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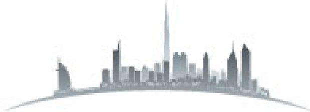
EI article

MENA streak

The education market is growing rapidly in the MENA region. But barriers to uptake pose risks to investors, finds Sunniva Davies-Rommetveit



The Middle East this year retains its standing as one of the fastest growing private education markets in the world," begins a new report published by Informa. Between 2013 and 2020, it says, the total number of students in the Gulf Cooperation Council (GCC) region is predicted to rise by 3% to 13.7 million. That is while private school enrolment rises by 6.7% and tertiary enrolment by 16.5%. Moreover, new markets are emerging right accross the wider Middle East & North Africa (MENA) region.

The drivers of demand in oil-rich MENA countries are well documented, and include high disposable incomes, very young populations and the high number of expats living in the region. However, while the opportunities excite education investors at home and abroad, there are some serious barriers to uptake they must be mindful of.

As the report notes, restrictive regulations and slow bureaucracy can be problematic in MENA countries. A report published in 2013 by private equity firm Al Masah Capital, for instance, says that Gulf Cooperation Council members (which include the UAE, Bahrain, Kuwait, Oman, Qatar and Saudi Arabia) tend to "amend rules and regulations without prior notice, making it difficult for private players to manage operations in the region".

According to ESOL Education, which has schools in the UAE, Egypt, Cyprus and Lebanon, such rules have previously prevented them from increasing fees "when such increases are necessary to enable us to operate viably and maintain and improve upon the quality of our offerings".

Other pressing issues are the increase in prices of prime land and the "slow process" of gaining licenses to set up education establishments in the first place. These bottlenecks in the MENA education sector also need to be addressed to improve the sector's performance and attractiveness to potential investors.

The political instability in the area is a cause for concern, too. There is, for instance, continued unrest after the Arab Spring in countries like Egypt. Turkey and Lebanon have been unwantedly caught up in their neighbour Syria's civil war, and the ISIS uprising remains a major worry in both countries.

Group executive director at Gems Education, Dino Varkey, has somewhat cynically claimed that political turmoil drives people towards the UAE "safe harbour", meaning "more students for us". Most would agree, though, that continued instability in the region will severely hamper progress. Changes in political direction will, as ever, also put prospective investors off.

It's not all doom and gloom, though. Don Lim, executive director of Al Masah Capital Management, which acquires and operates schools and vocational training centres in the MENA region, explains why it is such an attractive option. "From the yield side… [it] is very attractive due to the demographic factors like a growing and extremely young population, economic factors like the ability and willingness of parents to pay for good private education, and the high expat population which has a preference for the British and Indian private schools which we acquire and operate."

The region is also ripe for the introduction of new, more innovative models of delivery. Michael Staton, partner at US venture capital firm Learn Capital, has said that there is currently "very little early stage capital to support innovations… in technology-based services to schools". Prospective investors should be aware, then, that there is a notable gap in the market.

The fact that the MENA region is still a serious prospect for education investors is impressive under the less than ideal circumstances. Companies that understand its distinct characteristics, and make an effort to promote innovation, should find some interesting opportunities in the years ahead. n

Informa's Education Investment MENA conference was held in Dubai, November 10-13. EducationInvestor was a media partner

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