

Market Scoping Study on Online Education in Brazil

Speyside for the British Government

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1. Brazilian Education System

The Brazilian education system is decentralized between the federal government, states and municipalities. The Ministry of Education (MEC), currently chaired by Mr. Milton Ribeiro, is the main body responsible for setting the framework and goals for education in Brazil, providing technical and financial support to the municipalities and the states for their school systems; drafting education legislation; supporting the network of federal education institutions and supervising the private education system.

In that sense, although there is some level of overlap in the regulation scope of each federative level, overall, the federal government holds regulatory authority over the higher education segment, states' key regulatory scope relates to primary and secondary education (through States Education Secretariats), while municipalities regulate over the early childhood segment (through Municipal Education Secretariats).

Besides regulatory authority, the government is the main responsible for providing education in the public segment. In that sense, the federal government offers higher education through federal universities and institutes; states offer higher, secondary and primary education, while municipalities supply early childhood and primary education.

Besides the direct administration, there are other relevant and influential bodies shaping the Brazilian educational system. At the national level, the National Education Council (CNE) is responsible for issuing deliberative guidelines related to regulation, playing an advisory role to the Ministry of Education for both the K-12 and higher education segments. To a lesser extent, CNE guidelines also support the decision-making of State and Municipal Education Secretariats and Councils.

2. Connectivity and Virtual Learning

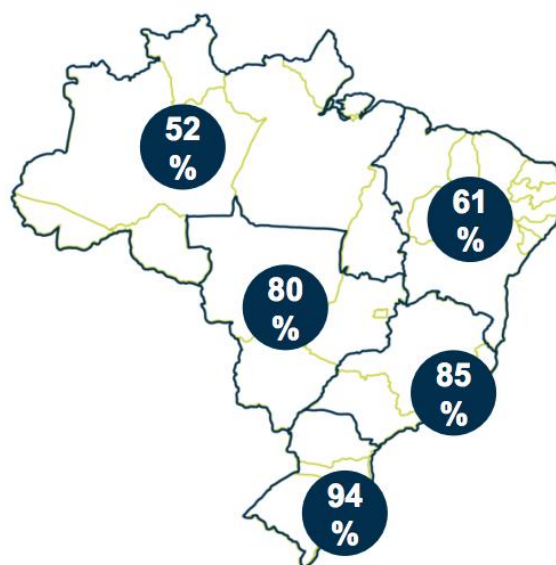
K-12

Prior to the COVID-19 pandemic, in late 2019, only 28% of schools located in urban areas counted with a virtual learning environment or platform. The rate was higher among private schools, as 64% provided virtual learning solutions in 2019 - in 2018, only 47% of private

schools offered virtual solutions. Among public schools, the percentage, which was 17% in 2018, dropped to 14% in 2019¹.

89% of the population aged 9 to 17 years is an Internet user in Brazil, which is equivalent to 24.3 million children and adolescents connected. In 2019, 83% of students from urban schools had access to the internet. This percentage drops to 78% in the Northeast Region and to 73% in the North Region. At home, 41% have a laptop, 35% desktop computers and 29% a tablet.

Overall, 18% of students access the internet exclusively by cell phone. On the other hand, 39% of public school students do not have a tablet, desktop computer or laptop at home. In private individuals, only 3% access the internet exclusively by their cell phone.



Rate of students that received some type of non-classroom activity during the pandemic

Even though those are the most comprehensive recent data available on online learning, it does not reflect the impact of COVID-19 pandemic in K-12 students throughout Brazil. A less comprehensive but more recent research (published in May 2020)², indicates that during the pandemic, 74% of public school students received virtual learning activities and 23% of students reported difficulties due to internet access.

Challenges related to infrastructure (connectivity coverage and devices) have deepened regional inequalities during the pandemic: only 52% of students in the North region received some kind of non-face-to-face school activity (online, TV, radio, printed materials, etc.), against 92% of students in the South region that received some virtual activity in the period.

¹ [Pesquisa TIC Educação 2019](#)

² **Educação Não Presencial** (May, 2020): Fundação Lemann, Itaú Social, Imaginable Futures and Instituto Datafolha

Higher Education

In 2018, the Brazilian higher education student base was 8.5 million people (a 34.9% growth against 2010), from which 6.4 mi (75%) of students were enrolled in private institutions, with 2.1 mi enrolled in public universities. This rising trend follows the gap of the overall higher education qualification of the Brazilian population: only 16% of Brazilians aged between 24-34 y-o hold a HE degree, while the OECD average is 47% for that group.

The expansion of the enrolment rate at Higher Education Institutions (HEIs) is strengthened by the impact that holding a HE degree has on the personal income of Brazilians: holding an undergraduate degree increases salary by 2.4 times in Brazil, while for the OECD countries the ratio is 1.4. In addition, in 2018, the Brazilian unemployment rate was 5,9% among graduated people, against the 12.8% unemployment rate of high school graduates. Altogether, this scenario points out to an interesting opportunity to invest in the Brazilian higher education market, with an estimated available stock of 16 million people.

There are more than 2,000 HEIs registered in Brazil, characterizing a highly fragmented market, however, the private market concentrates a considerable student base, with 15% of students being enrolled in institutions part of large educational groups, while mid and small HEIs hold 55% of the private student base.

With regards to virtual learning, in 2018, the modality gathered 40% of students from private institutions - an 100% growth in comparison to 2012. It is interesting to mark out that virtual learning is predominant in small and medium size cities, due to the lack of campuses in those locations: virtual learning represents 39% of enrolments in cities with up to 100 thousand inhabitants, against 16% in cities with over one million inhabitants.

3. Regulation

Prior to COVID-19 pandemic, there was no specific regulation allowing the delivery of the virtual learning classes for the K-12 segment in Brazil. For higher education, there was an increasing demand for virtual classes and solutions, which was highly accelerated by the pandemic, including in terms of regulation.

K-12

Brazilian [Law 9,394/1996](#) (Guidelines for National Education Law) established the guidelines for education in Brazil and within its framework stated that K-12 education should be delivered through face-to-face classes, being **virtual learning a complementary method or limited to emergency scenarios**.

With the COVID-19 scenario, the [Ministry of Education Ordinance 544](#) (June 2020), allowing the replacement of face-to-face to virtual classes until the 31st of December 2020. States and municipalities have taken the lead in the preparation of virtual learning materials to allow the continuity of school activities during the pandemic.

On October 6, CNE issued a resolution allowing the delivery of distance learning classes for K-12 (virtual and by other means such as TV programs) until December 2021. The guideline will enter into force once approved by MEC (expected to take place soon). The guideline is not mandatory, meaning that education institutions (states and municipalities for public schools) may opt to adhere to the guideline or not.

Higher Education

Since its publication in 1996, the Guidelines for National Education Law was regulated by several decrees that have increasingly facilitated the red tape for the offering of virtual learning classes. To the extent that, currently, the following represent the two different modalities of virtual learning in higher education:

Blended	All higher education courses (except medicine) may be offered up to 40% virtually (Ordinance 2,117/2019). In those cases, no specific accreditation is required for the offering of virtual classes.
100% Virtual	In order to offer entirely virtual courses, HEIs must require a specific accreditation to the Ministry of Education. Although the MoE has incorporated regulatory advances, this process still can take up to two years to be completed. The special accreditation is required for any HEI registered in Brazil, and is applied to undergraduate and graduate courses with over 40% of virtual classes in their curricula. Besides, the HEI must hold distance learning centres in the regions the course is offered, so students may access the location for taking exams and watching classes.

The regulation on virtual learning is applied to institutions registered in Brazil, hence it is not extended to foreign institutions willing to partner with Brazilian HEI. Thus, regarding

foreign groups, the up to 40% limitation serves as a reference for, in cases of offering courses with over 40% of virtual content, prioritizing partnerships with institutions that already hold the MoE accreditation, otherwise, it could implicate in a longer process for making the course available.

As previously mentioned, the pandemic has increased the flexibility of virtual learning classes. Similar to the K-12 segment, CNE resolution allows the offering of virtual classes for HE courses until December 2021. Furthermore, MEC is increasingly promoting initiatives to support and subsidize virtual learning. For instance, recently, MEC announced a program that will support about 400 thousand lower income students from federal universities with data packages and connectivity³.

Double Degree

For the acknowledgement of foreign HE certificates, [Resolution CNE/CES 08/2007](#) establishes that **public universities are entitled to acknowledge foreign certificates**. However, each public university establishes its own validation procedure with regards to terms and fees.

In that sense, double degree is an interesting alternative both in regulatory and market perspectives as, in regulatory terms, the national certificate is officially recognized by the Ministry of Education if issued by an accredited institution, while the market does recognize foreign certificates without the need of having the foreign certificate validated by the MoE - which is a requirement for academic purposes, mostly.

For the K-12 segment, there is a lack of regulation on double degrees, with state-level education councils deciding on a case-by-case approach on how to validate foreign K-12 certificates. Thus, traditional exchange programs are the preferred modality for the K-12.

Taxes

The following are the main taxes (at the national, state and municipal levels) that may fall upon educational business - however, the application of taxes varies largely depending on the adopted model of partnership. In that sense, the section "Recommendations" of this

³ Ministry of Education. [Connected Students Project](#) (2020).

document presents which modalities are more attractive in terms of taxes, considering there is the possibility of simplifying red tape depending on the preferred business modality. It is important to highlight that non-profit education institutions are exempt to pay most taxes, such as Cofins, IRPJ, CSSL and ISS.

Tax type	Tax	Description	Percentage
Income tax	Cofins	Tax to finance the social security system - including the public health system	7,6% of total income (value may vary according to category of taxpayer)
Income tax	ISS	Tax on services	Varies according to municipality Usually varies from 2% to 5% of each service provided (Tuition count as a service) - E.g.: São Paulo: 2%
Income tax	PIS	Federal tax to finance mainly unemployment insurance and allowance for poor workers	1,65% of total income (value may vary according to category of taxpayer)
Profit	IRPJ	Corporate Income Tax	15% of total profit + 10% of the profit that exceeds BRL 240,000/year (app. USD 70,500)
Profit	CSSL	Social Contribution to Presumed Net Profit	32% of gross revenue

4. Challenges & Opportunities for UK companies

This section presents the general challenges and opportunities for UK companies willing to commercialize their virtual learning solutions in the Brazilian market, whether partnering with traditional education groups or with EdTech companies. It is important to highlight that, through different levels and modalities, all interviewed institutions are open to potential partnerships with British companies.

Besides, as aforementioned, the COVID-19 pandemic represented an opportunity for the virtual learning segment as it increased general demand for virtual solutions and classes, while, to some extent, it was also a challenge in terms of infrastructure or the urgent need to improve capacities to address an immediate and unexpected expansion of the demand for virtual learning solutions.

Segment	Challenges	Opportunities
Higher Education	<ul style="list-style-type: none"> • Red tape: time consuming process for offering courses with over 40% of virtual classes (applied only to HEI that still do not hold that accreditation) • Lower ticket: on average, blended and 100% virtual courses present a considerable lower average ticket in comparison to face-to-face courses • Higher dropout: 100% virtual courses present higher drop out and default rates in comparison to face-to-face courses 	<ul style="list-style-type: none"> • Public incentives: MoE is following a consolidated trend of reducing red tape and providing subsidies for the offer of blended and 100% virtual courses • Resilient market: aggressive expansion goals for the short term. Besides, the pandemic has accelerated the trend towards virtual: some groups have shifted their expansion priority from face-to-face to blended and virtual courses • Openness to foreign HEI: niche / premium institutions have greater willingness to partner with foreign HEI - especially for offering double degree courses
K-12	<ul style="list-style-type: none"> • Infrastructure: Regional disparities with regards to connectivity and infrastructure for the access to virtual learning solutions, especially in the North and Northeast regions of Brazil, and nationwide among public schools • Blended model: Even the most technology-driven groups acknowledge that, in the post-pandemic period, the incorporation of virtual learning solutions will be limited to the blended model: there is no expectation for establishing integral virtual education, not only in terms of regulation, but also in terms of demand • Internal sales force: the business model for the commercialization of virtual learning solutions is usually internalized for main education groups - without outsourced distribution. Thus, partnerships would be established in a 	<ul style="list-style-type: none"> • Expanded demand: Pandemic has overcome remaining resistance towards virtual learning solutions - prior to the pandemic, there was a relevant distrust among consumers on the educational quality of virtual learning solutions for the K-12 segment • Acquiring instead of developing: due to the need of investing in R&D for the introduction of new technologies, educational groups opt for partnerships for introducing new virtual learning solutions, as it is less time consuming than developing their own • Openness: the incorporation of foreign brands and bilingual content into virtual learning solutions values the average ticket of education groups

	<p>case by case approach with each group (with the agreement being extended to the group's brands)</p> <ul style="list-style-type: none"> • Curricular adaptation: traditional educational groups tend to introduce virtual learning solutions from third parties into their portfolio, partnering with edtechs and platforms already adapted to the national demand and curriculum. As they usually do not develop their solutions internally, there would be a reduced interest in acquiring solutions that require greater adaptation efforts for the Brazilian market 	<ul style="list-style-type: none"> • Private / premium schools: Infrastructure challenges are considerably lower among private schools students and almost non-existent for premium schools, which are more open to / have better resources for the introduction of LMS / virtual learning solutions • Public incentives: due to the pandemic, the digitalization of public schools became a priority for public authorities, with increasing investments and subsidies
EdTechs	<ul style="list-style-type: none"> • Limited cooperation for development: Less openness in incorporating third parties' solutions to their portfolios, as usually there is an own development of their technologies. Thus, the incorporation of third parties solutions would be mainly through adaptation and integration of the foreign content into existing platforms • Less visibility: reduced visibility over the British brand, as the business model would consist of adapting the foreign solution into the existing platform / portfolio of the EdTech • Lack of experience: some EdTechs are start-ups with no significant experience in major commercial and business transactions with international companies, which may be an operational challenge for potential partnerships 	<ul style="list-style-type: none"> • Technical knowhow: EdTechs have greater technical capacity and willingness to adapt foreign virtual learning solutions to the Brazilian market demand than traditional education groups • Diverse market access: Larger portfolio of clients, usually not limited to a specific educational group • Integral focus on virtual learning solutions: even though virtual learning has become a priority for traditional educational groups especially after the pandemic, there are other topics that may impact its internal prioritization (e.g.: expansion through M&A, face-to-face courses, etc). This is not the case for EdTechs that are 100% driven to virtual solutions • Openness: Few key players and a largely decentralized market with similar solutions improve interest in integrating new features and technologies to outstand companies within the segment

5. Recommendations: Roadmap

Based on interviews, the following are suggested business modalities for UK companies interested in partnering with Brazilian education institutions and EdTechs for the commercialization of virtual learning solutions and courses:

Business Model	Joint development / adaptation	Reselling	Outsourced Distribution	Double Degree
Segment	K-12 & HE	K-12 & HE	K-12 & HE	HE
Description	<p>The Brazilian counterpart would be responsible for adapting the British solution to the Brazilian market (whether in terms of translation, adjustment to the Brazilian curricula, cultural aspects, etc.).</p> <p>Following adaptation, the solution would be included in the portfolio of the Brazilian institution - potentially within an existing platform already available in the market.</p>	<p>Directly selling of British solutions to traditional education institutions that are open to incorporate foreign products into their portfolio, without necessarily adapting such technologies into existing virtual learning platforms.</p> <p>This business modality is similar to the outsourced distribution model, where British companies would have greater interface with the Brazilian institutions and less involvement with the final consumer demand.</p>	<p>British companies would partner with a Brazilian distributor that would be the one responsible for approaching education institutions for the commercialization of their solutions.</p> <p>This modality is similar to the reselling model, due to the reduced need of adapting British solutions to the Brazilian market.</p>	<p>Joint delivery of double degree courses in partnership with a Brazilian education institution, preferably already accredited to offering over 40% of virtual learning classes.</p>
Potential Brazilian Partners	<p>Edtechs due to infrastructure available and openness to co-development: Geekie; Lemann Foundation; Cross Reality; DreamShaper; Descomplica; and Scaffold Education.</p>	<p>Traditional education groups due to greater interest in foreign solutions (valuing average ticket), while are less keen to adapting solutions than EdTechs are: Arco Educação; Cogna Educação; Grupo A Educação; YDUQS; and Ânima.</p>	<p>Potential partners: Lemann Foundation; Hotmart; Veduca; and Softex.</p>	<p>HEIs for regulatory reasons: Cogna Educação, Grupo A Educação, YDUQS, Ânima Scaffold Education</p>

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Recommendations	Contact EdTechs that already develop similar virtual learning solutions	Contact Brazilian institutions that operate in similar niches as the UK company respective niches	Contact Brazilian distributors and present a portfolio of solutions and courses. Specific commercial goals may be established under this business modality - except for the case of Lemann Foundation that, due to its non-profit profile, the partnership would be established in an institutional manner rather than commercial.	Institutions with higher average tickets have greater demand for the offering of double degree programs. Among those, are institutions as Ânima that are known for bringing foreign brands to the Brazilian market, specially for niche courses as gastronomy. In that sense, double degree partnerships with similar institutions are more likely to be fulfilled.
Pros	<ul style="list-style-type: none"> • Lower efforts in adapting and commercializing content and solutions • Wider network of clients 	<ul style="list-style-type: none"> • Greater visibility of the British brand • Lower need of considering consumer demand (nonetheless, Brazilian counterparts would consider the solution's compatibility level) • Less taxes 	<ul style="list-style-type: none"> • Greater visibility of the British brand • Reduced efforts / red tape in approaching Brazilian education groups. • Wider network of clients • Lower need of matching British portfolio to potential partners 	<ul style="list-style-type: none"> • Higher demand due to foreign certificate • Higher average tickets • Existing knowhow on administrative procedure • Virtual learning facilitates this business model, since students are not required to take classes abroad
Cons	<ul style="list-style-type: none"> • Lower visibility of the British brand 	<ul style="list-style-type: none"> • Solutions must respond to national demand (in terms of curricula / pedagogically) to be attractive 	<ul style="list-style-type: none"> • Less autonomy in relationship with Brazilian education institutions and even lesser contact with final consumer's demand. • More taxes 	<ul style="list-style-type: none"> • Requires consolidated relationship between Brazilian and UK institutions • Time and effort consuming • Limited to HE