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

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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 undertaking 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 *chyornyy nal*, 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.

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."

<http://chronicle.com>  
Section: International  
Page: A36