Investing For Growth: Navigating Successful and Sustainable Investments in Education in GCC Region
About The Parthenon Group

About The Parthenon Group’s Education Practice

The Parthenon Group is a leading advisory firm focused on strategy consulting, with offices in Boston, London, Mumbai, San Francisco, and Shanghai. Parthenon’s Education Practice is the largest advisory team to focus on the education sector, both for-profit and non-profit/government. Parthenon has 50 professionals focused on advising the MENA and Asian education sectors. The Education Practice advises clients across diverse sectors that include publishing, primary and secondary education, higher education, consumer education, vocational education, corporate training, governments, foundations, NGOs and other non-profit organizations. Parthenon completes more than 150 education projects per year in over 60 countries globally.
Parthenon’s Global Education Presence

On-the-Ground Education Sector Projects Completed by Parthenon

Parthenon Offices

- On-the-Ground Education Sector Projects Completed by Parthenon
Executive Summary
The education market in the GCC is large and growing, driven by increased demand from the region’s consumers for high-quality education and by a macro-level focus on economic diversification. Regulators, investors, and consumers all play pivotal roles in the continued growth in this sector. This report explores the drivers of private education, the market size and growth, and the role regulators play in ensuring continued growth.

Methodology
The Parthenon Group followed a bottom-up approach to collect data at the school and university level and referred to published information from government sources to corroborate our findings and results.

Our research for primary and secondary education sector includes data from over 1000 schools across GCC countries, which enrol more than 6 million children. The schools typically follow an international curriculum (IB, British, French, etc.), a local curriculum, or a mixture of both.

Similarly, our research on higher education covers private and public universities in GCC countries including institutions that offer both local and foreign degrees.
From Oil Dependence to Diversification: Growth of the Private Education Sector in the GCC

As the Middle East continues to invest in knowledge-based economies, education is seen by government, investors, and consumers as a key driver of the growth of economic opportunity. The rate of growth in this region, coupled with increased affluence, has spurred the growth of the private education sector.

- **Government:** Government entities across the GCC have identified education as a key component of their economic development agendas and frequently highlight the importance of K12 and Higher Education (including Vocational and Technical education) in diversified economic development strategies

- **Consumers:** As parents become wealthier, they are increasingly able to choose private education, which is often perceived to offer higher quality than public sector options

- **Investors:** Investors are drawn to education for many reasons, including its relative stability and favourable regulatory environments

Education plays a crucial role in the evolution of GCC economies as it will create the necessary workforce for newly developed industries. As a result, the GCC education sector has gone through important structural changes and is expected to grow strongly, continuing to support this significant opportunity for investors. **His Highness Sheikh Zayed bin Sultan Al Nahyan, the first UAE President believes,** “Youth is the real wealth of the nation. The discovery of oil provides the necessary finances to improve the education system and develop academically and technically qualified citizens – men and women – able to serve their country in its future progress.”

Drivers of Private Enrolment in the GCC

Across the GCC there are examples of private sector growth outpacing public sector growth. In Oman the contrast is stark: enrolment in private K12 schools has grown rapidly, at 16% per annum, while enrolment in public K12 schools has been declining by 2% per annum.

Exhibit A: Public vs. Private Enrolment

**Growth Rate, 2008-2011**

- **K-12 Enrolment Growth in Saudi Arabia (08-11):**
  - Private Schools: 8%
  - Public Schools: 1%

- **Higher Education Enrolment Growth in UAE (08-11):**
  - Private Colleges: 11%
  - Public Universities: 7%

- **K-12 Enrolment Growth in Oman (08-11):**
  - Private Schools: 16%

Source: Parthenon Survey
Across the GCC, common factors are driving private education growth.

Exhibit B

- **Young Population**
  - 55% of the population in UAE, KSA, Kuwait, Oman and Qatar is below 30 years old

- **Increasing Affordability**
  - GDP per capita for UAE, KSA, Kuwait, Oman and Qatar has grown by 5-10% in last 5 years
  - Premium International and Mixed Curriculum market in UAE is 5x that in India and similar to China

- **Need for International Education**
  - Higher Education enrolment in Western Private Colleges has grown the fastest in last 3 years in UAE
  - In addition to expat demand, locals are increasingly opting for international education

- **Growing Expat Community**
  - Expats account for ~30% of the population in GCC countries and ~80% in the UAE
  - The number of expatriates living in GCC countries has increased by nearly 20% over their number in 2005

In addition to these drivers, regulatory changes are also driving private school enrolments. In the Kingdom of Saudi Arabia, the government recently changed regulations and now allows Saudi children to enrol in schools that offer international curricula (IGCSE, IB, etc). Previously, only expat children were allowed to attend these schools.

Schools can take advantage of this regulation change by accessing a special one-time approval for offering international curricula to Saudi students. In 2007, 12 schools were eligible to teach Saudi students an international curriculum. In 2011, 32 schools were eligible. This segment of schools is forecast to grow at 12-15% per annum in Saudi Arabia over the next 5 years.

This trend is not exclusive to KSA – across the GCC the private international school sector is expected to continue growing over the next 5 years.
Understanding Market Size and Growth in the GCC

Within the GCC, education sectors are at varying stages of development. Higher Education and K12 markets are typically the largest in the sector and are relatively mature in some countries like the UAE. In some countries, other sectors such as Vocational, Pre-K, and After School Tutoring are also large and growing.

Exhibit C: Segmentation of Education Sector in GCC Countries

Vocational Training: Government-Backed Growth in KSA

Private investors are often excited about the vocational training sector due to the relative lack of regulation and extensive media coverage on skills shortages in the region.

However, vocational training is an industry that typically struggles in developing countries with fast-growing labour supplies often coming in from Asia. In fast-growing labour markets employers do not discriminate against uncertified employees; in fact, data suggests they prefer to hire and train in-house. This is the case throughout the Middle East, India and China.

When countries do not follow this pattern, it is usually because of government mandated certification schemes or training requirements. In Malaysia, the allied health training sector is an example of a large, high-growth vocational sector that has grown in response to government mandates that all allied health professionals must have certification in order to practice in the field. Similarly, in the GCC the $384M vocational training market in KSA is significantly larger than K12 or HE sectors in other GCC countries due to the prominent presence of large, government-backed training and development schemes.

Higher Education: Understanding Private Sector Growth in UAE

In the UAE higher education segment, the most rapid enrolment growth example has taken place in the Private Western Universities (e.g. Wollongong, Heriot Watt, etc).
Exhibit D


Overall, private higher education enrolment is growing slower than public.


However, within the private sector, “Western Private” institutions are growing more than twice as fast as the market.

These institutions have successfully recruited students by focusing on employability-related factors. With two education free zones, Dubai International Academic City and Dubai Knowledge Village, Dubai is an example of the successful development of an investor-friendly education landscape.

Focus on Employability

A global survey by The Parthenon Group illustrates students seek higher education in order to gain improved employment opportunities. Generally, students evaluate the financial returns of a higher education degree based on the type of jobs and salaries available to them after graduation.

Exhibit E: Primary Reason for Choosing Higher Education Institution

Source: Parthenon survey of students (N=1500)
The private sector is growing fast in GCC countries because graduates who speak better English are able to secure better paid jobs and private universities are offering more employability-related courses. It is important for universities to focus on the right course mix, based on employment opportunities, to cater to the market demand.

Role of Regulators in Ensuring Private Sector Growth

As seen in the case of Dubai’s success with academic free zones, regulators can play a pivotal role in the growth of the private education market. An unfavourable regulatory environment can deter investors from entering a market. Conversely, favourable regulations attract investors and operators and ensure that consumers have access to high-quality options.

Globally, regulators have focused on three levers to manage investor relations:

- **Clear Investment Policy and Transparent Decision Making** – Clear policies create a positive, encouraging climate for investment. They provide consumers with more choice and enable high-quality international brands to enter markets. Transparency is pivotal for building an investment-friendly environment. Quality and pricing management have little chance of success without a foundation of transparency.

- **Quality Management and Accountability** – By managing quality through comparative ratings or rankings, regulators can incentivize quality. In the US and the UK, independent organizations (US News and World Report, Good Schools Guide) rate schools. In other systems regulators rate schools.

- **Pricing Management** – Typically, regulators approach pricing management either through pricing controls or through active demand-supply management (e.g. dictating the supply of schools that can enter the market based on existing or forecast demand). Both help consumers maximize value for money and prevent overinvestment from investors.

Building a strong, transparent regulatory framework is a vital component of the development of any education system. However, regulators should be conscious of the danger of over-regulation. Often in emerging markets, investors are attracted to opportunities in relatively un-regulated environments where, though the risks may be higher, the rewards are potentially greater. Regularly seeking stakeholder input builds credibility among the investor community and should be part of a comprehensive strategy to gauge the investment climate.

Conclusion

There is strong interest in and evidence of growth in the education market across segments in the GCC. For investors, it is important to invest upfront with a solid understanding of a sector’s regulatory landscape, market size, and market growth.

The Parthenon Group has an unrivalled depth and breadth of experience in strategy and operations development for K12 investors and operators globally. Parthenon conducts extensive primary and secondary research to develop a fact base that informs the development of actionable strategies. Parthenon works in a highly collaborative manner with its clients to provide clear strategic guidance on areas such as market entry strategy, pricing, distribution and marketing strategy.

The Parthenon Group is uniquely positioned to work with schools, investors, and operators to address a full range of K12 needs. For further information or to discuss the potential for Parthenon to collaborate with your organization, please contact the leaders of our Education Practice.
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