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Middle East & North Africa (MENA): The next frontier for private education?

By Leopold Zentner

Some analysts have estimated the size of the MENA education market "to be as high as US$75.3 billion." The demographic position and high income households make MENA an attractive region.

Any school wishing to expand into MENA needs to strike a balance between maintaining its brand and standards (which would have been built up over decades) and sharing control over the overseas campus with a local partner.

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Typically a joint venture is set up in which the risks and rewards are shared. The school has access to better locations, local knowledge and expertise. Upfront investments can be spread amongst the joint venture partners, which may sit better with the school's objectives and budgets. The school has to rely on contractual arrangements to ensure the new campus is built and operated to its desired standard. Whilst the school may still have operational control over the new campus, the funding and profit objectives of a joint venture partner may not be consistent with the school's management, operating standards and charitable objectives.

An alternative is a franchise model. There is very limited upfront investment by the school, as a franchisee (i.e. the local partner) commonly assumes the entire costs of building and operating the campus. The franchisee makes upfront payments to the franchisor. This is a key advantage in terms of risk, objectives and budgets. A franchise model relies heavily on the quality of the franchisee and contractual arrangements, thus placing more emphasis on the franchisee and legal documents. The franchisee would typically be in control of the operation and management of the campus with only some input from the franchisor.

If the market entry into MENA is pursued with a local partner, it should be appreciated that a private sector partner may have different priorities (e.g. a profit motive). It needs to be ensured, through due diligence, that the partner shares your vision and has the resources, intention and expertise to take at least a medium term view to ensure that the campus is constructed and operated to the agreed standards.

Consideration should be given as to what qualities the members of the board of governors must / should have. The relationship between senior appointees will be critical. You should also consider whether the campus will open in phases, how construction will affect operation and how health and safety concerns are appropriately addressed.

Most schools operate to generate a surplus to fund capital programs or bursaries. Any school thinking of expanding overseas must have the resources, legal capacity, budget, experience and mindset to operate a campus (or franchise one) in order to achieve an acceptable Internal Rate of Return.

Naturally a school needs to know the market in which it wishes to operate and the fees that can be charged, this requires some planning and investing in feasibility studies.

Once a decision on the most appropriate investment model has been reached, detailed documents need to be put in place to protect the interests of both parties. The negotiation of documents can be protracted and time consuming, but are an essential in defining the expectations of all parties from the outset. Enforcing contractual rights can be difficult in any jurisdiction and the same is true of the MENA region.

A mutual understanding of the business cultures and social norms between the school and its local partner is very important. Naturally this principle applies throughout MENA.

The MENA education market is potentially very lucrative and there are distinct advantages to setting up operations in emerging markets which place an increasingly high priority on education and the development of knowledge based economies. However, there are risks which must be understood and managed.

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