Higher education in Brazil is increasingly in the hands of profit-seeking entrepreneurs

Ana Ottoni, *New York Times*

Although for-profit colleges have faced scrutiny in the United States, the industry is finding a warm welcome here as the government tries to meet the demand for affordable higher education.

From 2002 to 2012, the number of students attending college in Brazil doubled to seven million. Still, with only 17 percent of Brazilians aged 18 to 24 in college, there is a gap that needs to be served. The government has pledged to raise that percentage to 33 percent by 2020.

To serve that lucrative and growing market, American and Brazilian *private equity* funds, corporations and investment banks are buying and merging educational institutions at a rapid pace.

Education experts caution that the emphasis on the business aspect of education does not always put students first. Despite such concerns, the for-profit system has proved appealing for a government with limited resources.

“The government has had no choice but to work with the private sector. It cannot meet the demand on its own,” Fernando lunes, global head of investment banking for Brazil’s Itaú BBA, said.

Brazil’s public universities are still considered the country’s best for their prestige and quality of research. And tuition is free at public universities.

But its students come disproportionally from the country’s upper class, and generous research budgets and unionized work forces make the cost per student three and a half times as much as at private colleges.
Laureate Education has made 12 acquisitions in Brazil since 2005 and now has more than 200,000 students in the country, including on the campus of Anhembi Morumbi University in São Paulo.

Private sector investment in technical, primary and high school education in Brazil is also growing. The British firm Pearson last December bought Multi, a chain of foreign-language schools, in a deal worth more than $880 million in cash and debt assumption. Avenues, a New York private school whose investors include the private equity firms Liberty Partners and LLR Partners, has announced plans to open campuses in São Paulo and Rio de Janeiro.

Over the last five years, mergers and acquisitions have made some of the biggest chains bigger, concentrating power in giant for-profit groups. The 10 largest chains of colleges in Brazil now educate nearly 35 percent of the country’s students.

Brazil’s two largest chains of higher education institutions — Kroton Educacional and Anhanguera Educacional — received approval from antitrust authorities in May for a merger. Both companies trade on the São Paulo stock exchange, and the merger will create the world’s largest publicly traded for-profit higher education company, worth more than $8 billion.
The universities of the merged company will have more than a million students. Among those is Claudinei Mota, a mathematics student at Uniban, part of the Anhanguera group, who got a government-sponsored loan to help pay his tuition of 400 reais, or $180, a month.

“I wouldn’t be able to study without it,” he said.

He hopes to find a job as a math teacher, which would let him repay his loan and continue studying to become a university professor.

Mr. Mota’s college debt will total about 16,200 reais, including interest, if he takes nine years to repay his loans (public schoolteachers make about 3,000 reais a month in São Paulo).

“I would have preferred a public university, but the entrance exams are very competitive. Most spots go to private school graduates, who are better prepared,” Mr. Mota said.

Since 2003, the left-leaning Workers’ Party has governed Brazil. Despite occasionally antagonistic relations with the business sector, the government receives only praise from education entrepreneurs.

In 2004, then-President Luiz Inácio Lula da Silva began a program called Prouni, which offers scholarships for low-income students to attend private colleges. Since taking office in 2011, President Dilma Rousseff has expanded the program and more than quadrupled the budget for subsidized student loans under a program called Fies.

The subsidized loans carry an annual interest rate of 3.4 percent — an extraordinary bargain in a country where inflation is more than 6 percent and banks often charge over 40 percent interest on personal loans — and students can wait until 18 months after graduation to begin repayment.

About 5.3 million of Brazil’s seven million college students were in private institutions in 2013. Some 31 percent of them received aid from Prouni scholarships or Fies student loans or both.

Because the big wave of student loans began only in 2011 and those students have until 2016 to start making payments, it is not yet clear whether Brazilian college graduates will have the same problems with debt that many Americans have.

João Carlos Santos, senior education sector analyst with the Brazilian investment bank BTG Pactual, said the big companies worked with the government to expand the subsidized student loans.

“That gave them an additional advantage over smaller groups, which couldn’t influence the process, and it accelerated consolidation in the sector,” Mr. Santos said.
This government support has helped financiers reap handsome returns on their investments in for-profit education. The American private equity firm Advent International bought a 28 percent stake in Kroton in 2009, enough to give it joint control alongside Kroton’s founders. It installed a new chief executive, guided the firm through seven acquisitions and multiplied its student body by 11-fold before selling its shares last year. The Brazilian private equity firm Pátria Investments performed a similar role in the country’s second-largest chain, Anhanguera, and GP Investments did so for the third-largest chain of colleges, Estácio.

Advent bought its stake in Kroton for $141 million in 2009. When Advent sold it last year, that stake was worth about $1 billion.

Another large player is Laureate Education, a privately held American education company whose owners include the private equity giant Kohlberg Kravis Roberts, the investor George Soros, Paul G. Allen’s Vulcan Capital and the hedge fund SAC Capital Advisors (now renamed Point72 Asset Management).

Laureate has made 12 acquisitions since it entered Brazil in 2005. It now has more than 200,000 students in the country.

“It is hard to find another country in which the government is working so hard, in cooperation with the private sector, to expand access to higher education,” said José Roberto Loureiro, president of Laureate’s Brazil operations.

The International Finance Corporation, a branch of the World Bank that invests in projects that reduce poverty and encourage development, is also backing the industry. The I.F.C. is invested in Laureate and several other for-profit college chains in Brazil.

Patrick Leahy, an I.F.C. senior manager for Latin America, said that even if these chains did not always offer the most prestigious degrees, they did give students skills and qualifications at an affordable price that permits them to move up the employment ladder. College graduates in Brazil earn on average 2.6 times as much as high school graduates.

“The system is not perfect, but it is unquestionably a success,” Mr. Leahy said.

Laureate is still looking to make more deals, Mr. Loureiro said, and other mergers are happening at a rapid clip.

Mr. Loureiro acknowledged that for-profit colleges could not compete with Brazil’s public universities with their “endless budgets,” but he insisted that they improved the quality of education at the colleges that they acquired.

Eight out of the nine Laureate colleges that Brazil’s Ministry of Education measured from 2009 to 2012 improved their rankings on national standardized tests after Laureate bought them.
But Nelson Cardoso Amaral, a professor of education at the Federal University of Goiás in midwestern Brazil, cautioned that the test measures might not tell the whole story. Mr. Amaral said the big for-profit chains had merely proved that they knew how to “teach to the tests,” not that they were necessarily educating their students well.

“Government supervision of private colleges is very weak,” he said. “We don’t have enough data to accurately judge the education they are offering.”