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The Public-Private University Debate in the Higher Education Sector in Bangladesh

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A basic, though usually implicit, assumption of neoclassical demand theory is that consuming households are indifferent about the provenance or source of the goods and services they buy and consume. Given the information at their disposal, their preferences, and their incomes, households are assumed to choose quantity and quality by reference to prices (including the various costs of transacting). This does not mean that some characteristics of suppliers are not, at least in the short run, of importance for an understanding of consumption behavior. We now recognize that reputation (Shapiro, 1983) is a characteristic of firms that has an impact on demand. Others, such as the color and ethnicity of suppliers, may also be of significance. If we neglect these factors, the assumption simply says that there is competition among all suppliers, or that phenomena such as firm and brand loyalty do not repeal the law of demand.

Albert Breton

Competitive Governments: An Economic Theory of Politics and Public Finance, pp. 284

I. Introduction

For some consecutive days in May 2006, students of two Dhaka-based private universities demonstrated on the streets of Dhaka, the capital of Bangladesh, against the administrations of their respective universities. They alleged administrative mismanagement and lack of adequate educational facilities, as well as “exorbitant” tuition fees. The students’ dissatisfaction was from a shared opinion amongst them that they did not receive educational and other facilities as “promised” during their admission. The tide of demonstrations stemmed within a few days only after the administrations of these two universities reached some agreements with the students regarding resolving the contentious issues. Meanwhile newspapers ran front-page headlines and the simmering debate regarding public university versus private university education flared up in the forefront of public discussions.

Albert Breton's discussion on an implicit assumption of neoclassical demand theory has found some sort of significance in the case of HE sector in Bangladesh circa 2006. That households, while placing their demands, to a large extent, are not perturbed by the identity of the supplier (read *public* or *private*), with exception only in the case of reputation, as long as they can obtain the desired quality and quantity of the product-- this has been exposed by recent incidences in this sector. Extension of the logic implies that dissatisfaction is expected to follow if households consider themselves somewhat deceived in the marketplace.

The objective of the paper is to discuss the ongoing public university-private university debate in Bangladesh and attempt to shed some lights on the issue. This debate centers on a number of core issues. Firstly, should HE sector in a developing country like Bangladesh be entirely provided for by solely public universities, or by private universities or a combination of the two? Secondly, should Bangladesh opt for the third option in the first issue (as is indeed the case)-- which entails a transition from a traditional subsidized public provision framework to a more market-responsive provision framework-- would there be a need for a strong supervisory role from UGC during this transition, or no such role would be required? Thirdly, given the second issue is resolved in the affirmative, what factors would UGC need to concentrate on in order to secure a strong supervisory role for itself?

The organization of the paper is as follows. Section II discusses recent trends in the sector as well as the background of these recent trends. Section III concentrates on the apparent weakness of UGC in solving the problems afflicting the HE sector and discusses political economic explanations behind this weakness. Section IV outlines some plausible roles of UGC. Concluding remarks are placed in Section IV.

II. Recent Trends in the HE Sector & a Brief Background Sketch

The history of public universities in this land dates back to 1921. University of Dhaka was the first public university in this region, which was established in 1921. During the Pakistan period of 1947-1971--this university contributed enormously in the formation of a highly educated middle class community in East Pakistan. The university was the main center of advanced education as well as political activism-- this activism was gaining momentum over time through different stages of development. It was not possible for the faculty and students of University of Dhaka to keep them entirely detached from the political developments in the province in these formative decades of the Pakistani state. In a broader canvass, in a densely populated region plagued by poverty and illiteracy vis-à-vis unfair transfer of economic resources to the center and lack of representation of Bengalis in every sphere of the state-- the people of the region always looked up to the faculty and students of this particular university for ideological as well as political directions.

Much of the problems that are faced by HE sector today in Bangladesh owes to the fact that this sector historically had had to take an active political role in the national sphere besides strictly academic exercises-- in order to restore the balance of power on behalf of the people vis-à-vis other stakeholders and interest groups, mainly the military and the bureaucracy. Even now, after 16 years of continued practice of parliamentary democracy since the fall of the autocratic rule by a mass upsurge in 1990-- public universities have retained a major supportive role in the national politics, besides their academic practices-- oftentimes at the cost of the latter. The fallout is that-- student associations and teachers' associations have actually formed some form of patron-client relationships with various political parties, both parties-in-power or opposition ones-- here patron being the parties and clients being students and teachers-- which is causing a

detrimental effect on the quality of education being provided by the public universities. There are cases of external political influences in the assignments to the positions of the Vice Chancellors-- and there are allegations of influences on the recruitment processes of the faculty and administrative officers. Political considerations, not merit, have, in some cases, become more important in the calculations of assigning even a faculty job. On the administration side, one needs to mention that public universities are run by the “University Sovereignty Act 1973”. They are supervised by the UGC, which provides them with a major share of their respective budgets from the public fund, and they manage to raise some funds themselves from various fees and business interests owned by them. One key feature of these public universities is that their tuition fees are massively subsidized and therefore they are highly oversubscribed, regardless of issues related to the quality or quantity aspects of HE.

The private universities in Bangladesh is actually a entirely new phenomenon dating back only to 1992 with the formulation of the “Private Universities Act 1992”¹. The background of this act was an ever-growing demand for HE being unmatched by a limited supply by public universities with government being cautious of a larger subsidy that would have been needed for this sector in case of a supply expansion. Under the dominant trend of the day, that of increased public-private cooperation in many sectors of the economy-- the government welcomed private initiatives in this sector. Ostensibly the argument was to inject competition in the sector-- underlying was the assumption that private universities would be self-financed creating no pressure on public expenditure. A large number of university-going students were opting for

¹ Under this Act, student politics is prohibited in the private universities. Their educational planning and curricula are to be pre-approved by the University Grants Commission. Initially there has to be at least two Faculties and qualified teachers and a deposit of TK. 5 crore amount has to be maintained in a bank in the university’s name. A permanent campus has to be constructed within 5 years’ time after inauguration over at least a 5-acre land property. A 5 per cent of the total student seats have to be provided with tuition waiver, which will be for poor and meritorious students. A Board of Governors and a Vice Chancellor will direct the overall administration. The university has to be a non-profit entity.

foreign universities at that time which was creating a pressure on foreign exchange reserve-- government expected to partially arrest the outflow of foreign currency by this cooperation with the private sector. Now, in 2006, Bangladesh has a vibrant HE sector with as many as 77 universities-- 23 of them public and the remaining 54 private (see Appendix). The number of institutions and students in the private universities has increased substantially over time. A number of foreign universities are sending their representatives to Dhaka on a regular basis or setting up local campuses-- indications of a huge market potential for HE.

Opening up of private universities has raised enthusiasms among the Bangladeshi expatriates with foreign degrees who now can consider returning home with the prospect of academic or administrative positions along with handsome salary packages. Bangladeshi foreign graduates, on their return home, are contributing enormously in the development of this sector. On the negative side, tuition fees in the private universities are substantially higher as compared to those in public universities. In addition, the authorities arbitrarily set these tuition fees in the absence of any proper guideline from the UGC. One would need to keep in mind that while public universities are hugely public funded--private universities are entirely self-financed. Private universities do provide financial assistance for a section of its' student body, as per the Act of 1992. Another problem is that, barring from some top private universities, educational facilities as well as campus facilities are inadequate in most of them, since most of them are only in the formative stages of development. A number of key features of these private universities need to be mentioned. One particular feature of these universities is that they do not allow for formation of formal elected student and teachers' associations, as per the Act of 1992-- which reduces the possibility of external national-level political influences. The adverse impact is that, students and faculty do not have any appropriate outlet for registering their demands in the

absence of elected bodies-- this constrains their representations over decision making. A second feature is that private universities are required to be “non-profit entities” by the Act of 1992. This is a technicality at best-- this does not prevent them from behaving in an unrestricted profit-seeking manner. A third feature is that, by the Act of 1992, a Vice Chancellor and a Board of Governors are required to oversee the proper functioning of each of these institutions. This Board largely consists of the founding donors-- wealthy industrialists and businesspersons, retired bureaucrats, and so on. It is the Board of Governors who takes ultimate decisions, over all concerns, including recruitment and termination of faculty and staff. Therefore these universities are not run on a truly representative basis-- rather on the basis of policies formulated by the founding donors, a group of people who need even not be academics in the first place.

Only one common body supervises both the public and the private universities in the country-- that is the University Grants Commission (UGC), except for some role played by the Ministry of Education, Government of Bangladesh.

III. Weakness of the UGC: By Accident, or By Design?

The UGC can be coined as the only formal *regulator* of the HE sector in Bangladesh. In the face of a *de jure* autonomy of the public universities and fiscal independence of the private universities-- it is the only the UGC who plays a role, and who has the potential to play an enhanced role in this sector, if need arises. Nonetheless, there are some other *informal regulators* in this sector as well. The first of these *informal regulators* is the market. The market directly enters into the demand function of a private university, which is by its very nature mostly market-driven. It is possible to argue that market will, at least in the long run if not necessarily in the short run, determine the size of a private university. A private university rarely will venture

to open a department from which revenue collection is expected to be negative— it is possible for them to open departments as such, so long it can hope to compensate for the revenue loss from the department by improvements in some other avenues, such as *reputation* among the populace and even then, there is a limit to cross-subsidization that would be possible. The market does not directly enter into the demand function of the public universities, which are receivers of subsidies from the government-- the tuition fees are lowered to such an extent that there has always been an over-subscription. Still the market plays an indirect role in the form of *reputation* and *public opinion* in these universities. An allegation of a low quality of HE service provision (from the media and public opinion) may not necessarily reduce the budget immediately-- but surely it may reduce the bargaining position of a public university vis-à-vis the UGC and the government. In summary, a private university faces the UGC (only in the form of instructions and permissions) along with the market with its full force-- whilst a public university faces only the UGC in the bargaining table over budgetary allocations.

Now, if we concentrate on the development of UGC in Bangladesh, we notice that the organizational structure and capacity of this institution has not evolved over time, whereas its functions has increased drastically after the introduction of the private universities in HE sector in 1992. The UGC in its organizational structure has leading educationists of the country-- but all of them are from the public universities, none from the private. As long as we acknowledge that the private universities function differently from the public ones, it is expected that some representative educationists with experiences in private universities need to be included in its membership-- which has not happened till now. It has been reported that the number of staff has not changed over time while now they have to deal with a number of 75 compared to a previous number of 24. One may be excused to suspect whether the service quality of the UGC as a

regulator itself has deteriorated over time, if one places the case that the UGC has been found to be moving much slower compared to the fast pace of time.

The UGC has taken some concrete steps in improving the situations in both the public and private university sub-sectors. In 2004, it has scrutinized all the private universities and issued notices on eight of them on the ground of inadequate educational facilities and/or environment. In 2005, all the vice-chancellors of 75 universities have come to agreement to introduce uniform grading system, under the umbrella of the UGC. Progress is being made over these issues till now. Still these measures seem to be inadequate for bringing welcome change in the sector where both the public and the private sub-sectors have their own set of problems.

One can say that, if the UGC has been found to be incapable of solving the problems of the HE sector or giving proper directions, one plausible option is to invigorate the UGC, since one would rule out the other more extreme solution of abolishing the UGC altogether. One needs to apply some caution in this regard. It is not exactly the point to provide some suggestions to the UGC to consider and if it finds agreeable, to implement. It is also important for us to try to understand the underlying factors that may have contributed to the failure of a regulator in its' job. In a public policy discussion, it is needed that one considers the political economy aspect as well. In essence, one needs to move away from the notion of a *benevolent state* waiting to give solutions for each of our ills-- one needs to look into the discussions of the *competitive states* à la Albert Breton where different stakeholders are constantly in competition with each other inside the state to maximize their own narrow self-interests rather than the interests of the mass people as it is ostensibly projected. It is entirely possible that a regulator may fail the job as a regulator entirely by accident, or it is possible that the regulator may fail by design, such as other stakeholders may have interests in failing the regulator and have managed to influence the state

in such a way that the regulator has been assigned jobs or assignments in such a manner that this is bound to fail. For example, in a parliamentary democracy like Bangladesh, do the political parties have much interest in seeing the UGC to be able to control and/or nullify external political influences over the public universities? In Bangladesh, the mass people have always looked up to the universities with awe and admiration and waited for advice from them, as much as in 1971 as even now--given that only the fortunate and meritorious few among them can reach up to these institutions. The public universities have therefore always been important power centers-- to be able to have some control over the functioning of these institutions sends a signal among the masses about the strength of the political party in question. Since the private universities do not have the political value till now-- they have managed to keep themselves away from the politicians. The private universities have raised interests among a different but very much related group of players-- these are the business community as well as rich philanthropists. The private universities have been set up mostly with generous funds from this community-- there is a social prestige value that is involved in being associated with a university; we may safely rule out the profit motives behind it, since private universities are non-profit organizations. The business community does not have much incentive to accommodate for a strong UGC either. A strong UGC may bargain itself into a position where it can actually have scrutiny powers over the functioning of the private universities. This may directly reduce the power and authority of the business community that it enjoys over the private universities. Therefore two very important stakeholders in a "parliamentary democracy" like in Bangladesh, have much interests in common in seeing a weak UGC lacking in proper representations as well as incapable of pursuing any concrete policy directions due to political pressures from all directions. If we dare to delve further, we can even suggest that the most important political

economic element in a country like Bangladesh (moving away from state provision of public goods towards public-private cooperation-based provision of public goods) is the interests of the rapidly expanding business community whereas politicians act as their agents in terms of power capturing and policy-making. It is possible in Bangladesh that the business community does not have much interests in a very vibrant public university sector (returns from this sector to them is minimal) whereas they are interested to have a large amount of control over the rapidly expanding private university sector (returns from this sector to them is significant-- if not exactly in monetary valuations, but in terms of social prestige and real or perceived influence over the civil society). Let us formulate one particular game plan on behalf the principal stakeholders (with respect to a particular industry): the business community shows interests in *one particular set of rules of the game over all possible rules of the game* for the regulator of an industry-- the political parties act as their agents in the political market to popularize this particular rule in the disguise of some politically appropriate and voter sensitive agenda, come to power or wait for return to power, pass the rules through the parliament, and then it comes down to the regulator to implement that *particular set of rules of the game*. If we on principle agree with this particular political game--in that case it should not surprise us that the UGC has been found to be caught unaware and under-prepared to play its expected role in this transitional phase in HE sector in Bangladesh (1992 till now). Notwithstanding the level of sincerity and integrity of the members of the UGC (in general, any regulator)-- the effort will not bring good results if we do not counter the adverse effects that could leak into the functioning of the UGC from the political economic point of view.

One way to counter the political economic circle like this is to have a strengthened civil society along with an alert print media. These two stakeholders in the society can raise

consciousness among the populace, particularly the middle class community. A pressure in that case will be mounted on the government to provide more power to the UGC which is the only regulator in the HE sector in order to protect public interests.

IV. Some Plausible Roles of the UGC

Keeping the political economic scenario in mind, we now concentrate on what could be the focus of the UGC in tackling the problems in the HE sector. One way to formulate this issue is to have a production function for higher education (following Schwartz, Stiefel and Rubenstein 1998),

$$Q = f(X_1, X_2, \dots, X_n) \dots \dots \dots (1)$$

where Q represents the quantity of output, X_1, X_2, \dots, X_n are the n inputs to production and $f(.)$ captures the transformation linking them. This is a standard production function of very general form, which will actually suffice for our present purpose. One difficulty in using this production function for the purpose of education is that it relies on the assumption that input and output measures reflect points on a production function. A problem is that validity of this assumption depends upon the incentives and objectives of administrative policy makers of the universities. While a profit-maximizing firm in a competitive market choose to produce efficiently (on the production function), universities that we are considering can rarely be considered either profit-maximizing or operating in a competitive market, since most universities have some monopoly power and may pursue a plethora of political and economic objectives. The implication is that the observed data are likely not to be on the production frontier. A second problem of a production function formulation of higher education is that how to measure or consider outputs. In manufacturing firms, it is easy to identify the output-- that is the product; while in education it is not so simple. Education has multiple objectives and

multiple outputs. Universities may seek to produce graduates who are particularly well-trained for public sector jobs, or private sector jobs, or pursuing independent businesses, or they may seek to produce graduates who obtain placements in foreign universities for higher education—or their objective may be to produce graduates with a minimum level of competency. A third problem is that there are two aspects of university education, one is quantity and the other one is quality. Is it difficult to consider quality aspects (say, how much well trained a graduate is) separate from quantity aspects (say, what degree did the graduate obtain). The third point is crucial for our discussion since while the quantity aspect is easily visible-- the quality aspect is not; yet it is the quality aspect that is very important for a graduate's career path. Much of the public concern about the HE sector is not whether there are sufficient numbers of graduates that it is turning out every year; but whether it is turning out the graduates with an adequate quality of higher education. I propose that this is the particular point where the sole regulator in the sector (read the UGC) would need to concentrate.

In order to complete the picture, we mention that the demand for higher education is from the households who are limited by their financial resources in their ability to buy education services and private goods (Schwartz et al., op. cit.). A simple budget constraint for the i^{th} household is:

$$P_X X_i + P_E E = I_i \dots\dots\dots(2)$$

--where P_E is the price of education, P_X is the price of private goods and I_i is the income of the i^{th} household.

Now, there are three questions that need to be resolved. Firstly, if it is entirely possible to have a market solution by working with the supply curve from equation (1) and the demand curve from equation (2)-- in that case, holding all other things constant, what role is there for a

regulator (read the UGC) in the HE sector to play? Surely, one can say, the market is being solved by voluntary market exchange. The answer to this particular query is that, actually a supervisory authority like the UGC will still be needed to be present. The reason is that the amount of expenditure on HE that a particular household would like to have on its son/daughter (or it may be a case of self-finance) will depend on the household's evaluation of the education product that it is purchasing and its expectation of future income flows that would be generated from this education product. Problem is household does not know its future whereas even more serious problem is that household does not have the full information about the particular HE product it is purchasing. Household therefore suffers from both uncertainty of future income flows and incomplete information regarding the HE product that it wants to purchase (particularly the quality of inputs and quality of outputs)-- also we assume that information gathering is costly. Therefore the market fails from the demand side problems-- here enters the regulator as a representative from the government to ameliorate these failures, if not be able to fully resolve them.

A second question is that why would a government need to resort to the market in the first place, why the government does not supply the full amount of HE sector itself. Again I refer to the discussion of non-profit organizations (private universities in our debate are actually non-profits) put forward by Albert Breton (op. cit., pp. 280-282). Breton refers to Weisbrod (1988) for explanation of the existence of non-profit organizations. Simply stated, Weisbrod explains, *“nonprofit organizations exist to provide collective-type goods in quantities and qualities different from what is provided by governments, which in democracies, Weisbrod assumes, must respond to the interests of the majority. In other words, the nonprofit sector exists to respond to a greater diversity of demand than the governmental sector can satisfy because of the*

majoritarian constraint to which it is bound. Weisbrod recognizes that to fulfill that function, nonprofit organizations will have to address and resolve a free-rider problem and that in fact they do (Weisbrod, 1988, pp. 25-31)." Non-profit organizations are sources of product differentiation whose role is to satisfy diversified demand. These kinds of organizations are more efficient in providing for some certain goods and services-- compared to a public organizations, their efficiency is due to the reason that they can solve the free-rider problem in a better way and also they can ascertain the particular demand functions from the consumers in a better way. Here lies one way of reasoning of the need for existence of private universities in the HE sector along with the public ones-- that a private university can provide for greater care and precision in assessment of demand and avoid free-rider problem (read subsidy) compared to a similar size of a public one.

One last query would be where should a supervisory body like the UGC concentrate its attention in the HE sector. I propose that the basic principle would be to concentrate on the quality and quantity of the input side of equation (1). My argument is as follows, when a university is admitting a student-- the implicit understanding is that it is promising to provide some particular amounts of inputs (both quality and quantity) which, in association with the student's own level of effort and merit and time-- will be converted into a visible output for the student (say, a degree)-- in return the student is promising to pay tuition and other fees. Nowhere a university will give an assurance of a pre-specified output (say, the student may fail the obtain the degree). What this implies is that, the implicit contract between a student and a university is an exchange of fees (from the student) for inputs (for the university)—not exactly to do with outputs. Each of the parties can hold each other responsible in case of failure of the agreement. Moral hazard may enter in this context unless the contract negotiations and the delivery process

is strictly under supervision. A regulator in this case is essential. Also for this reason, the regulator will concentrate on the quality and quantity of inputs and design instruments for incentivizing this service delivery and imposing sanctions in case of failure.

V. Conclusion

In a developing country like Bangladesh, where governments are now allowing private non-profit enterprises to enter and play a supportive role--it can be considered to be a transitional phase for that particular sector. To safeguard citizens' interests in these times of change of guards, a strong supervisory umbrella (i.e., the UGC) is required-- otherwise there could be social costs from this transition. This paper has discussed this particular issue with a particular focus on the role of the UGC in Bangladesh during 1992-2006. The conclusion of the discussion is that a strong supervisory role is very much required from the UGC and also at the same time, the civil society and the media would also need to mobilize themselves so that undue advantages are not channeled out to some particular interest groups at the greater cost of the society.

Appendix

Table 1. Number of Public and Private Universities, Number of Teachers and Number of Students in Bangladesh, 2001-2006

<i>Number of Institutions²</i>							
	2000	2001	2002	2003	2004	2005	2006
Public ¹	14	14	17	22	22	22	23
Private	16	22	41	48	51	52	54
<i>Number of Teachers</i>							
	2000	2001	2002	2003	2004	2005	2006
Public	5793	5093	5241	5603	6005	6005	6069
Private	3871	1644	2335	2734	4543	4543	4592
<i>Number of Students</i>							
	2000	2001	2002	2003	2004	2005	2006
Public	81066	86219	92562	99474	104350	104350	105467
Private	13192	35968	28125	32927	44224	44224	44697

Source. Bangladesh Arthonoitik Somikkha 2006, Ministry of Finance, Government of Bangladesh, pp. 226

Note.

¹ Public universities include both general and technical (agricultural, engineering, Islamic, medical, science and technology) categories while no private university is listed as technical.

² The higher education sector also has general category public and private colleges as well as technical category public colleges. The total number of medical colleges, both public and private, was 27 in 2006 whilst 21 in 2000.

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