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Private not the same as for-profit

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There has been considerable debate in India regarding privatisation of higher education. In this debate, there is generally an implicit assumption that privatisation is essentially the same as corporatisation — i.e., private investment comes due to the potential of returns.

In the higher education field, privatisation and corporatisation are actually quite different. Privatisation is regarding who controls the educational institute and the role of government in the management and funding of the institute, while corporatisation is about making profits. To make this distinction clear, universities may be classified as: public (i.e., those that are supported by government and are assumed to be not-for-profit), private not-for-profit, and private for-profit. The two types of private roles can have different purposes in higher education.

Let us see the role of private universities in other countries. In UK all but one universities are public — the only exception is the University of Buckingham, which started only in 1970s and is in the category of private not-for-profit (is registered as a non-profit company for education charity). In Australia private university is also a recent phenomenon and there are only two private universities — Bond University and the University of Notre Dame Australia. The former may be for-profit, but has not made any profit.

The US is the leader in the diversity of models it allows. There are about 650 public institutes that offer four-year degrees, 1,500 private not-for-profit institutes, and about 500 private for-profit institutes. It should be pointed out that all the marquee names that are quoted in support of privatisation of higher education — MIT, Stanford, CalTech, other Ivy League Universities — are all private not-for-profit.

The private for-profit universities are a relatively recent phenomenon even in the US — University of Phoenix is the best example of this type. However, it is the fastest growing segment, as government investment in higher education is on the decline. It should also be pointed out that in the US, all institutions give the degrees under their own name, as there is no concept of affiliating universities and affiliated-colleges.

In India, there is no doubt that private not-for-profit universities need to be encouraged to increase the education opportunities, and the fact that there is no other alternative — the government simply cannot create enough public universities to satisfy the demand. However, guidelines for private not-for-profit universities should be made clear, simple, and transparent to ensure that they are truly not-for-profit, and offer a level playing field to all those who might want to set a private university.

For example, rules can allow private universities to be set up if the entity setting it up donates Rs 50 crore upfront and commits to at least another Rs 50 crore for the next 10 years. And this fund cannot be recovered — it is a grant/donation to the university.

There could be some other constraints on the governance structures — that there must be a board which must have certain number of ex-officio members and certain number of independent members, and that the board follows democratic processes. Essentially those rules that are needed to ensure that the university is not treated like a business, and not like a family asset that is handed over from father to son. If these criteria are satisfied, then there should be minimum controls regarding what courses they want to offer, what fee they charge, what salary they offer, etc. — these issues should be left entirely up to the institute administration. And the government should facilitate their creation by enacting a suitable Act empowering them, giving cheap land, etc.

For private for-profit universities, caution in moving forward is highly desired. However, as some thinkers have suggested, the right approach is to not take a definite view on it or its feasibility, but allow this model on an experimental basis. Then study the impact in due course of this model and then make suitable policy based on this experience.

One area where for-profit enterprise can work well is in affiliated colleges — where the syllabus is defined by the parent university and the college has a limited task of teaching the syllabus. As colleges are regulated by the affiliating university, the risk of abuse will be minimised, while expanding the education opportunities at the bachelor level — where the demand is the most. Another area where for-profit could be useful is skill-based training and education — like ITIs and other such diploma programmes. Again, this is an area where the for-profit model may actually improve education as the government-owned ones seem to be lacking in facilities and equipment.

In cases of all private colleges, it is best that they are required to convert as not-for-profit (section 25) or for-profit

companies. Then the company laws will ensure that audited accounts are filed every year and there is greater transparency and proper governance, than what exists today — it will also make the status of the college fully clear to the students and parents. Today, in the garb of a Trust, many colleges are being run effectively as for-profit business.

In summary, private not-for-profit universities should be facilitated but with clearly defined norms and high entry bar which ensures only sincere players. Private for-profit universities may be experimented with in a limited manner to gain experience. Both private not-for-profit and private for-profit models can be allowed to thrive in colleges and diploma institutes, and those operating as businesses should be encouraged to come out in open clearly and become education companies.

This mixed model will allow creation of private universities that can become Stanfords, MITs in times to come. And it can bring in private investment for expanding education opportunities. It will allow a diversity of models to exist, which, in years to come, will give us valuable information and will help us decide, as a society, which one should be pursued more vigorously.

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