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# Public University Financing in Peru: Responses to the Crisis and to the Adjustment of the Economy

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## INTRODUCTION

In Peru, as in many other Third World countries, the second half of this century witnessed an unprecedented expansion of the educational system and a remarkable improvement in the population's access to formal learning institutions. While in 1940 only 42 per cent of the population over the age of 15 had ever attended school, the 1981 census registered 81.7 per cent of them as having had some level of instruction.<sup>1</sup> Schooling rates have continued to increase in more recent years, with the most recent estimates showing that 76.7 per cent of the school-age population<sup>2</sup> was enrolled in 1990, up from 56.7 per cent in 1970.

The rates of expansion, as well as the starting points, have been highly differentiated across regions of the country. Access has also been heavily biased by gender. Another element which raises serious efficiency and equity issues is the not very 'linear' pattern of expansion of the educational system's coverage. High levels of illiteracy persist – the 1981 census results classify 18.1 per cent of all those over 15 years of age as illiterate<sup>3</sup> amidst high levels of tertiary educational attainment. Thus, while in 1940 less than one out of a hundred Peruvians over 15 years old had achieved higher educational levels, by 1981 adult<sup>4</sup> Peruvians' post-secondary attainment levels nearly equalled those registered in Britain (10.1 and 11.0 per cent, respectively) and far exceeded those of the Italians (2.6 per cent) and the Spaniards (7.1 per cent).<sup>5</sup>

Enrolment figures at this level since have continued to grow – from a total of 257,220 university students in 1980 to an estimated 442,932 in 1990,<sup>6</sup> to which should be added the nearly 300,000 students enrolled in non-university higher learning institutions.<sup>7</sup> Therefore, it is highly likely that future accountings of educational attainment will reveal even more remarkable attainment records than those previously noted.

## OPERATING INSTITUTIONS

One factor which could significantly contribute an explanation of the dramatic expansion in higher education, even more so than the growth rates of the relevant age population, is the increasing supply of learning institutions. Prior to 1960, there were 9 universities throughout the country; 30 years later, there were 46 fully-operating institutions and 5 more had been officially founded.

	Public	Private	Cumulative total
– 1960	8	1	9
1961 – 1970	12	9	30
1971 – 1980	5	0	35
1981 – 1990	2	9	46

\*Data refer only to universities which reported registration of students in 1990.

Source: Data contained in several tables of ANR 1991.

Table 1. *Operating Peruvian Universities by date of foundation: 1960–1990\**

By 1990, there were 27 public and 19 private functioning universities; thus, roughly 41 per cent of all universities were in the private

sector. Changes in the public/private composition of total university enrolment are also noteworthy, although not quite as dramatic. In 1990, 34 per cent of all students studied in private universities<sup>8</sup> (ANR 1991: p. 56), up from only 10.6 per cent who were enrolled in non-state schools in 1960.<sup>9</sup> It must be noticed that private universities in Peru are only exceptionally directly subsidized by the State, relying instead on tuition fees, donations and investment proceeds for the larger part of their resources.

The 'privatization' of university education in Peru is, therefore, a clearly emerging trend which can be seen as one response to the economic crisis and to its effects on the public sector. As will be shown later in this paper, however, it is not only the mere fact of public/private sectoral control which characterizes this trend. A gradual penetration of market-oriented criteria in the management of resources can be detected even in the public universities, arenas where the State formerly acted its more or less 'benevolent caretaker' role and where accountability never entered the scene. Before proceeding in the direction of that argument, however, it is necessary to take a broad look at what has been happening regarding the finances of public universities.<sup>10</sup>

## FUNDING OF PUBLIC INSTITUTIONS

As shown in Figure 1, public university budgets have been quite volatile throughout the last two decades, although any discernible trend points in the direction of a decline.

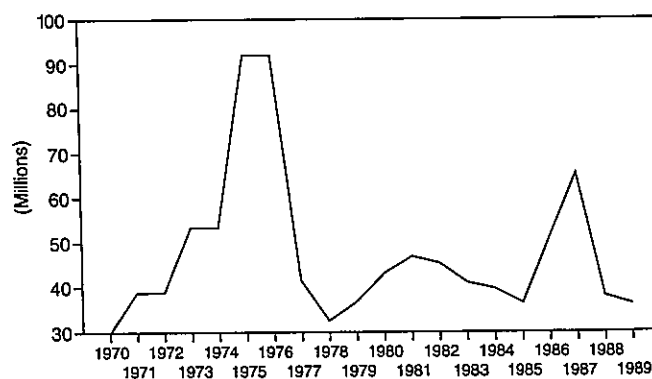


Figure 1. Peru: Total expenditures in public universities (in 1990 intis)<sup>11</sup>

If one takes into consideration the expansion of enrolment, however, the overall downturn becomes quite clear and dramatic.

Although exchange rate market controls prevalent during the recent hyper-inflationary period make it inadvisable to show the evolution of expenditures in dollar amounts,<sup>12</sup> it may be helpful to note that the 1970 total per-student allocation of financial resources was equivalent to US\$465. The drop illustrated in the above figure would suggest an approximate US\$136 being spent for each public university student by 1989.<sup>13</sup> Unitary costs in neighbouring Chile at that time have been estimated at US\$1,700. Comparable figures for approximately the same year for Israel, Spain, the US and Japan were US\$4,760, US\$906, US\$8,724 and US\$5,986, respectively.<sup>14</sup>

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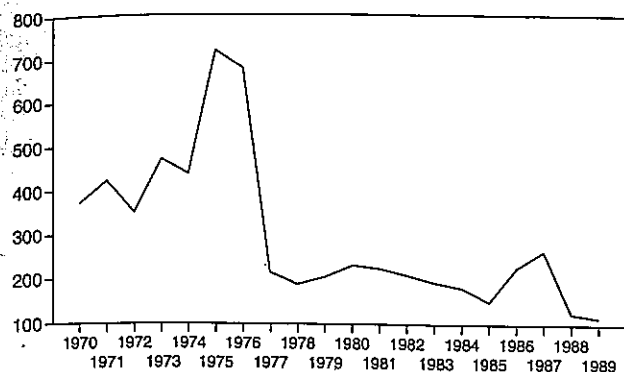


Figure 2. Peru: Total per-pupil expenditures in public universities (in 1990 intis)

The sparseness of the above-mentioned average amount, moreover, conceals important differences among individual institutions. Each year, the most successful university in terms of budget procurement typically spends about eight or nine times as much per pupil as the worst off, which would be spending only about half the average amount. In addition, most of these scant resources (about 90 per cent on average for all universities during the 1970s and the first half of the 1980s) have been applied to current expenditures, three quarters of them having been assigned to salaries of teaching and administrative staff (GRADE, 1990, p.62). The result is that little if any investment is being carried out in most universities. This means that maintenance and upgrading of laboratory equipment and supplies, of library collections and of buildings (as well as of human resources) are not being carried out, with foreseeable effects on the quality of education and on inter-institutional differentials.<sup>15</sup>

The process of budgetary resource allocation is far from transparent. The observation of time series data for each institution reveals dramatic downturns and high volatility which, together with the highly differentiated allocation levels, deserve closer examination and additional explanations than can be given here.

Evidently, all this is related to the successive and erratic phases of economic expansion, recurrent crises and disorderly adjustment which have characterized the Peruvian economy throughout the last 20 years, when it stopped growing in *per capita* terms. Recurrent inflationary periods and ill-fated stabilization programmes finally led to world record hyper-inflation by the end of the 1980s. Acute recession periods have led to real output decline even in absolute terms, and large sectors of the population have seen their standard of living deteriorate to a hardly imaginable degree. Responsibility for much of this decay can be attributed not to external factors, but to a generalized mismanagement of economic (particularly fiscal) policy, which has in turn resulted in a reduced capacity of the State to appropriate and allocate resources to the social sectors and to higher education in particular.

The fact that public universities have depended heavily on central government funding has undoubtedly been one of those ill-advised policies. It is therefore necessary to look at what have traditionally been the three main sources of funds for public universities in Peru: direct transfers (from the central government and, to a rather insignificant degree, from the private sector), credit and self-generated 'own resources'.

During the last 20 years, and with few exceptions, the flow of external credit resources which allowed significant developments in many public universities during the 1950s and 1960s dried up. During the 1970s, the annual average of resources obtained through borrowing hovered around 1 per cent of all expenditures (GRADE, 1990, p.63), with only one or two universities obtaining loans in any single year. This declined to 0.1 per cent during the 1980s. It is hoped that this trend should be diverted in the next few years, if Peru's efforts at reinsertion in the international financial community are successful.

Direct transfers, almost entirely from the central government, have financed 92.8 per cent of all expenditures during the past decade, a somewhat higher figure than the 89 per cent registered during the 1970s. The overall level of State funding by the end of the decade was 25 per cent less in real terms than at the beginning (and

only half of what it was during the populist 'honeymoon years' of President García's government, 1986 and 1987). In *per capita* real terms, State transfers in 1989 covered less than half the expenses it did in 1980 (and less than a quarter of its outlays in the peak years registered in 1975 and 1976).<sup>16</sup>

Unlike what used to occur during earlier years, and unlike what was established in the Educational Law of 1983, the level of university funding has been determined on a yearly basis, in the form of direct public budget allocations. No earmarked tax revenues have been assigned to the educational system or to individual institutions or departments, as was the case in the past. The frequent need to adjust the economy made it inconvenient for the Ministry of Finance to allow the collection of special taxes for specific purposes. The centralized management of government revenues has been seen as crucial for all the stabilization efforts which have been carried out during the past years, and the central government's budget austerity programmes have been perceived as indispensable tools for fighting inflation. As a result, the San Marcos School of Medicine, for example, lost access to a percentage of the price paid for each soda beverage sold in the country, a big blow from which it has yet to recover.

It is only in the last year or so that a tax-fed special fund has been set up to contribute to university financing, but the fact that total revenues from all taxes did not add up to more than 4 per cent of GDP by the end of the García government has slowed down its likely positive impact on public university finances. Likewise, certain taxes levied on the exploitation of non-renewable resources which are retained at a regional level have significantly increased funds available for a few provincial universities during some years.<sup>17</sup>

In any case, both direct government transfers and special tax-fed funds make public universities heavily dependent on short-term policy decisions. The fact that such a large portion of all their revenue is derived from these sources, and that portion is apparently increasing, makes Peruvian public universities quite vulnerable to frequent and sudden changes in fiscal policy and/or in the priority assigned to the social sectors and to higher education in particular.

On the other hand, transfers from the private sector have been practically *nil*, with tax-deductible donations from firms being totally directed to private universities.

## NEW SELF-FINANCING SOURCES

In view of this, it could be expected that public universities look out for new sources of funding, which would not only offset the decline of outside transfers and credit but would also increase their relative autonomy. Those are sources labelled as 'own resources' in public accounts, which have typically included fees charged for special educational services other than mainstream instruction itself (which, in the Peruvian State university system, is entirely free), contributions, sale of current goods and services, property rents and fines of various sorts, besides proceeds from the sale of capital assets.

A first perception for any observer of public university activity in Peru is that there has been a tremendous boost in projects oriented towards income generation, while traditionally free services which used to be given to students are now being subject to charges. New, parallel ventures are being carried out which serve to supplement teaching faculties, incomes and to acquire supplies and equipment whose purchase is hindered by the annual public budget law. More and more, it seems that the public universities are imitating the behaviour of private schools. The latter, besides increasing their tuition charges and their fees for all their services as much as the constraints imposed by the general recession will allow, have intensely diversified the range of educational and other services rendered to the community, in order to increase their incomes.

Thus, certificates, transfer procedures and diplomas issued by public universities now require the payment of fees. Formerly free health care and meal services are now subsidized to a considerably lesser degree. Charges for entrance examinations, which have contributed heavily to these resources, are now being outranked by

fees charged in newly set 'academies', where pre-entrance examination training is given to prospective students. More recently, charges for regular term examinations and 'voluntary donations' to departments have been reported even in San Marcos, the traditional site of free education radical defence. A new vein which is beginning to be exploited within this streak is the supply of fee-paying extension courses for professionals and laymen, workshops, seminars and continuing education courses. A look into daily newspapers' advertisements sections will reveal quite a variety of them being offered at any one time.

Another type of self-generated current income which is increasingly being sought is derived from the sale of goods and services produced by university programmes or departments. They encompass an ample assortment of items, ranging from the sale of meats, cattle, produce and decorative plants in the case of agricultural schools to architectural and engineering services provided by faculty and graduate students to small businesses, industry and local governments and to grass-root organization management services rendered by social science and administration schools. They also include technical and professional advisory services to agricultural and industrial producers and organizations etc.

Still another source of 'own resources' are real estate and other property rents, as well as the proceeds of the sale of capital assets. Tenant protection laws, not less than militant student opposition to 'capitalist perspectives in the management of university resources', have until recently precluded eviction processes and a more rational administration of schools' capital assets. Recent renovation plans are under way in several universities which will allow leasing sports fields to outside users, or renting classroom space to private institutes during the evenings, in order to increase revenues. It seems that, finally, the magnitude of the crisis, as it affects the country and its individual institutions, has hit home and that students, teachers and administrators have begun to agree on the need to modernize management and make it more responsive to market signals.

A final contributor to 'own resources', of particular importance during the last two years, has been the revenues collected from special taxes levied on professional wages, on general sales and on public utility tariffs, insurance and advertising services assigned to a special University Development Fund (the FEDU), which is distributed in predetermined proportions to public universities, to be spent on salaries, research projects and the acquisition of goods and services. Although these can hardly be considered self-generated resources, as was mentioned earlier, they can be spent without the restrictions which annual budgetary austerity norms impose on resources directly transferred from the Treasury and are thus registered as 'own resources' in public accounts.

In spite of all this evidently burgeoning activity, official accounts show that public universities have self-financed only an average of 7 per cent of all their expenditure between 1981 and 1989, with rather insignificant deviations from year to year. As with all average figures herein reported, inter-institutional variations are quite noticeable and fairly steady, with two universities' level of self-financing averaging 16 per cent of all expenditure and many others never surpassing their 2 or 3 per cent benchmark.

With respect to the relative contribution of the various self-financing mechanisms, fees for special educational services and the sale of goods and services have each accounted for about 40 per cent of all 'own resources' between 1981 and 1989, while property rents have provided another 10 per cent. Balance sheets for 1990 obtained from two of the largest universities reveal an extraordinary increase in self-financing,<sup>18</sup> most of which can be explained by the FEDU which, as has been seen, however, does not really amount to autonomous fund generation.

The rather small contribution of 'own resources' to overall university financing, and the fact that it has actually declined from its relative level during the 1970s (10 per cent) as well as in absolute terms (real levels by the end of the 1980s were less than a third of what they had been in the mid-1970s) deserve an explanation. Inadequate reporting may be part of the answer, given that universities fear that if their accounts should prove them increasingly capable of financing their expenditure out of their own

resources, the Ministry of Economics and Finance and the parliamentary budget commission might find further justification for additional Treasury allocation cuts. Thus, much of this financing activity is managed quite informally and is not registered in public accounts. The real level of self-financing is most probably quite significantly higher than that reported above.

## CONCLUSION

Despite the above, in the course of research-related interviews recently conducted by the authors, two very important changes in the attitudes and behaviour of higher education academics and administrators, as well as among some student leaders, were detected. It became readily apparent that so far they probably represent the most significant adaptation to the crisis and adjustment process. The first is a previously unheard of openness to question the convenience, viability and even equity of fully State-financed, free public higher education. The second noticeable change, which could be foreshadowing a new trend, is the willingness to charge realistic fees for all types of services and extension activities. Although some of these activities were also carried out in the past they were usually heavily subsidized, either because they were viewed as community service or because those revenues, while meagre, could be applied to expenditure for which the use of Treasury funds was prohibited. Nowadays, a sense of responsibility for maintaining and increasing institutional assets, not less than the evidence that traditional financing sources have dried up, seems likely to lead to cost-recovery practices, totally absent in the not too distant past. This has fortunately been incorporated into the 1990-95 University Development Plan proposed by the National Assembly of Rectors, which includes a special Production of Goods and Services programme, aimed at diversifying financial sources through increases in self-generated resources.

## NOTES

1. INEI (1991) I, 263.
2. The standard school-age population (5-24 years old) has been used for the sake of international comparability, although late beginnings, frequent repetitions and temporary drop-out rates make it a somewhat inadequate indicator of coverage in the Peruvian case.
3. INEI (1991) I, 291. Estimates for 1990 place that figure at around 11.4 per cent (INEI, 1991, I, 295).
4. In this case, those aged 25 and over; the percentage for all those over 15 was somewhat higher.
5. GRADE (1990) p.4.
6. ANR (1991) pp.56-57.
7. Non-university higher educational institutions mainly include technological institutes, teacher training and art schools. They have experienced an explosive growth during the 1980s, from about 70 to 350 institutions and from 85,000 students to nearly 300,000 by the end of the decade (GRADE, 1990, pp.5, 25). This paper, however, will be concerned primarily with universities.
8. ANR (1991) p.56.
9. GRADE (1990) p.74.
10. All the financial statistics herein reported have been estimated by the authors from official public accounts provided by the Ministry of Economics and Finance and the National Assembly of Rectors, unless otherwise stated.
11. 1990 and 1991 data on university expenditure are not reported because they are not currently available. Initial budgets, on the other hand, are poor indicators of the former, especially during the recent hyper-inflationary period. Furthermore, current annual dollar figures, which could aid international comparisons, have not been used because of the huge distortions introduced by the multiple exchange rate régime and controls which prevailed during the latter half of the decade, and the lack of adequate information with which to estimate the real exchange rate applicable to the educational sector.
12. See 11, above.
13. A recent publication of the National Assembly of Rectors reports an average fiscal contribution of nearly 100 dollars per student for 1989 (ANR, 1991, p.10), a figure which, if increased by average yields of other sources of university financing, is not far from this estimate. By October 1990, full-time principal professors were earning about 92 dollars per month, according to that same source, while in the mid-1970s their basic

- wages (which could be easily doubled with a variety of bonuses) averaged above 650 dollars per month (GRADE, 1990, p.53).
14. Figures have been personally provided by J.J. Brunner, data appearing in his *Higher Education in Chile: The Effects of the 1980 Reform*.
  15. Although only privately acknowledged, there seems to be widespread consensus among administrators about the fact that even these meagre resources could have yielded better results if adequately administered.
  16. As previously mentioned, it is difficult to estimate dollar figures for recent years. However, in order to facilitate readers' understanding of the magnitude of the decline, the authors estimate the 1980 dollar equivalent of per-student State transfers to public universities at around 540 dollars, and that of 1975 at approximately 790 dollars.
  17. These resources are considered as universities' 'own resources' in public accounts, in order to isolate them from monthly issued expenditure restrictions mandated by the Ministry of Economics and Finance. However, they are clearly government transfers. More on 'own resources' will be discussed later in this article.
  18. San Marcos University registered a 1.2 per cent participation of own

resources in the financing of its 1989 expenditures, and a 23.3 per cent contribution in 1990. Similarly, the National Engineering University declared 24.9 per cent of its 1990 funding as self-generated, up from 9.1 per cent the previous year. Data for other institutions is currently unavailable.

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