



UNIVERSIDAD DE
SAN MARTIN DE PORRES





University Description

1 Summary

Universidad San Martín de Porres is the successor of an earlier educational institution founded by the Dominican Order in the Santo Domingo Convent. In 1962 it received the status of a university and, since then, has been operating as a fully autonomous non-profit organization, under the laws 23733, 24387 and 24391 that govern all universities. As stated in Article 1 of its statutes, the University is dedicated:

“to study, research, scientific and cultural knowledge dissemination, and social service”...and “governed by the principles of truth, pluralism, freedom of thought, and against all form of intolerance, discrimination and dependence.”

As of the first semester of 2004, the University had 27,717 students (26,775 enrolled in undergraduate programs and 942 graduate students), making it the largest private university in Peru, and likely the largest of all universities in Peru. It offers undergraduate and graduate degree programs in 19 disciplines, organized in 9 faculties (in descending size of enrollment):

Table 1: USMP Snapshot 2003	
Faculties	9
Undergraduate Degree Programs	19
Masters Degree Programs	23
Doctorates	4
Undergraduate Enrolment	27,717
Postgraduate Enrolment	978

***Communication, Tourism and Psychology;
Accounting, Economics and Finance;
Law and Political Science;
Administration and Industrial Relations;
Engineering and Architecture;
Medicine;
Obstetrics and Nursing;
Dentistry; and
Education.***

These faculties operate in 14 non-residential campuses across Lima, on 203,000 m² of land and with 88,000 m² of constructed space.



USMP has positioned itself as the only private university to target the lower-middle income segment of the student market. The majority of students fall in the B2 and C levels of the national socioeconomic categorization (a scale from A high to E low): among other indicators, this means that students' family income falls between US\$290 and US\$590 per month. As with all private universities in Peru, USMP offer variable pricing schedule, depending on the socioeconomic background of the students. They also have a differentiated tuition schedule depending on the faculty this is unique in the sector. Average tuition is currently US\$1,000 per student per semester. For comparison, the average tuition at the following private universities is as follows: Universidad Peruana de Ciencias Aplicadas charges US\$1,900 per semester, Universidad Catolica charges on average US\$1,500, and Universidad de Lima has an average tuition of US\$2,100 per semester. The main public university, Universidad Nacional Mayor de San Marcos does not charge tuition.



Tight financial management has allowed USMP to maintain top quality facilities and teaching staff and become competitive across the entire university sector. The University is well recognized in the market and, in some areas, notably medicine, law, systems engineering, communication and tourism and hotel management, competes with the best institutions.

Going forward, USMP's strategy is to maintain the size of its student body in Lima, as well as the relatively low tuition levels and, through an innovative Bond issuance Project, raise funds to support continued investment in the Lima campuses and an ambitious expansion program aimed to open decentralized campuses in several provinces.

2 Ownership and Governance

Peruvian universities who elect to operate under not-for-profit status, are required by law #23733 to operate under associations governed by the University Assembly: a committee of representatives of: the students, faculty and University Authorities. In addition to the Assembly, the University Council: the Rector, Vice-Rector and the Deans of Faculty and the Director of the Graduate School govern the University.

University Assembly

The University Assembly is the highest governing body of the university. The Assembly: (i) may change the university's statutes; (ii) selects the Rector and the Vice-Rector; (iii) ratifies the annual operating and development plan of the University; (iv) approves the annual report and evaluates the operation of the University; (v) approves the creation, closing or any other changes in all academic bodies; (vi) annually appoints an Electoral Committee in accordance with Article 39 of the University Law; and (vii) has the obligation to develop ad hoc committees to deal with exceptional circumstances. The Assembly, as required by law, comprises:



- *the Rector (presiding);*
- *the Vice-Rector;*
- *the Deans of Faculties;*
- *the Director of the Graduate School;*
- *an alumnus;*
- *representatives of the teaching staff in each faculty, equivalent to double the total number of university authorities and comprised of 50% tenured professors, 30% associate professors and 20% assistant professors; and students, equivalent in number to a third of the total number of the members of the Assembly.*

The Assembly schedules “ordinary” sessions each semester. In the first semester they review and approve the annual report and ratify the annual operational and development plan, and in the second semester they evaluate the operation of the University. They meet for “extraordinary” sessions: (i) at the request of the Rector; (ii) at the request of more than half of the members of the University Council; and (iii) at the request of more than half of the members of the Assembly itself. Decisions are made by majority vote, with the Rector's vote deciding in the case of a tie.

University Council

The University Council governs the academic, economic, legislative and administrative areas of the university. For example it approves the number of vacancies in each degree program, hires and fires teaching staff, and resolves disciplinary problems with staff and students. It is made up of:

- *the Rector (presiding);*
- *the Vice-rector;*
- *the Deans of Faculties;*
- *the Director of the Graduate School;*
- *student representatives (equivalent to one third of the total Council); and*
- *one alumnus.*



Elections

The University's Electoral Committee is selected annually by the University Assembly and is made up of three full professors, two associate professors, one assistant professor, and three students. It is charged with organizing, conducting and controlling the electoral process of the Assembly and the Council.

Through its governing bodies and their processes the University complies with corporate governance standards required by Peruvian law. Meetings are held regularly, minutes are taken and distributed, members are elected according to the requirements of the law and the Independent Electoral Committee monitors the process. USMP's commitment to corporate governance, according to several Corporate Governance standards, shows implementation of best practices and the structure and functioning of the Board of Directors indicates concrete steps towards best practices.

3 The University

3.1 Academics

USMP operates a two semester system: March through June and late July through December. It offers on-site preparatory, undergraduate, and a small graduate program which is subject of strategic focus for the next five years. The undergraduate program accounts for the bulk of enrollments. USMP also offers seminars in select topics through the faculties or through specialized institutes. They have a small distance learning program (Universidad Virtual), a language center, and an affiliated secondary school. The most significant operations are described in more detail below.

Preparatory

Prior to the undergraduate program, the university offers a one-year pre-university program for students who are willing to complement their high school preparation. If the students attain a certain minimum average grade in their courses in the preparatory (depending on the intended field of study), they are exempt from the entrance exam and gain immediate access to their faculty of choice. This helps USMP expand its market to students who may make an early choice of university during their senior year at High School and to students who were not able to gain immediate entry through the examination process.

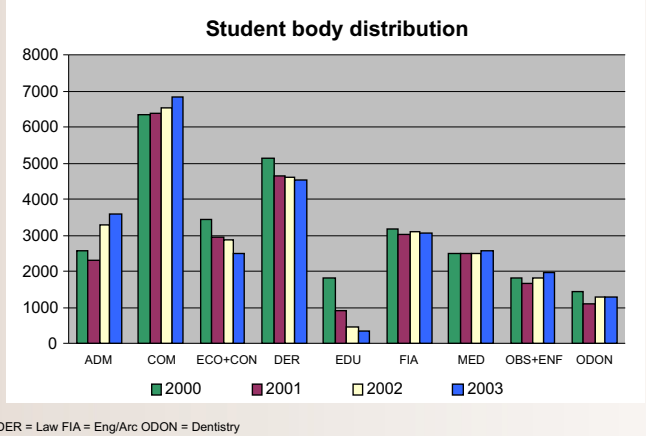
Undergraduate Program

In the first semester of 2004 the University had over 26,000 students enrolled in undergraduate programs. Undergraduate courses of study are over 10 semesters or typically five years of study. These students are enrolled in the following faculties:

- *Faculty of Administrative Sciences and Industrial Relations:* This Faculty is made up of the following schools: Administration (1,767 students); International Business (1,456 students) that opened in the second semester of 2002; and Industrial Relations (342 students)--3,565 students in total.
- *Faculty of Communication Sciences, Tourism and Psychology:* This faculty is made up of the following schools: Communication Sciences (3,449 students); Tourism and Hotel Management (2,553 students); and Psychology (848 students), for a total of 6,850 students. It is the largest Faculty of the University, making up 25% of all undergraduate students.
- *Faculty of Accounting, Economics and Finance:* This faculty is comprised of the following schools: Finance and Accounting (1,921 students); and Economics (555 students).
- *Faculty of Law and Political Science:* Is the second largest faculty in the university with 4,514 undergraduate students. There are no schools within the faculty. The professional studies comprise six years divided in 12 semesters.
- *Faculty of Education:* Is the smallest faculty in the University, there are 361 enrolled undergraduates.
- *Faculty of Obstetrics and Nursing:* This faculty is made up the School of Obstetrics (864 students) and the School of Nursing (1040 students). Nursing students operate a clinic in which members of the community and students can be attended by students in practice supervised by professors. In 2004 this faculty inaugurated an obstetric clinic "Cada Mujer", a small teaching hospital devoted to women and early childhood care.
- *Faculty of Engineering and Architecture:* The faculty is made up of the schools of Computer and Systems Engineering (2,113 students); Electronic Engineering (305 students); Industrial Engineering (405 students); and Architecture (228 students). The architecture school opened in 2001.
- *Faculty of Medicine:* Unlike the other faculties, the Faculty of Medicine program is based in academic years rather than semesters, and lasts for seven years, six of classes, one of residency. There are currently 2,565 students enrolled.
- *Faculty of Dentistry:* The Dentistry school also offers services to the community, through student clinics. There are 1,270 students.

Figure 1 shows the recent progression of enrollments within each faculty. The strongest growth has been in the Administrative Sciences (with the popularity of business education mirroring the growth in other parts of the world) and Communication Sciences, Tourism and Psychology (driven by the increasing strength of the communication and tourism programs). The recent decrease in enrollments in the Faculty of Education was a result of the completion of an agreement with the Ministry of Education to educate in-service teachers.





Postgraduate Studies

Additionally, the university offers 14 post-graduate courses of study, through which students can receive one of 23 masters degrees or four doctorates, with 942 enrolled students. The largest number of graduate students are in the Faculty of Medicine (246 students) followed by the Faculty of Law (174 students).

Indicators

Student-Teacher Ratio: While an incomplete measure of quality in any educational institution, student-teacher ratios provide some idea of the level of direct attention students receive and, regardless of the impact on actual learning, can be decisive information for a prospective student. For a large university, USMP maintains this ratio very low, particularly for courses of study where teacher-student interaction is important for effective instruction. The following table shows the student-teacher ratio for each school of USMP, and an average ratio of 16 students per professor.

Dropout rates: Dropout rates are useful for gauging a variety of issues, depending on the timing and reason for the dropout. Dropouts in the first year of study are typically a result of a poor admissions process and/or a lack of remedial attention that allows unprepared students in classes above their capabilities. In private universities, dropouts later in the academic cycle are most often related to inability to keep up with tuition payments.

Table 2: Student-Teacher Ratio

Administration	23
International Business	7
Industrial Relations	19
Communication	18
Psychology	20
Tourism and Hotel Management	18
Accounting	24
Economics	18
Law	26
Education	8
Nursing	15
Engineering and Architecture	16
Medicine	4
Obstetrics	15
Dentistry	6
<i>Average</i>	<i>15.8</i>

*This data has been prepared using full-time equivalent (FTE) professors and students.



USMP dropout rates are relatively low across most faculties. University officials agree that, because of the Preparatory program through which many students pass, there are few dropouts in the first year, and most are a result of poor academic performance later in the studies (students are permitted to repeat a course twice, after which they are expelled for poor academic performance). Few students dropout for financial reasons, as USMP very carefully applies a pricing policy that ensures that students and their families are paying at a level that is sustainable (see 4.3.6 Pricing). The particularly high rate for the Education Faculty could be a result of the fact that this program attracts students from low socioeconomic backgrounds with a less stable income profile.

Table 3: FTE Dropout Rates by Faculty, %

Administration and Industrial Relations	2.8
Communication, Tourism and Psychology	4.8
Economics and Accounting	7.3
Law	10.6
Education	17
Architecture and Engineering	2.7
Medicine	3.4
Obstetrics and Nursing	7.7
Dentistry	6.2
<i>Average</i>	<i>6.9</i>

Repetition at USMP is tracked at an individual and faculty level. It is difficult to quantify on a full-time equivalent basis, as students repeat courses rather than years of study. Full time equivalency in repetition rates is important, as it allows us to understand the magnitude of the problem and draw conclusions on the impact of repetition on revenues and on possible problems of teaching quality or student preparedness. Knowing the causes of repetition allows universities to make decisions regarding the appropriate corrective action. At USMP, it is estimated that no more than 2% of the student body repeats the equivalent of one year of study each year. Thus, the impact on revenues is marginal and there is no strong indication that there is a systemic problem with teaching quality or student preparedness.

Information Technology and Libraries

USMP is leader in use of ICT in education, and the use of IT is an integral part of their long-term strategy to contribute to taking Peru to world standards in education, culture and technology. USMP has the first graduate program in Educational Computing and Technology and their pioneering effort in training faculty was supported through an international outreach program of the University of Hartford International Center for Technology in Education. Most classrooms are equipped with modern technologies. The labs for Communication students have the latest studio equipment, and science labs use modern equipment. Their 20,000 sq. meters campus includes three TV sets with the latest technology. The university has a system of libraries, with a library in each Faculty and a main library. In addition to 84,885 books, the libraries provide access to many of the largest on-line databases and journals.

Auxiliary Services and Facilities

USMP provides sports facilities to students. There are a number of open-air fields at most campuses. Additionally, there is a covered coliseum at the Faculty of Engineering and Architecture (one of the newest campuses) that has a fitness center, soccer and basketball fields. All campuses have student cafeterias. The catering service at all of them is outsourced, since it is a more efficient way to handle it. All campuses are non-residential, i.e. there are no student dormitories. This is the case for all universities in Lima, since the majority of students are from the city, and most students coming from the regions stay with relatives.



External Relations

USMP has signed agreements with a host of national and international institutions (academic, public and private) and through these participate in staff and student exchanges, joint research initiatives, and the joint provision of services. Examples of these relations include:

- Institutional Agreement with Ministry of Finance to train government officials;
- Agreement with the Institute of Work and Family at Colegio Ricardo Palma to develop a pilot program to prevent juvenile violence in schools
- Agreement with the Universidad Tecnológica Equinocial de Quito, Ecuador for student and staff exchanges between the Faculties of Communication;
- Agreement with the Fullbright Commission to execute Fullbright programs in Peru;
- Agreement with the University of Minnesota for student and staff exchange.
- Agreement with the Catholic University of Leuven, Belgium to offer a joint doctoral program.
- Agreement with the e-MIAGE consortium of French universities to offer their Information Systems for Business Management undergraduate and graduate programs in Peru, leading to double degrees (Bachelor and Master) valid in Peru and the European Union.

3.2 Research and Development

As stated in its mission, USMP is committed to research and development and view it as a contribution to the long-term development of Peru. Students are directly involved in the research activities through the Research Centers in each of the Faculties. The work of these Centers has led to the publication of numerous texts in almost every sphere of academic pursuit and has a significant contribution to raising awareness of the University and the perception of the quality of education. A few examples of research activity at USMP include:

- *Tourism Database*: A project in the School of Tourism and Hotel Management that collects and presents information regarding tourism activities in Peru.
- *Student Employment Initiative*: A project of the Faculty of Administrative Sciences that supports students in their search for employment after graduation.
- *Law Review* (“Revista Vox Juris”): A professional publication of the Law Faculty.



- *Genetic Research*: A program in the Faculty of Medicine that characterizes the genetical profile of glaucoma. This initiative won an award in 2002 for scientific excellence from the Consejo Nacional de Ciencia y Tecnología.
- *Educational Computing*: USMP is nationally recognized for its research in Educational uses of ICT. Faculty members are invited to speak at national and international conferences.

3.3 Human Resources and Cost Management

Table 4: Staff Numbers USMP 2002 2003

Staff		2002	2003
Academic	Ordinary	280	261
	Contract	1,691	1,978
Administrative	Permanent	454	506
	Contract	321	275
Total		2,746	3,020

Academic Staff

In 2003 the University employed 2,239 academic staff some as “ordinary” (tenured) staff and the majority as “contract” staff. Ordinary (tenure) contracts are for three, five or seven years (assistant, associate and full professors respectively), and are ratified at the end of each term of employment. The contract staff are hired on a semester basis, either full or part time, and receive payment depending on the hours worked. Of those contracted, about three quarters are what are called “floaters”, who move between universities teaching the same basic courses in sciences and humanities. The remainder is contracted from industry to ensure in the more senior classes students are up to date with current practices and develop contacts in the labor market. These arrangements allow the University significant flexibility in expanding or decreasing its teaching staff with little associated cost.

Of all professors, 374 are full time (either ordinary or contract). The full time professorate allows USMP to fulfill its objectives in the area of applied research and provides academic stability and continuity. Part time faculty members are made up of those who teach at various universities and those from industry who work in their profession and teach at the University. This allows USMP to stay current and to teach their students in a way that is responsive to the needs of the marketplace.



Comment on Academic Staff Mix
There is no best practice when it comes to the mix of permanent and contracted academic staff. The most effective balance depends on the nature of the university. More ‘modern’ institutions, whose focus is on preparing students for the labor market, tend to use more contracted staff from industry. This provides students with the most up-to-date knowledge of the subject matter, and better ties to the business community that helps them secure relevant internships during their studies and jobs after graduation. Two IFC’s (the financial branch of the World Bank) existing clients have successfully applied this method: Universidad Peruana de Ciencias Aplicadas in Peru, and Bilgi University in Turkey. More ‘traditional’ universities, whose mission is to advance and challenge existing knowledge and to be thought leaders in their countries, require a large and strong core of permanent academicians who can lead research efforts and provide consistency, stability and institutional knowledge. USMP has established itself successfully in the middle ground with a clear focus on academics and research, complemented by industry practitioners (see 4.3.7 for the related issue of placement of graduates in the labor market).

About 63% of USMP's academic staff are concentrated in four faculties: (i) Medicine (33.8%); (ii) Engineering and Architecture (10.2%); (iii) Communication (9.24%); and (iv) Dentistry (6.23%). This concentration affects both the pricing scales for each faculty (those with higher staff costs demand higher tuitions), and the student-teacher ratios.

Administrative Staff

Administrative staff is either hired as permanent or contract staff. The permanent staff has open-ended contracts that the university is only able to terminate under situations of misconduct or severe dereliction of duty. The University has a sound strategy to face some inefficiencies that are difficult to eliminate, given Peru's labor laws. The contracted administrative staff work on short-term contracts that are easily terminated. Both the administrative and academic staff is unionized, but USMP - Union relations are armonious and there are no problems arising from this.

Cost Management

All university faculties function as separate cost centers. Budget proposals are submitted annually and approved at a centralized level, in line with the overall university strategy. The Deans are responsible for the management of this budget during the year. This cost center structure requires Deans to balance the incentive to look for cost efficiencies with the desire for their Faculty to excel academically. This is a vital balancing act, and one with which many universities struggle. USMP has successfully implemented an operational system that deals with the potential tension between the academic and financial objectives of the University.

Historically, operating margins have been around 15%. As explained in Section 4.4, Historical Financial Performance, there was a decline in 2003, due mostly to adjustments to personnel expenses, some of which were non-recurring. and margins will most likely recover to their previous levels.

3.4 Self-Evaluation and Accreditation

In October 2003 USMP's University Assembly passed a rectoral resolution (#1268) to create an Office of Self-Evaluation and Accreditation aiming to design and apply a self-evaluation process and to pursue external accreditation of the University's degree programs. In doing so, the University expects to “guarantee levels of quality in the basic academic functions and the evaluation of these functions”. USMP began the formal self-evaluation process by the end of 2004. There is no regulatory oversight in these functions by the Ministry of Education or other external body.

Specifically, the main functions of the Office are to:

- develop and propose the standards that each academic unit should adhere to in order to guarantee academic quality that will allow the University to seek external accreditation;
- develop and propose the processes for self-evaluation and accreditation; and
- train and supervise the processes of self-evaluation at each academic unit.

Self-evaluation is an important component of any University's effort to maintain and improve academic quality. In Peru, where there is no external evaluation by a regulatory body or a peer group, self-evaluation is critical. Without it, the university would have no other formal mechanism to evaluate its performance and make improvements.

Through this self-evaluation and accreditation initiative, USMP hopes to have many of its programs accredited by relevant external bodies. For example, we aim to accredit the School of Dentistry with the American Dental Association. The school of Communications has been recently accredited by CLAEP (Latin American Council for Accreditation of Journalism Schools) and the School of Tourism and Hotel Management has been accredited by Tedqual, the agency for Accreditation of the World Tourism Organization.

The most recent advancement in this field is the agreement with the French consortium e-Miage (Méthodes Informatiques Appliquées à la Gestion des Entreprises) which has just been approved by USMP and will allow three faculties to offer joint degrees with their French counterparts at undergraduate and master levels.

3.5 Admissions Process, Pricing and Discounting Policies

Admissions Process

USMP was the first Peruvian University to have its admission process certified under ISO 9002:94. This certification guarantees applicants a fair entrance process. Admissions are based on a general multi-choice entrance exam. Applicants must show proof of high school completion, provide data to allow for a determination of their socio-economic status and allow a home visit to verify this, state their preferred course of study, and sit the entrance exam. The university matches applicants with degree programs until capacities are met. There are no minimum grades for any degree program.

Pricing

According to economic need and Faculty, students are charged along a scale of 22 tuition categories, where 0 is high and 22 is low. Almost all private universities in Peru offer differentiated pricing according to socio-economic status, however, USMP is the only one to differentiate among Faculties also and, by doing so, is able to more accurately match revenue streams with expenses. Figure 2 shows the breakdown of students in each tuition category and shows that the majority of students fall in the lower ranges where annual tuition is around US\$1,000 per year.

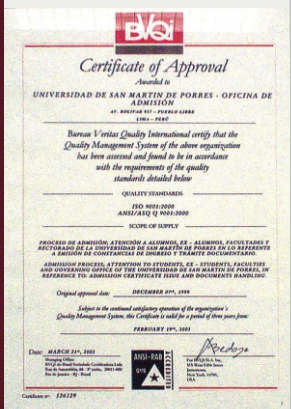
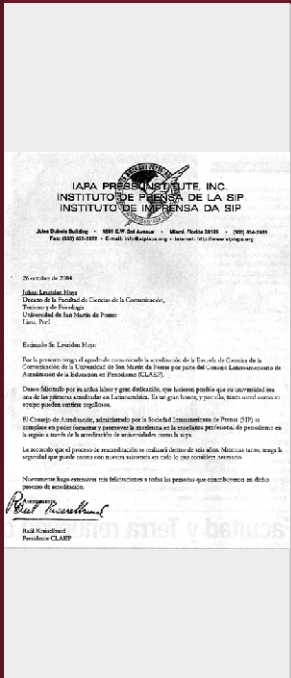
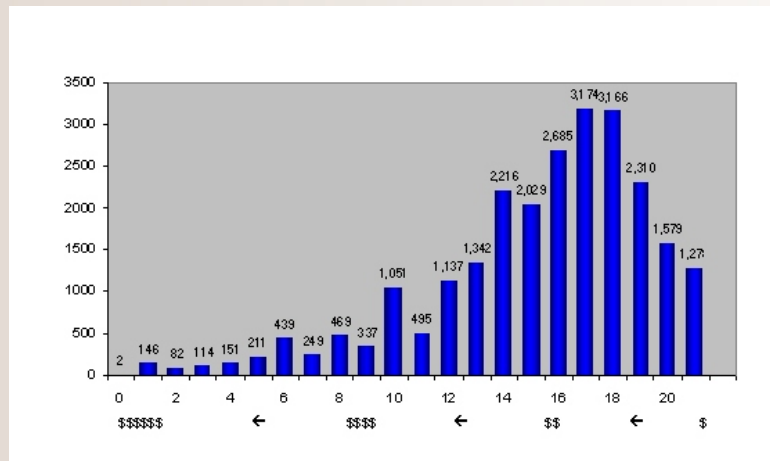


Figure 2: Number of Students by Tuition Category (0 high, 22 low) in 2003



Scholarships

Scholarships are given for students with strong academic performance and economic need. There are no scholarships provided in the first year of study, as academic performance cannot yet be used as a measure. In 2003-II, 718 students received full scholarship and 734 received half-scholarship. The revenue impact of scholarships depends on the tuition scale in which the student was before receiving the scholarship. It is generally low, as students who qualify in terms of financial need, are those who were otherwise paying in the lowest tuition categories. Historically, despite the lack of an explicit policy, this has been stable at around 2% of total revenues. The University expects this to remain stable in the future and it is not used as a tool to attract more students in difficult economic times.

Faculty or School	Full	Half	Total
Administration	26	20	46
International Business	25	19	44
Industrial Relations	10	10	20
Communication	156	76	232
Psychology	23	9	32
Tourism	51	27	78
Finance and Accounting	58	25	83
Economics	21	3	24
Law and Political Science	98	462	560
Education	1	6	7
Nursing	12	4	16
Obstetrics	17	10	27
Engineering and Architecture	82	41	123
Medicine	114	0	114
Dentistry	24	22	46
Total	718	734	1,452



3.6 Recruitment and Marketing

Direct Recruitment

As with other private universities in Lima, USMP relies heavily on marketing expos at high schools in Lima as a recruitment tool. They also publish an extensive range of high quality informational material aimed at their potential market. USMP website (www.usmp.edu.pe) is attractive, professional and accessible. They also publish annual report and an annual “Memoria Institucional” (neither of which is required by law), which contain very detailed information on the university's operations (academically and financially).

Indirect Marketing

USMP has various activities that contribute to raising awareness and interest in USMP. This has been an important strategy over the past five years, after recognizing that despite large enrollments, general market awareness of USMP was relatively low. An example of this strategy was the 2004 purchase of a professional football team moving from Division II to Division I. While eventually this may prove to be a sensible financial investment, the primary reason for the purchase was for marketing purposes. The team is now known as the Universidad de San Martín de Porres. USMP also publishes non-academic (ie: not text books) texts, sold in bookstores throughout Lima. The topics cover literature, the arts, architecture and design and cook books many of which have received international awards.

As a result of this strategy, one of the most recognized opinion survey agencies in Peru, Apoyo Opinión y Mercado; in their yearly review of higher education shows that recognition of USMP has been growing over time.

3.7 Placement

The University has no placement office per se, however, as described in 4.3.2, the Faculty of Administrative Sciences has a student run initiative to support fellow students in researching and obtaining employment after graduation. An industry standard annual market study of the tertiary sector shows overall students perceive USMP as the fifth best university in terms of its contacts with employers.



3.7 Social Service and Community Development

As indicated in its Articles of Association, USMP is dedicated to social outreach and community development. Specifically, it seeks to develop in its students an appreciation for the value of national culture, social inclusion, and environmental awareness. A few of the many outreach programs, include:

- *Community Education:* The Faculty of Engineering and Architecture provides free courses in various IT specialties (including Computing for Children, Web Design, and Circuitry);
- *Hepatitis B Vaccine Campaign:* Run by the School of Nursing, including educational talks on hygiene and nutrition;
- *Dental Health in Children:* Dentistry school runs a periodic campaign for dental health for children less than 6 years old;
- *Legal Clinics:* Free legal advice provided by the Law School to the community.
Obstetric Clinic
- *Accounting and Best Financial and Management Practices for Small and Medium Enterprise:* Free advise provided by the Faculties of Administration and Industrial Relation and Accounting Economy and Finance.

4 Historical Performance

The University's financial statements have been audited by PriceWaterhouseCoopers since 2000, according to Peruvian accounting standards (which are based on IFRS). Table 6 below gives a summary of USMP's financial results for the period 2000-2003. The table shows stable performance and healthy margins. Revenue growth was slightly over 5% for the past two years. The year 2001 was difficult for all market participants, due to overall economic conditions, and USMP's revenues decreased by 6.7%. Despite this, the University posted a surplus equivalent to US\$9.3 million for that year. The Operating Margin has been stable at around 15% for a number of years, except for 2003 when it was lower (11%), mostly due to adjustments to personnel expenses, such as salary increases and bonuses, as well as higher maintenance expense, many of which were one time expenses.

The University has a conservative financial structure, with a Long-term Debt-to-Net Worth ratio of 0.22 as of the end of 2003. The majority of the Long-term Debt consists of a 5-year US\$12 million syndicated loan held by three Peruvian banks, priced at Libor+5.5%. This is the debt that USMP is planning to restructure with part of the proceeds from a bond issue, in order to increase maturities and lower interest expenses (The outstanding balance at the time of bond issuance will be less than US\$ 10 million and the issuance program will be partially guaranteed by IFC).

Table 6. USMP, Summary of Financial Results (Audited), 2000-2003, in US\$ Thousand

FYE 12/31	2000	2001	2002	2003
<i>Income Statement:</i>				
Total Revenue	58,415	54,488	57,596	60,638
Operating Income	9,255	8,404	8,909	6,688
Surplus	8,377	9,288	7,319	6,013
<i>Balance Sheet:</i>				
Current Assets	10,862	11,803	13,873	16,337
Long-term Assets	70,932	73,797	77,641	85,302
Total Assets	81,793	85,600	91,514	101,639
Current Liabilities	19,614	16,288	12,100	12,702
Long-term Debt	6,392	4,554	10,426	12,435
Net Worth	50,018	59,536	64,376	72,603
<i>Ratios:</i>				
Operating margin	15.8%	15.4%	15.5%	11.0%
Net margin	14.3%	17.0%	12.7%	9.9%
Current Ratio (*)	0.55	0.72	1.15	1.29
LTD/ Net Worth (*)	0.21	0.12	0.22	0.22

(*) both Current Ratio and LTD/ Net Worth take into account Current Portion of Long-term Debt

THE EDUCATION SECTOR IN PERU

4.1 Overview of Peru's Educational Market

Peru made considerable progress in the development of its education sector in the early and mid-1990s, when the government introduced reforms characterized by rationalization of the public sector and increased public expenditure in education, as well as extension of compulsory and free education. These accomplishments are significant for a low-middle income country (GDP per capita was US\$4,800 in 2003, according to the Economist Intelligence Unit), especially given Peru's geographical and ethnic diversity. Primary education is nationally free and available to all. However, in 2001 more than 8% of six to eleven year old children were not attending primary school and illiteracy rate of people above 15 was 12% (see Table 7 below). The government has, started to address the problem of under funding by increasing teachers' salaries and raising the budget of the Ministry of Education. Nonetheless, at 3.3% of GDP in 2000, Peru's public spending on education remains below the South American average of 4.2% (according to UNESCO).

Table 7: Education Indicators (% of population)

	1997	1998	1999	2000	2001*
Illiteracy Rate (over-15s)	12.1	12.6	12.5	11.7	12.1
Proportion of 12-16 year-olds attending secondary school	56.9	62.0	59.3	61.7	65.6
Proportion of 6-11 year-olds attending primary school	N/a	90.9	92.7	93.5	91.5
Number of years of education of population aged over 25	8.6	8.8	8.8	8.7	8.6

Notes:* Figures for 2001 are not directly comparable, due to change in methodology.
Source:EIU, INEI.



A key aspect of the 1990 reforms was the encouragement of private sector participation in education through liberalization of the market. This has irrevocably changed the education system. In addition to constitutionally extending compulsory and free education from primary to secondary levels, a new law was passed encouraging the establishment of private schools. This led to a rapid growth of private schools, especially at the tertiary level, in response to increased demand from parents and students who had grown weary of frequent closings due to widespread teachers' strikes in early 1990s and who considered the quality of public education unsatisfactory. As a result, private education enrollment in the 1990s grew by 9% in primary schools, 28% in secondary schools and 37% in tertiary non-university institutions, notably outpacing the rate of increase at the same levels of public schools.

4.2 Regulation and Oversight of Tertiary Education

At the time of liberalization, all Peruvian universities were required to be non-profit associations governed by a committee of representatives of the students (1/3), faculty (1/3) and authorities (1/3) (Law #23733).

In terms of accreditation and ongoing quality control, this is left to the universities themselves. The Ministry of Education does not oversee tertiary education. There is a National Assembly of Rectors: a forum for information exchange and coordination, rather than a body providing control or regulating universities' operations. The new Law on Education, passed in 2003 does not deal directly with tertiary education. It does mention the need for some sort of accreditation mechanism; however, there is no clear target or time line for establishing it.

4.3 Tertiary Education

Peru's higher education industry was very stable up to the early 1990s. Traditional universities had coexisted comfortably for decades. Due to the non-profit nature of educational institutions, efficiency was not an issue and there were no quality improvements. From 1994 to 1996, new private entrants into the market challenged the existing order by offering higher quality and more choice for the same price. This had two key effects: (i) the previously oligopolistic industry was transformed into a more fragmented industry; and (ii) a more dynamic, competitive market was created. The economic recession that started in 1998 put additional pressure on this mature industry.

4.3.1 Public Universities

According to information from the National Assembly of Rectors, there are currently 33 public universities in Peru, four of which are in Lima. The largest and academically strongest public university is Universidad Nacional Mayor de San Marcos. The efficiency of public universities, expressed by the percentage of entrants who graduate and the time it takes an average student to complete a degree, is lower than for private universities. According to the National University Census, summarized in Table 8 below, students at public universities take longer to graduate, interrupt studies and drop out more than their peers at private universities.

Table 8: Efficiency of Public vs. Private Universities

Parameter	Public Universities	Private Universities
Years students take to reach 5 th (graduating) year of study	6.5-8	5.5
% students dropping out temporarily during course of study	27%	19%
% of students with computer skills	46%	69%
% students with Internet access at university	1.5%	13%
% of students who speak English	24%	41%
% students who perceive their University's standing as "good" or above	56%	71%
% professors who perceive their University's standing as "good" or above	70%	86%

Source: Apoyo Opinion y Mercado

Overall, the perception is that the quality of tertiary education is better in private universities, and that the quality of the public universities is dropping year by year, except for certain majors, such as agriculture (the Universidad Nacional Agraria has a long-standing reputation of having the best program in this area), medicine (at the Universidad de San Marcos and Universidad Villareal) and some engineering programs (Universidad de Ingenieria).

4.3.2 Private Universities

There are 46 private universities in Peru, 24 of which (52%) were established after 1990. A total of 18 of these private universities (including small private technical institutes) are located in Lima, and the oldest is Universidad Catolica del Peru, established in 1917. Besides USMP, Universidad de Lima, Universidad Catolica, Universidad Peruana de Ciencias Aplicadas, Universidad del Pacifico, and Universidad Peruana Cayetano Heredia are considered the top tier universities serving primarily the upper-middle and upper classes. The average tuition of these top tier universities is between \$1500 and \$2100 per semester.

4.3.3 Demand Profile of Public and Private Universities

The clearest indicator for demand is the entrant to applicant ratio. Looking at the public and private sectors as a whole, Table 9 shows that entry into public universities (dominated by the best and largest, Universidad de San Marcos) is significantly more competitive than entry into private universities. Of every five applicants, only one gains entry into the public system. Hopeful students fare better in the private system, where two of every three applicants gain a place.



Table 9: Entrants and Applications in Public and Private Universities: 2003

	Total	Public	Private
Applicants	388,200	298,099	90,101
Entrants	117,312	54,679	62,633
Ratio	1:3	1:5	2:3

Source: INEI

4.4 USMP: Competitive Position

USMP's competitive position is unique in the private university market in Lima. Traditionally operating a high volume, low price model. USMP has positioned itself as the only private university to target the B2 and C socioeconomic levels, and providing a solid second best option to students who: (i) have been unsuccessful at securing a place at the more competitive free-of-charge public universities; or (ii) those students that prefer a private education because of the inefficiencies in the public university but who cannot afford the more expensive Tier I universities. In the last five years, USMP has been working to improve its image, and quality of service, by investing in new buildings and equipment and a stronger professorate. According to third parties familiar with the sector, they have been successful with this strategy and are seen as a strong and well-managed university, catering to the middle class. USMP is proud of its diverse population representing all socio economic layers of Peruvian society.

Competitive Analysis

USMP has no direct competitors among private universities on an institutional basis. The closest institutional competitor is the public university, Universidad Nacional Mayor de San Marcos. Competitors of the university are on a Faculty or even school basis and include the following:

- The Faculties of Medicine and Dentistry compete with Cayetano Heredia and Universidad de San Marcos;
- The Law Faculty competes with Universidad Católica and Universidad de Lima.
- The School of Tourism competes with San Ignacio de Loyola;
- The Faculty of Engineering with the Universidad Nacional de Ingeniería.



4.5 Demand Profile for USMP

In 2003, on average across faculties four out of five applicants entered USMP, i.e. the average selectivity ratio was about 80%. The most competitive faculties are medicine (1:2 application ratio) and law and tourism and hotel management (2:3 application ratio). This has remained relatively stable over the last five years of available data. For comparison, the selectivity ratio at UPC, one of the top-tier private universities, was between 80% and 90% for the past five years

In a 2003 study of the perceptions of teenagers aged 15-18 of tertiary institutions, USMP appears almost systematically in the top five universities (public and private) regardless of the question being asked. This appears evenly distributed among the three socioeconomic groupings A, B and C. Of particular interest from this survey are the following:

- When asked to list the first private universities that come to mind, USMP is the most readily recalled private university among the socioeconomic group C, the 2nd most among the group B and the 3rd most among group A. This indicates high market awareness of USMP;
- When asked to rank the best private universities, USMP ranks 3rd across all socioeconomic groups, after Universidad Católica and Universidad de Lima;
- Data reporting which course of study students prefer shows medicine, systems engineering, law, business administration as the most popular. Respectively USMP is listed in 4th, 3rd, 3rd and 4th position relative to all other universities;



5 Market Outlook and Provincial Expansion Strategy

The natural growth of the high school market that provides the university target market is expected to be fairly low. Immigration from the provinces of Peru, another potential source of students for the more moderately priced universities such as USMP, is not expected to grow substantially either. Therefore, in the short to medium term, USMP has decided to continue to work on improving its image through upgrading its facilities and academic standards, and through targeted marketing efforts to increase recognition and prestige. This will be done in parallel with a continued focus on cost management and efficiency.

The described situation motivated the design of an outreach strategy which is currently focused in establishing 3 decentralized campuses in Chiclayo, Huancayo and Arequipa. The overall objective is to contribute to the country development by counteracting the migratory trend currently driving many young people to Lima where they think will find better opportunities, and severely jeopardizing the country's regionalisation plan aimed at fostering decentralized development and job creation. Many high school graduates who go to Lima to enroll at universities never return to their home towns and this limits growth opportunities for the provinces. By establishing high academic quality educational offerings around the country USMP aims to lower migration rates and, once trained young professionals will most likely stay in their provinces and contribute to future development.

