

CGHE Seminar 193

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***FOR-PROFIT HIGHER EDUCATION
IN BRAZIL: STRATEGIES,
MOVEMENTS AND CONSEQUENCES***

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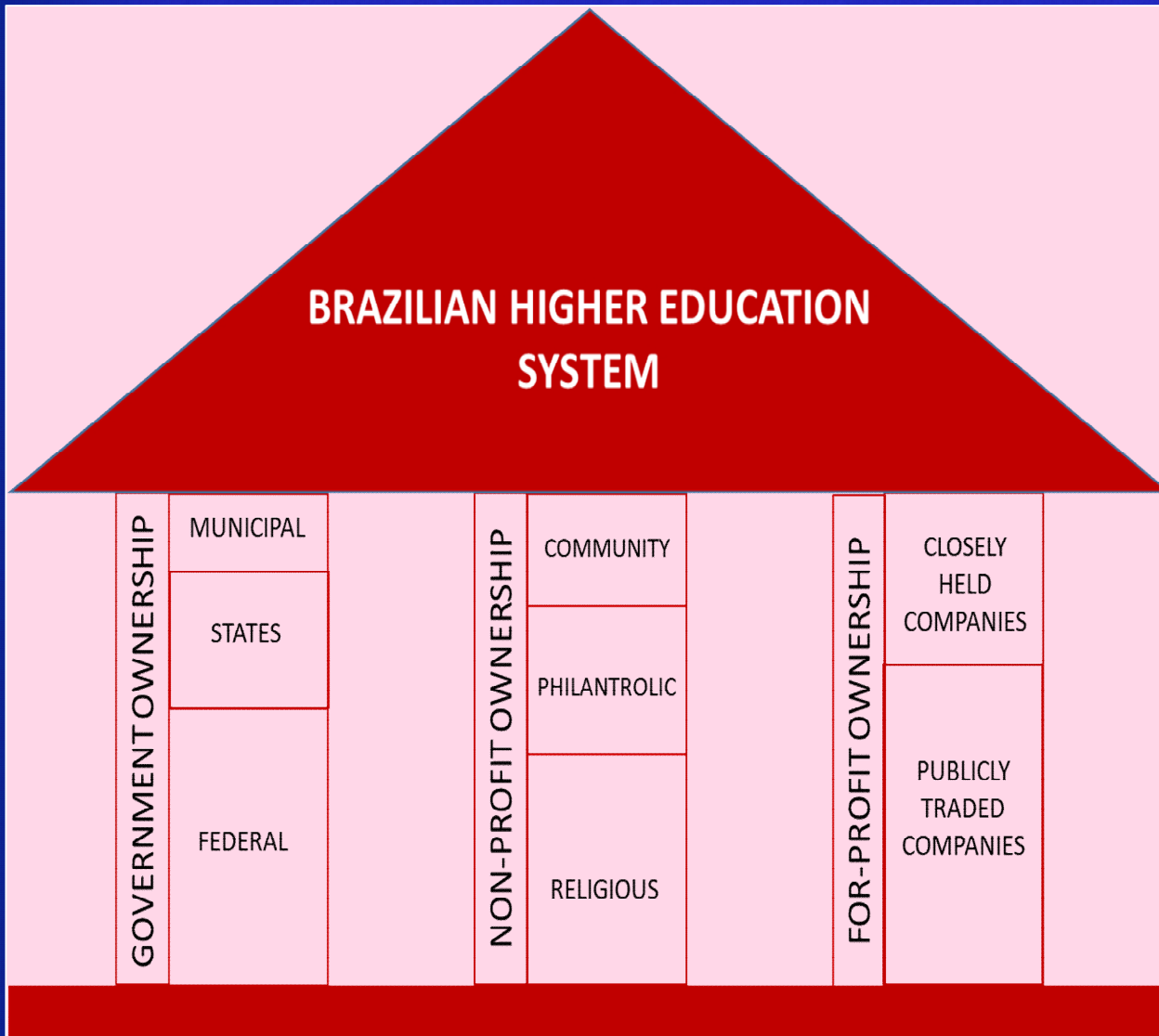
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Objectives

- ✓ Describe the main characteristics of the Brazilian For Profit Higher Education sector
- ✓ Analyse the key trends in Brazilian For Profit Higher Education
- ✓ Underline the issues about the growth of this sector for Brazilian Higher Education and educational system as a whole

Brazilian Higher Education system



- 2.6 thousand institutions and 8.6 million enrolments on undergraduate courses
- 76% of enrolments and 88% of institutions within **private institutions**
- 18% of young people aged 18 to 24 were enrolled in higher education

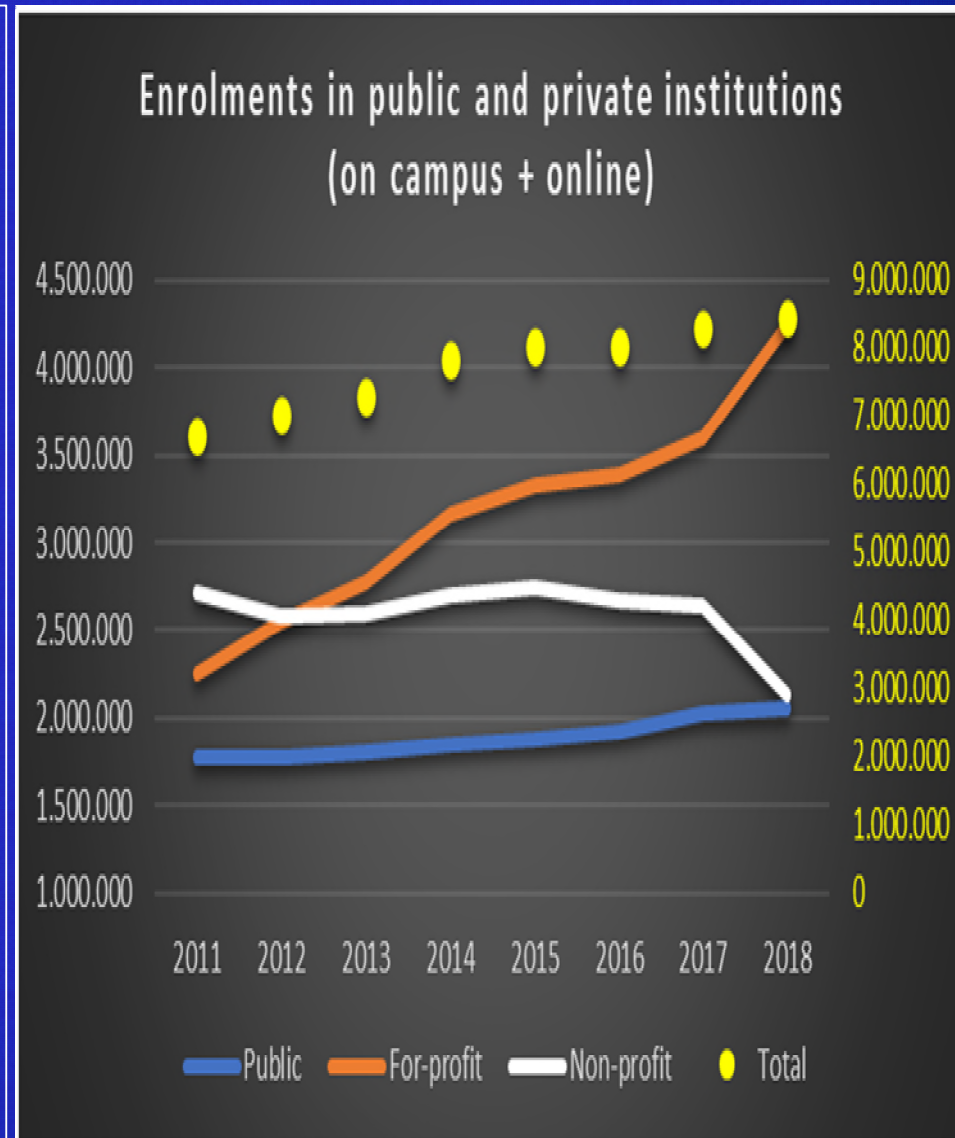
Brazilian For-profit trajectory

- ✓ Since the 1970s, Brazilian policy makers have facilitated institutional authorisation, and offered attractive fiscal incentives to the private sector, in order to increase the number of undergraduate students.
- ✓ The Rapid expansion of the for-profit sector from the 1990s, has followed the US trajectory.
 - The National Education Law (LDB/96) allowed the creation of for-profit institutions.
 - Educational entrepreneurs and investors rapidly set up new for-profit establishments and converted many older institutions from nonprofit to for-profit.

Considerable growth of the For-profit sector

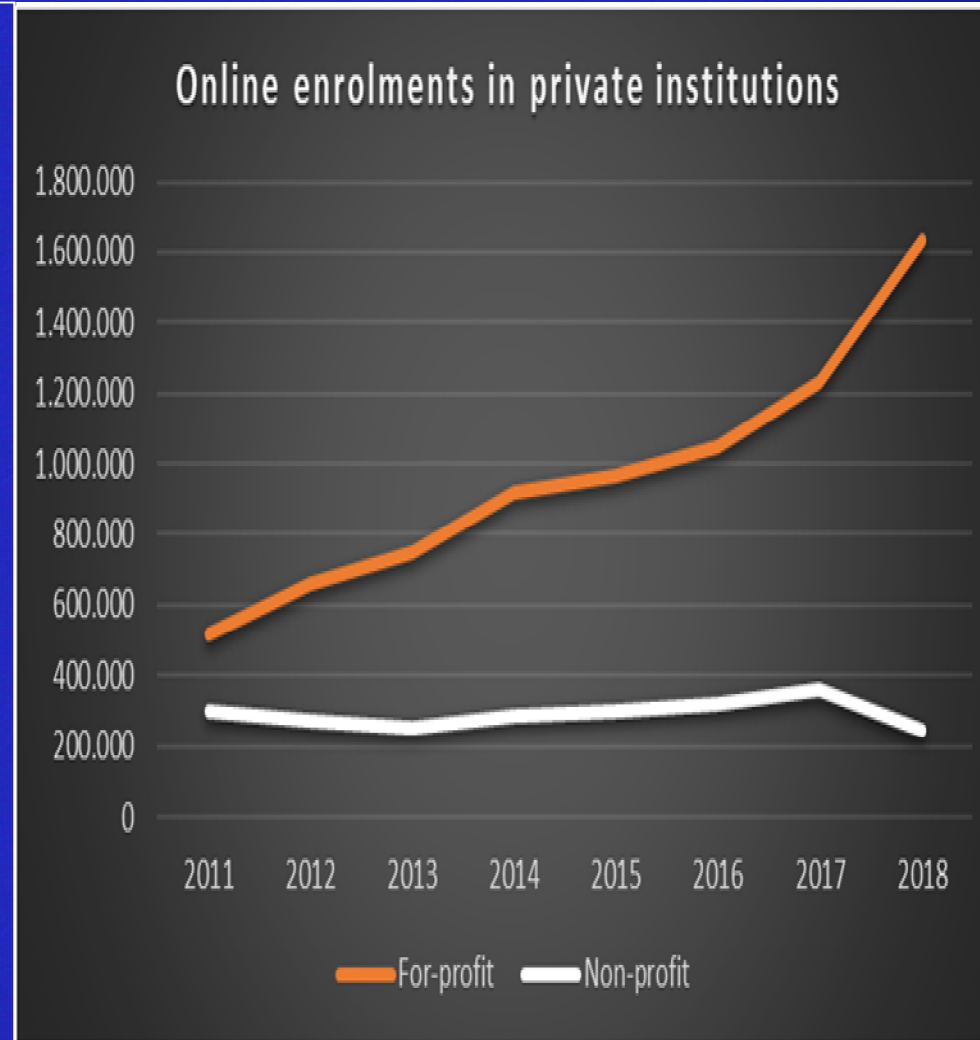
After 2005, other factors could explain the for-profit growth:

- ✓ The expansion of the country's federal student loans program (FIES);
- ✓ The use of the Brazilian stock market to raise investment funds;
- ✓ The Federal program (Prouni), which tax exemptions are given to private institutions which provide grants for poor and minorities students;
- ✓ Between 2011 to 2018, the for-profit enrolments increased by 89%, representing 67% of the private sector (2018), while the non-profit enrolments decreased by 22%.



Considerable growth of the online enrolments

- ✓ While the US has tightened its regulations against For-profit Higher education institutions, Brazil has loosed its own. Thus, part of the capital, searching for huge profits, has migrated from the US to Brazil.
- ✓ Since 2017, new favourable legislation for online courses in secondary and higher education;
- ✓ Between 2011 to 2018, the online for-profit enrolments increased by 217%, while the non-profit sector has decreased by 17%. In 2018, the online for-profit enrolments represented 39% of the for-profit sector.



Brazilian For-profit HE Management Strategies

- ✓ The transfer of ownership from national to foreign capital and Private Equity Funds
- ✓ Cut administrative costs with staff, wages, and the number of qualified lecturers;
- ✓ Learning in a classroom environment has been replaced by online courses or blended learning;
- ✓ Adoption of corporate governance guiding principles;
- ✓ Increased spending on marketing and technological innovation;
- ✓ Mergers and acquisitions



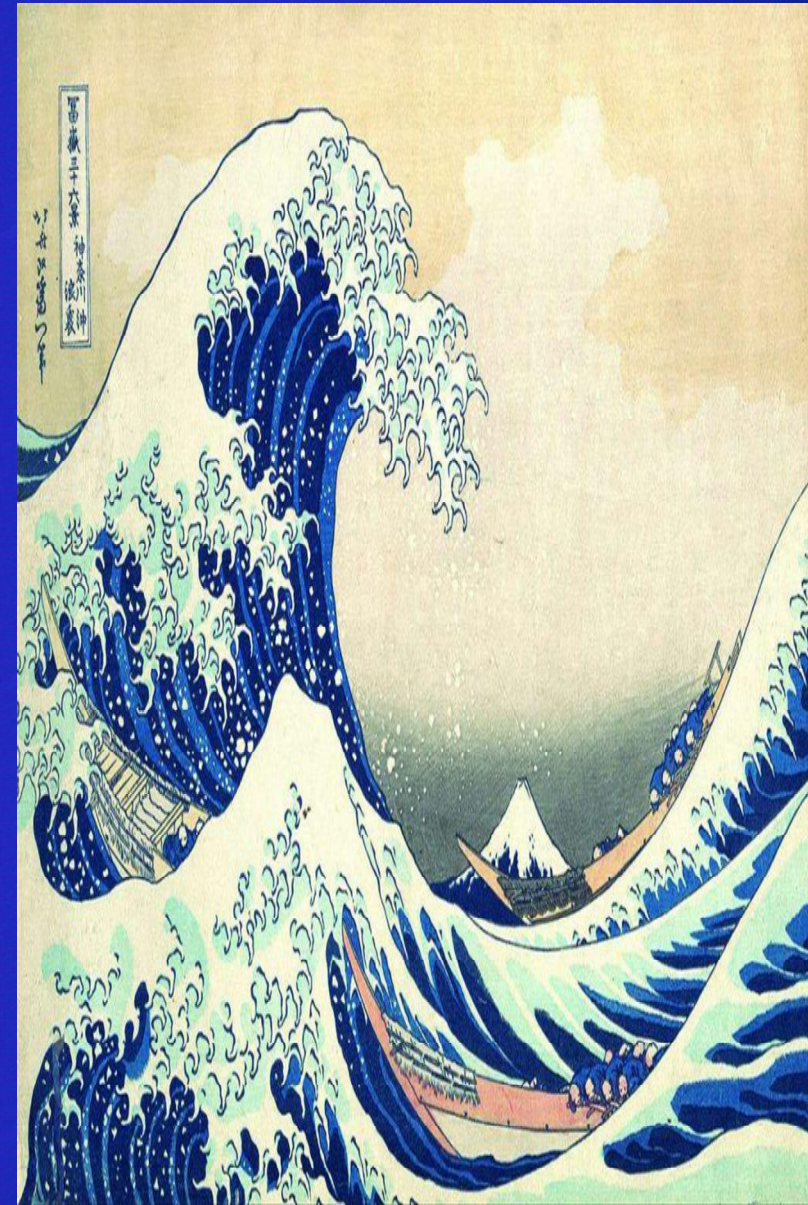
Mergers and Acquisitions in Education

Year	Merger and Acquisitions	Domestic Capital	Cross Border	Domestic Capital/Total	Cross Border / total	KPMG Ranking
2007	19	-	-	-	-	others
2008	53	-	-	-	-	3º
2009	12	8	4	67%	33%	12º
2010	20	15	5	75%	25%	12º
2011	27	25	2	93%	7%	11º
2012	19	12	7	63%	37%	13º
2013	24	15	9	63%	38%	10º
2014	26	17	9	65%	35%	9º
2015	27	17	10	63%	37%	7º
2016	19	17	2	89%	11%	12º
2017	30	22	8	73%	27%	8º
2018	29	27	2	93%	7%	10º

Source: Mergers and Acquisitions Reports in Brazil (KPMG Corporate Finance)

Market Concentration in Private HE sector

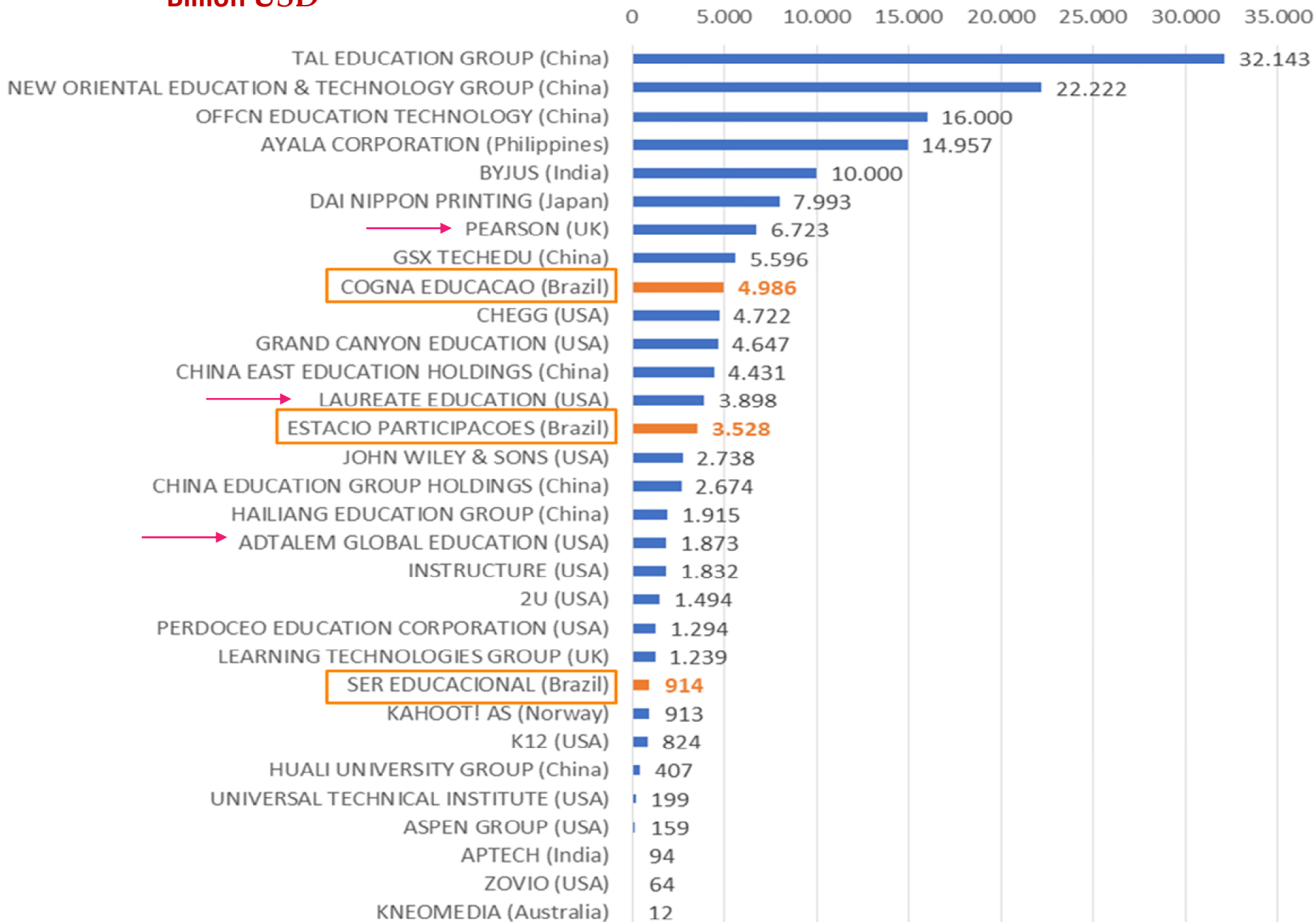
- ✓ 1st wave → acquisitions of small institutions
- ✓ 2nd wave → HE market consolidation with large mergers
- ✓ 3rd wave → diversification of transactions → acquisitions of secondary schools
- ✓ 4th wave → diversification of services → the Cogna giant bought the main publishers, which receive federal funds from the National Textbook Program (PNLD);
- ✓ Acquisitions in management platforms and learning systems for primary and secondary schools and higher education;
- ✓ Acquisitions in medical courses, which have increased during the Pandemic
- ✓ Of more than 2.2K institutions, in 2018, the 12 largest giants have about 45% of enrolments and 38% of Net Revenue (Hoper 2020)



Source: The Great Wave, Katsushika Hokusai.

World Top Education Companies List by Market Cap as on Jan 1st, 2020

Billion USD



Financialisation Framework

- At the most basic level, financialisation is the increasing use of financial transactions to allocate capital
- My research focuses on the financialisation of corporations. Emergence of shareholder value → maximise dividends and keep stock prices high (Zwan 2014)
- Business practices → financial performance measures
 - Return on equity, the adoption of international accounting standards and mergers and acquisitions
- Corporate restructuring activities → job losses and other cutbacks (Lazonick and O'Sullivan, 2000)
- **In Higher Education → for-profit owned by Publicly Traded Companies and Private Equity Firms** (Eaton et al 2016)

Financialisation in Brazilian For Profit HE

- The acquisitions have carried out by private equity funds;
- Since 2007, some education companies have been listed on the Brazilian stock exchange;
- Some have become part of the Ibovespa index (equivalent of FTSE index);
- The biggest company has traded American Depositary Receipts (ADRs) on the New York stock exchange;
- Since 2019, some education companies have been listed on the US stock exchange (Nasdaq).
- ✓ **The mechanisms of raising funds through the capital market, allow the time-intensive capitalization of resources to finance the acquisitions and mergers, aiming at large-scale growth.**

HE For-profit and the Pandemic crisis

- 1) Rapid movement from face to face to online courses;
- 2) Cost reduction: telephone, water, electricity, cleaning and surveillance;
- 3) Massive layoffs;
- 4) Substantial reduction of wages;
- 5) Substitution of lecturers for recorded classes;
- 6) Online classes of up to 400 students of different levels and courses;
- 7) Use of artificial intelligence software to correct essay tests.

Final Comments

- ✓ Publicly Traded Education Companies: prioritise shareholders' interests
- ✓ There is no control over the source of capital funds → ownership is spread further and allows corporate concentration
- ✓ Concentration of capital and property has been favoured by Government funding:
 - ✓ Treasury bonds provided by FIES (student loans program)
 - ✓ Tax exemptions come from Prouni (grants program)
- ✓ **The Ministry of Education does not regulate the capital concentration in education → this responsibility lies with the organization responsible for regulating economic competition**

Final Comments

- ✓ Despite the current economic, social, political and health crises in Brazil, there is space for business interests:
 - ✓ The HE gross enrolment rate is 35% and the net enrolment rate is 18%;
 - ✓ Acquisitions of medical courses → inelastic demand, high fees and limited government authorized spots → attractive and selective market;
 - ✓ There is a huge market in the compulsory education → Publicly Traded HE groups have started a new trend of mergers and IPOs in primary and secondary schools.
- ✓ **The financial logic of the market and the business-oriented strategies in higher education towards compulsory education have had serious implications on all aspects of the educational process.**

Sources of data

- ✓ Census of Higher Education
- ✓ BM&F BOVESPA (B3) and Nasdaq websites
- ✓ Mergers and Acquisitions Reports (KPMG Corporate Finance)
- ✓ Education Companies websites and business sections in the media