handed down new rules for banks. The government didn't spend a rupee to underwrite the loans or to subsidize lower interest rates.

Those who are shortchanged the most, however, are the "poor but meritorious" students that the Educational Loan Scheme was designed to help. No poor students, as defined by the government, actually qualify for these loans. Parents of prospective borrowers must earn enough to pay back the loan themselves if their child defaults. Bank officials say they wouldn't touch anyone whose family earns less than \$209 per month.

That income requirement disqualifies most Indians, says Surya Narayana, a professor at the Indira Gandhi Institute of Development Research in Bombay. While the government says 26 percent of Indians, or 260 million people, are poor, Mr. Narayana says the proportion is closer to 75 percent. The government sets the poverty line at less than \$10 a month per capita, says Mr. Narayana, whose institute is affiliated with the Reserve Bank of India, the equivalent of the U.S. Federal Reserve. "That measures sheer deprivation. That is not poor—it is abysmal poverty. I would say the number of poor in India, where their calorie intake is below minimum, is 75 percent. These people would never be able to afford a loan."

**PUBLIC VS. PRIVATE**

Yet an undergraduate education at state colleges and universities is actually affordable for even India's poorest—if they can get in. Tuition for a year costs less than a movie ticket, and even total fees do not exceed \$45. The problem is that there are far fewer spaces than applicants at public colleges. The alternatives are privately run institutions of higher learning, which are far beyond the reach of the average Indian.

Mr. Kapur had, in fact, applied to a private business school. As the deadline to make a decision about his college finances approached, Mr. Kapur felt he had no choice but to go with a loan offered by a bank that had an affiliation with Infinity Business School. Although he will end up paying a lot more in interest than he would have under the government's program, Mr. Kapur still believes taking out a bank loan was the right thing to do. He is unfazed by the lending terms and the monthly repayments of \$312 per month that will begin as soon as he graduates. Although it is more than the \$250 a month his father earned as a mechanical engineer, for Mr. Kapur it is simply the cost of investing in his future.

"I'm very confident I will be able to pay it back," says Mr. Kapur, who feels he is practically guaranteed a high-paying job with a multinational corporation after graduation. "I don't have a second thought about it."

His mother, however, is from the old school. "I was shocked in the beginning," says Anita Rajiv Kapur, who tutored children at home to supplement her husband's income. The family always lived hand-to-mouth since most of their income went to send their children to one of Delhi's elite private high schools. Like many middle-class Indians, spending their money on education is still considered the best investment they can make.

**BORROWING WITHOUT BANKS**

The Kapurs had taken out loans before, but never from a bank. Banks are usually the last place that Indians turn to for money. Most Indians prefer to ask family members for loans, which are secured with just a handshake. The other option is the system of private financiers, used by both the rich and the poor. "You have to be introduced," says a Delhi businessman who uses private lenders. "As long as someone vouches for you, and you are known in the community, you can get whatever money you want. If you need 10 lacs [1 million rupees] in the morning, it's delivered in sacks by the afternoon."

Of course, private financiers charge higher interest rates than banks, currently about 25 percent per year, not to mention that the lending system is illegal. But what people like about the system is that nothing is signed and they don't have to provide collateral, which most people lack on paper. "My word is my collateral," says the businessman. "The government banks charge less, but the transaction pain is higher."

Until recently, people didn't think much of putting money in banks either. Those with money bought gold jewelry, which was often buried under the floor or sewn into the folds of the women's saris. Previous generations that lived through violent political upheavals, floods, and earthquakes were ready at a moment's notice to be on the move, taking their savings with them. The tradition continues as parents buy gold, not certificates of deposit, for their daughters' dowries, starting the day they are born.

Ms. Kapur, however, has changed as the culture of money has changed. She has a bit of gold, but she and her husband have also opened interest-bearing accounts as a way to see themselves through retirement, another novel notion in India, since male children have traditionally served as the parents' old-age pension. A few years ago the family even got a credit card, though she is still scared to use it. Taking out a loan for education, she says, now *that* was unheard of.

"God gives intelligence, but he should have given money also," laments Ramdas J. Kanath, the retired chairman of

Canara Bank, one of India's largest. A few years ago, Mr. Kanath became concerned by the growing educational divide in India. The Indian Banks' Association appointed him to head a committee to examine the problem and recommend ways to reverse the trend.

**THE GOVERNMENT PLAN**

Under the plan he designed and the government adopted, the borrower's family does not have to put up any collateral for the first \$8,340. The interest rate is tied to a lending rate, set by the Reserve Bank of India. The rate is currently 12 percent. Larger amounts are charged progressively higher interest rates.

"No other loan is as good," declares Sudhir K. Mehrotra, the senior manager of a Punjab National Bank branch in New Delhi. The greatest benefit, Mr. Mehrotra says, is that the interest rate is simple, not compounded. "On a loan of 500,000 rupees at 15 percent, payable over three years, the interest would be 225,000. But compounded it would be 277,727. The savings to the student are huge." Over the life of the loan, a student would save more than \$1,000 in interest.

Although his bank has advertised the loans widely on campuses, Mr. Mehrotra still has had relatively few takers. This year he has made only five student loans.

While M.B.A. students such as Mr. Kapur, who see big salaries in their futures, may not lie awake at night worrying about the size of their loans, the thought gives others nightmares. Muneza Naqvi had just been accepted to Columbia University's Graduate School of Journalism, in New York, when she heard about the government's loan plan. Even with a generous scholarship she knew she would never be able to afford tuition and housing costs that totaled nearly \$48,000 for one year unless she took out a huge loan.

"I was sort of lulled into believing that banks were suddenly saviors for students looking for funding," says Ms. Naqvi, who visited a number of local banks and researched loan terms posted on the banks' Web sites. "Far from it. I assure you."

"For me, the interest rates were the most worrying factor," she says. Because she would have needed to borrow a lot, her interest rate would also be high. Depending upon which bank and the amount loaned, the rates fluctuated between 13 to 15 percent, which, she says, "was insane."

In the end, Ms. Naqvi did exactly what generations of Indians have done before her. She borrowed from friends and from family. There were no papers signed, not even a handshake. There was no talk of charging interest. There was just the promise to repay the loan and the implied agreement that she would do the same for someone else in the family when the time comes.

## In Russia, a Loan Program Vanishes, Leaving Students Scrambling

BY BRYON MACWILLIAMS



HEINZ TESAREK, BLACK STAR, FOR THE CHRONICLE

*Nestor Andryuk of SUN Capital Partners: In Russia, people don't have confidence in banks because "the whole society, until very recently, has been in turmoil."*

MOSCOW

CHEMISTRY TEACHERS ARE NO slouches at math. That is why Irina Plaksina was in the unfamiliar position of second-guessing herself when she completed the equation: 30,000 rubles at 22 percent interest, over five years, equals 63,000 rubles.

Could it be that, in order to receive 30,000 rubles, or \$1,025, now for her daughter's college education, she would later be required to pay 2.1 times that amount?

"For the sake of a child, a person is willing to go through a lot. My husband and I had thought it would be better to secure a loan because, that way, we did not have to owe anyone, any one person, a debt," she says.

"But in the end we found a simpler method: I went around to all my friends and asked them for money—\$10 here, \$100 there."

For Ms. Plaksina and her husband, Sasha, a factory worker, the only formal student-loan system in Russia is not working. Indeed, the country's largest savings bank, which once heralded the program, has quite possibly failed to give even one student a loan.

The bank, Sberbank of Russia, made headlines last year when it proclaimed that it had set aside 1.5 billion rubles, about \$55-million, for student loans—the first such under-

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taking in the history of Russia, where the populace is still warming to the capitalist concept of loans. The Educational Credit program, which was praised by the Education Ministry as indispensable for poor families, is supposed to cover up to 70 percent of tuition costs, repayable, with interest, over a period of up to 10 years.

Since then, however, Sberbank has refused to produce any information about the program or its clients, despite repeated requests by *The Chronicle*. A bank spokeswoman, Kseniya Peterburgskaya, said she would not be able to give out any information about Educational Credit until the end of the year.

"One wonders if the whole thing isn't just *pokazukha*," writes Joseph McCormick, director of the U.S. State Department Fulbright Program in Moscow, incorporating into his e-mail message the Soviet-era term for something rich in appearance but lacking in substance.

Administrators at the student-affairs offices of more than a dozen public and private universities and institutes in Moscow, St. Petersburg, and Novosibirsk say that they are aware that the program exists, but know of no students who are getting loans.

Yelena Ostrovidova, a spokeswoman for the Education Ministry, says that the high interest rates for the program and its skeins of paperwork have intimidated many families. "The program, Educational Credit, effectively does not exist. It simply is not developing," she says.

#### A DISAPPOINTING FAILURE

The program's failure disappoints the ministry, which had hoped that the bank would succeed in doing what it could not: Satisfy a provision of a 1996 law on education that requires that the government arrange financial assistance to families and students who don't perform well enough academically to earn a free education from the state. Last year, the acting education minister, Vasily Zhuravsky, told reporters, "We had tried to do this, but there was no money in the budget."

Most Russians believe that a free education should be guaranteed by the state, as it was under the Soviet Union. A willingness to pay tuition has been slow in coming since the breakup of the Soviet Union in late 1991, which marked the advent of private universities and, more prevalently, fee-based courses and workshops for professionals. In public universities, the state still sets aside a predetermined number of free spaces for the best students.

But such slots are far exceeded by demand in the most popular majors, such as law, economics, and marketing. Those who score modestly on entrance examinations or whose families lack connections must pay to enter a given department. A Moscow family might pay as much as \$40,000 to get their son into law school.

Up to 33 percent of the estimated 4.5 million college students in Russia paid for some portion of their education last year, according to the newspaper *Ekonomika i Zhizn*. As recently as 1995, roughly 200,000, or 8 percent of the estimated 2.5 million students put money toward their education, reports the RIA Novosti news agency.

Nestor Andryuk, a senior associate at one of the few private equity funds in Russia, SUN Capital Partners, says that a general reluctance among Russians to apply for loans, plus the likelihood that they would not qualify, means that a reliable system is unlikely for at least two years.

#### 'SOCIETY HAS TO BE READY'

"We shouldn't only blame it on [Sberbank]," he says. "Society has to be ready." In Russia, he says, people don't have confidence in banks because "the whole society, until very recently, has been in turmoil."

Mr. Andryuk, a graduate of the Sloan School of Management at the Massachusetts Institute of Technology, is still paying off a loan offered by MIT at 8 percent interest over 10 years. Loans were not available in Russia when he began to pursue an M.B.A. in 1996.

Mrs. Plaksina's elder daughter currently studies free as a third-year English major at the Moscow State Pedagogical University. The younger daughter, however, was ineligible for free tuition in the majors of her choice, pedagogy and linguistics, despite graduating from high school with a silver medal, the equivalent of being on the honor roll. Her tuition costs \$600 per year at the Moscow State Agro-Engineering University—the same as the annual salary of a Moscow schoolteacher.

"I do not think that the tuition is expensive," says Mrs. Plaksina, who adds that the amount is nevertheless beyond her family's means.

Even if the Plaksins had been prepared to pay back the loan at 22-percent interest, they could not have met the bank's other conditions, which entail designating three people as cosigners—all of whom must earn more money than the applicant or the applicant's parents and have worked for one employer for more than a year.

The Plaksins are not exceptions. Legitimate proof of a cosigner's income is difficult to obtain because of *chyornaya*, or black money, the income that isn't reported for tax purposes.

Although a Sberbank loan would theoretically cover the majority of tuition, Sberbank will not lend money for overseas study, a student's living costs, or the legitimate preparatory courses demanded by many institutions and professors. A loan also does not take into account the costs associated with a cottage industry of private tutors—largely professors—who provide lessons to help students gain admission. The lessons are really bribes that ensure high marks on entrance exams and a student's acceptance by the institution's selection board.

## In China, Student Loans May Be Expanding Societal Gaps They Were Supposed to Close

BY JIANG XUEQIN

BEIJING

LAST YEAR IN AUGUST, Ma Xiaoping arrived in Beijing, unsure how long he could stay. A month earlier, after years of diligent studying in a remote province, he had won admission to China Agricultural University, an elite university. His parents had borrowed money from neighbors to pay for Mr. Ma's first year of college—\$1,000, four times his parents' annual income—and sent him on a two-day train trip to Beijing, where he had hoped to apply for a student loan to pay for the rest of his education. But after he arrived, he did not know how to begin, whom to talk to, or where to go. Alone and homesick, three months later, he called his mother and said that he wanted to come home.

Mr. Ma's frustration is all too common today in China. In 1999, Chinese universities began for the first time in China's history as a socialist country to charge tuition. Before that, universities were free, and graduates were assigned jobs by the state. Beginning in the 1990s, graduates could finally choose their own futures, and the government began to cut financial support to universities, forcing them to pay more of their own way. While more opportunities for higher education were being created, students and their parents were being asked to shoulder a large financial burden. So in the same year as tuition was instituted, the Ministry of Education created a student-loan program to assist poor students.

"Not one of the newly enrolled students will be deprived of the right to study because of family financial difficulties," China's vice minister of education, Zhang Baoqing, said at the time.

Today Chinese universities charge an average of \$600 annually, three-fourths of China's annual per capita income. Mr. Ma was getting a \$140 discount off his university's usual tuition of \$500 because he was studying zoology, a department subsidized by the government because it wants more zoologists and the field isn't a popular one. But the cost of room and board more than doubles the bill.

Mr. Ma's parents, like the vast majority of Chinese, are subsistence farmers, growing wheat on a small plot of land on the remote plains of Guanghan county, in Sichuan province, earning little and saving nothing. During the Mao Zedong era they suffered immense poverty; then, when Deng Xiaoping came into power in the late 1970s and freed the peasants from the communes, they saw their lives gradually improve. But in the mid-'90s, as local officials steadily increased taxes, the national government drastically cut subsidies supporting wheat prices, throwing peasants back into poverty.

#### A WAY OUT

This autumn, while Mr. Ma is hunched over books in the university library, his parents will be harvesting wheat from dawn to dusk, expecting to pocket only \$250 for the sea-

For those students who are not fortunate enough to get free entry, bribes of \$10,000 to \$15,000 are necessary to enter one of the capital's prestigious institutions, whereas bribes of \$7,000 to \$9,000 are common at provincial universities, according to reporting by the Russian newspaper *Izvestiya*. The trend has even spread to technical colleges, it reports, which demand between \$5,000 and \$6,000. Over all Russians annually spend at least \$2-billion—and possibly up to \$5-billion—in such "unofficial" educational outlays, according to Deputy Prime Minister Valentina Matviyenko.

Little protection exists for those without money or connections and who need a loan. "Who looks after the people who do not have good professions or salaries?" says Ms. Plaksina.

On August 31, the Education Ministry formed a committee to establish a workable system of loans and grants by January 1. "We still have a crisis here, as there still is not any money," says a ministry official. Documents obtained by *The Chronicle* show that the committee is considering guaranteed government subsidies for underprivileged families. Meanwhile, Sberbank continues to claim on its Web site that its student-loans are "for those who want to provide for their children's future today."



Qian Cheng goes to an ATM each month to get the allowance that is part of his student loan.

ROCKY WONG FOR THE CHRONICLE

son, a sum that will also be their annual income. Their son's chance at a university degree is the family's only way out.

"While other parents in the village told their young kids to go find work, my mother encouraged me to go to school," Mr. Ma says.

Nowadays for poor students, going to college means getting a loan. But the ministry has conceded that not all students can obtain loans. According to its own statistics, 534,000 students have applied for what the government said would be \$400-million in state education loans. Only 170,000 students received loans, and they received an average of \$37

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percent of what they asked for, reaching a total of \$145-million. Banks refused to allocate the full \$400-million for the student loans. The remaining 70 percent of the students were rejected, because the banks viewed them as poor credit risks. The free-market economy has rapidly created more places for students at state and private institutions. But it also means that those who can't pay the price will be shoved off the waiting line for enrollment.

"The student-loan program is a lie," declares Li, a laid-off worker in the southwest city of Chongqing who declined to give her full name.

After her son got a high enough score on the national entrance exam to be admitted to Chongqing Construction College, he went to the bank to apply for a student loan, but he has never heard back. The family had to borrow money from friends to pay for the first year, and is now heavily in debt and does not know where to turn. "We can only take it one step at a time," says Mrs. Zhang.

**A DECENTRALIZED SYSTEM**

Why are stories like those of Ms. Zhang and Ma Xiaoping proliferating? The Ministry of Education does not have the power to push universities and banks into lending to students. Like most policies in China, the national government mandate to issue student loans is carried out by local governments at their own discretion, and often, with their own money.

Regional economic disparities mean that a few local governments can pressure regional banks or local universities into offering students generous aid while the majority of places either choose to be stingy or don't have student-loan programs in place yet. These disparities are cemented by the way the ministry distributes scarce funds: The government spends less than 3 percent of the gross national product on education, and most of the money earmarked for higher education goes to a few select universities, giving a handful of them enough money to lend directly to students but leaving most universities in a position where student loans are out of the question.

Moreover, China does not yet have a system to rate people's credit. Unlike ordinary loans, student loans neither require collateral nor a guarantor so banks are at the mercy of each student's honesty and ability to repay the loan. "We support giving students loans but much prefer to offer them ordinary loans, which limit our risk exposure," says Cui Yiping, a Beijing bank official responsible for student loans with the Agriculture Bank of China, one of the four state banks charged with giving out student loans. Some bank officials have openly said that they will not lend to students because they believe that the odds are against new graduates finding employment.

Even when a willingness to lend exists, both universities and banks have yet to create a way to market or administer student loans, and rules vary from institution to institution. Students then are left to wander in the darkness.

**'INSECURE AND PESSIMISTIC'**

Like Ma Xiaoping, China Agricultural University did not have a student-loan office, counselors, or brochures. "When I first came to Beijing, I was anxious, insecure, and pessimistic," says Mr. Ma, a usually ebullient young man who talks fast and shakes his legs when seated.

"I compensated by putting all my energy into studying, and by remembering all the hard work I put into getting into university." By withdrawing into his studies, he missed the fact that there was an information meeting about student loans early in September, and that he could have applied for a loan then. Last December he called his mother.

"He told me that there was nothing he could do and that he had to come home," recalls Lai Dengyu, Mr. Ma's mother. "I told him that he couldn't give up. 'You've already made it to Beijing, and you can't quit school—schooling is too important,' I said. 'If there's nothing you can do, I'll borrow some more money.'"

Ma Xiaoping recalls that after talking to his mother that cold December day he became depressed.

"I knew there was nothing my mother could do," he says. "I knew that our neighbors had no more money left to lend us."



Ma Xiaoping: "While other parents in the village told their young kids to go find work, my mother encouraged me to go to school."

Mr. Ma can count himself as one of the few lucky ones. A few days after he called his mother, a lecturer at the university told him that although he had missed the first meeting, he had one more chance. Six of his 37 classmates in the lecturer's class joined him at the loan meeting. There, a representative from the Industrial and Commercial Bank of China, another of the four state banks charged with administering student loans, explained the procedure for filling out the two-page application, and gave the students a short time to complete it and decide how much money they needed for the next three years.

"The meeting was not planned very well," says Mr. Ma. "No one explained to us what happens if we graduate and fail to find a job. How about if we want to go to graduate

it works, and no one bothered telling my parents, so they know nothing." Although Mr. Ma's parents are not legally responsible for repaying the loan, his future earnings will have to pay off both his own debts and theirs.

**A CHAOTIC START**

Zhou Xiaohong, a professor of education at China's Northeast Normal University, explains that Mr. Ma's experience is a common one. Last year when the program started things were very chaotic, and students didn't know how to deal with the complex student-loan process.

"The universities did not benefit from the student-loan program so they did little to help the students," Mr. Zhou says. Wang Yan, China Agricultural University's dean of student affairs and the person responsible for student loans, believes that the current system is fine.

"We've done enough in promoting the student-loan program," she says. "Along with ICBC, we organized a lecture early in September describing the student-loan process. But since last year was our first year perhaps there were some problems. This year we've greatly improved the system, though." For example, she says, students who need a loan can arrive on campus and get one before they pay the first year's tuition.

On January 1, 2001, Mr. Ma received a notice from the bank saying that he had been awarded \$1,644, enough to cover his three remaining years. Every month he goes to the bank's automatic teller machine to get his allowance, and the bank automatically wires his tuition to the university.

After his graduation, Mr. Ma will be expected to pay \$150 every three months, a sum he expects he can manage. Last summer, thanks to his university's work-study program, he stayed in Beijing, working three hours a day at the university's swimming pool and pocketing \$60 a month.

Many students have come to feel that, far from evening out social inequality, the student-loan program is just reinforcing it, with students who can get to the wealthier provinces prospering, and others left behind. In a pilot program, the World Bank has established a \$100,000 fund at Lanzhou University, which generally is not considered to be one of the politically favored institutions, to see if it can create a better student-loan program.

But two decades of capitalism in China has led many to accept inequality.

"It's true that in other provinces students don't have access to money," says Wang Yan, the dean. "Beijing has a lot of money so it's easy for students here to borrow money. But what do you expect? Beijing is the capital, after all."

**"The universities  
did not benefit  
from the student-loan  
program so they  
did little to help  
the students."**

school? What happens if I study abroad? And we can only fill out the application once—we cannot apply for additional loans if the first is not enough."

"The bank representative told us that if we applied to go to graduate school we can apply for another loan," says Yang Li, one of Mr. Ma's classmates who attended an earlier meeting. "But someone had to ask before the bank representative told us this. If you don't ask, they won't tell you."

The most important question that Mr. Ma had to answer in his application form was how much money he wanted for his monthly allowance. The limit was the equivalent of \$30, and Mr. Ma chose \$12, just enough for food.

"Chinese don't like loans, and if they don't absolutely need the money, they won't borrow it," says Mr. Ma.

At the end of the afternoon he had to sign a contract, promising to pay back the principal and interest by 2006, three years after his graduation. He was told that the government will pay for half of the 10-percent annual interest rate. In hindsight he thinks that the process was too quick and confusing.

"It should have been more clear and transparent," he says. "I don't know much about what the loan demands and how