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WHERE TO INVEST NOW IN GCC PRIVATE EDUCATION

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THE K-12 PRIVATE EDUCATION market in the Gulf Cooperation Council (GCC) countries has become a magnet for investors and school operators, and rightly so. This market is expected to double over the next five years, from \$13 billion to \$26 billion by 2023. In Saudi Arabia alone, the K-12 private education market is poised to catapult from \$5 billion in 2017 to \$12 billion in 2023.

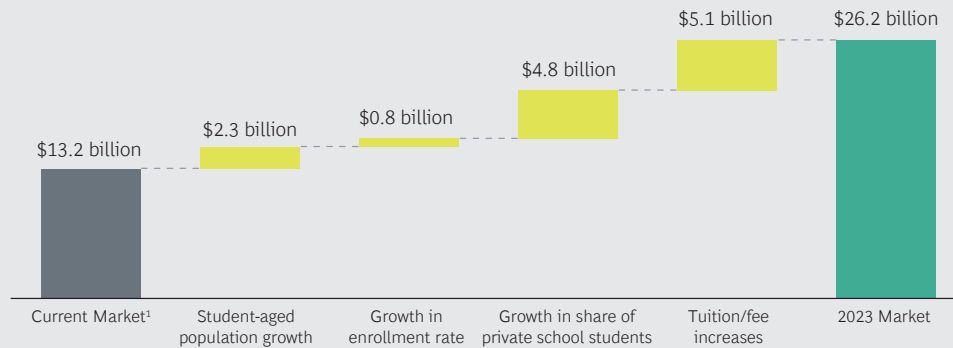
But new developments, such as evolving demographics, government interventions, and regulatory issues, are reshaping the complex private education market within each country; therefore, investors are wise to evaluate each market in turn. BCG conducted an in-depth analysis of the private education market in the United Arab Emirates (UAE), Saudi Arabia, Qatar, Kuwait, Oman, and Bahrain. While all of these markets are growing, investors must fine-tune their strategies to account for the shifting circumstances within each country.

Four Drivers of Growth in Private Education

Private schools in the GCC region educate approximately 30% of K-12 students (2.5 million of 9 million students), and the K-12 private education market is expected to grow quickly over the next five years owing to four factors. (See Exhibit 1.)

- **Shift toward private schools:** For decades, GCC public schools were free of charge and GCC nationals were not allowed to attend private schools, but these restrictions have been relaxed. Though public school spending in the region is high (\$11,000 per student in GCC versus the OECD average of \$9,000¹), the quality of education is mixed. GCC parents are becoming increasingly willing to pay for private schools that provide differentiated offerings and better outcomes—and this trend will likely grow now that governments are beginning to publish

EXHIBIT 1 | Primary Growth Drivers in GCC's K-12 Private Education Market



Source: Kuwait Statistics Authority; World Bank; Saudi Arabia Ministry of Education (MoE) data; Qatar MoE data; Dubai Statistics Center; Vision2021.ae; Knowledge and Human Development Authority (KHDA); UAE MoE data; FXExchangeRate.com; ADEK Annual 2016-2017 Report; *Edarabia*; Ministry of Information Affairs Bahrain; Bahrain in Figures 2016; BCG analysis.

¹Bahrain and Kuwait data for 2015; UAE data for 2017; all others for 2016.

performance ratings for all schools. New government initiatives designed to increase private sector involvement are also driving the shift toward private schools; for example, Saudi Arabia has begun to encourage private management of some of its public schools, and Kuwait has established public-private partnerships to help

build and maintain high-quality educational facilities.

- **Tuition fees:** Tuition fees for private education will continue to rise 2% to 4.5% per year. (See Exhibit 2 for a comparison of tuition fees in GCC countries.) Tuition is rising at a slower rate than in recent years, owing to

EXHIBIT 2 | Average Tuition Fees by Market

| Market | Flags | Fees |
|---------------------------|-------|----------|
| UAE: Dubai | | ~\$8,700 |
| Qatar | | ~\$8,000 |
| UAE: Abu Dhabi | | ~\$6,800 |
| Oman | | ~\$6,300 |
| Kuwait ¹ | | ~\$4,900 |
| Bahrain | | ~\$4,700 |
| UAE overall | | ~\$4,600 |
| Saudi Arabia ² | | ~\$4,400 |

Source: Kuwait Statistics Authority; World Bank; Saudi Arabia Ministry of Education (MoE) data; Qatar MoE data; Dubai Statistics Center; Vision2021.ae; Knowledge and Human Development Authority (KHDA); UAE MoE data; FXExchangeRate.com; ADEK Annual 2016-2017 Report; *Edarabia*; Ministry of Information Affairs Bahrain; Bahrain in Figures 2016; BCG analysis.

¹Kuwait private education includes private Arabic and private foreign school students

²Private education in Saudi Arabia includes both Ahlia and international students.

tighter regulations and an economic environment that limits consumer spending. Expats are also facing increased financial pressure as employers have begun to scale back their tuition-reimbursement packages. Some governments have placed caps on tuition hikes: in recent years, Kuwait has limited tuition hikes by 0% to 3%, and the UAE and Bahrain recently set a limit of 5%, linked to the education inflation index and schools' performance.

- **Population growth:** The percentage of young people in the region is already high and still growing (60% are under age 25). The student-aged population (age 3 to 17) is expected to grow in line with the historical compound annual growth rate (CAGR) of 1% to 3%. The expatriate population is expected to grow even faster than national populations, and expatriates tend to attend private schools.
- **Enrollment growth:** Private school enrollment at the primary level and above is already high throughout the GCC and expected to remain steady. Enrollment rates at the preschool level (ages 3 to 6) are growing, most notably in Saudi Arabia, which has the largest overall population in the GCC region and the lowest kindergarten enrollment rate (less than 20% kindergarten enrollment in Saudi Arabia versus 60% to 90% in the rest of the GCC).

Changing Dynamics for Investors in the Region

While GCC markets offer excellent investment opportunities, the sector is not without its challenges. The educational landscape is still quite fragmented in the GCC region (with the exception of parts of the UAE), with no dominant players, which makes it attractive for large-scale operators—but it can be difficult for new entrants to break in. GCC banking practices can make it challenging for private-school investors to access capital for financing. It can also be difficult to secure suitable land and obtain permits for construction since

land is typically assigned and controlled by governments. The number of qualified teachers is limited, teacher turnover is high, and competition for expatriate teachers is fierce. Because the UAE offers the most competitive salaries and an attractive quality of life, it is often viewed as the most attractive market for teachers in the GCC, which makes it more difficult for other markets to attract teachers. In addition, the regulatory environment in the region can be restrictive and unpredictable, particularly when it comes to tuition fee increases. Finally, until recently, only limited data was made available to the public on school quality, which made it hard to instill competition in the market. The recent push in many GCC countries to publish comparative school performance data is raising awareness of each school's academic performance, as well as its unique offerings, which is increasing parents' willingness to pay for private education.

In addition, the private education market has become increasingly complex and competitive in recent years, particularly in mature markets (such as the UAE)—and these shifts have implications for investors. For decades, the private education market was dominated by family-owned schools. In recent years, however, financial investors and large-scale operators have become much more active in the sector. While family-owned businesses valued reputation and long-term sustainability, financial investors are seeking to maximize short-term returns on their assets. Also, large private-school operators, like GEMS Education, the world's largest private provider of K-12 education, are building a diverse portfolio to reach a wide variety of students. Large operators provide families with unique offerings in terms of pricing (low-fee and high-fee schools), curricula (international, English-language curriculum and national curriculum schools), and cultural environment (co-ed and gender-segregated schools). Thanks to their size and economies of scale they can invest in curriculum enhancement; teacher pooling; centralized training; extracurricular activities; and ancillary services, such as transportation and meals.

Because large operators can be more resilient than standalone schools, investors have taken notice. In 2014, Blackstone Group and Fajr Capital invested \$350 million to gain a minority stake in GEMS Education. In 2017, Amanat Holdings increased its stake in Taaleem from 16% to 22%. In 2018, Khazanah, Malaysia’s sovereign wealth fund, acquired a 3% stake in GEMS Education. In addition, multiple funds have been raised with a focus on education in the GCC, including a \$750 million fund managed by Gulf Capital and a \$270 million fund managed by Malaz Capital.

International operators have also expanded into the GCC region. In the UAE, many are already present, such as Brighton College (based in the UK), which already has two schools in the UAE, and plans to expand into Dubai. New entrants, such as the US-based Dwight School, are also expanding their presence in the region. In Saudi Arabia, international operators still have a minimal presence, but they are expected to be in high demand in the coming years.

Where to Invest—and Why

The potential for growth in the private education market varies significantly through-

out the region, and it’s important to understand the size of each market and its potential for growth in the coming years. Here is a breakdown of investment opportunities on a country-by-country basis.

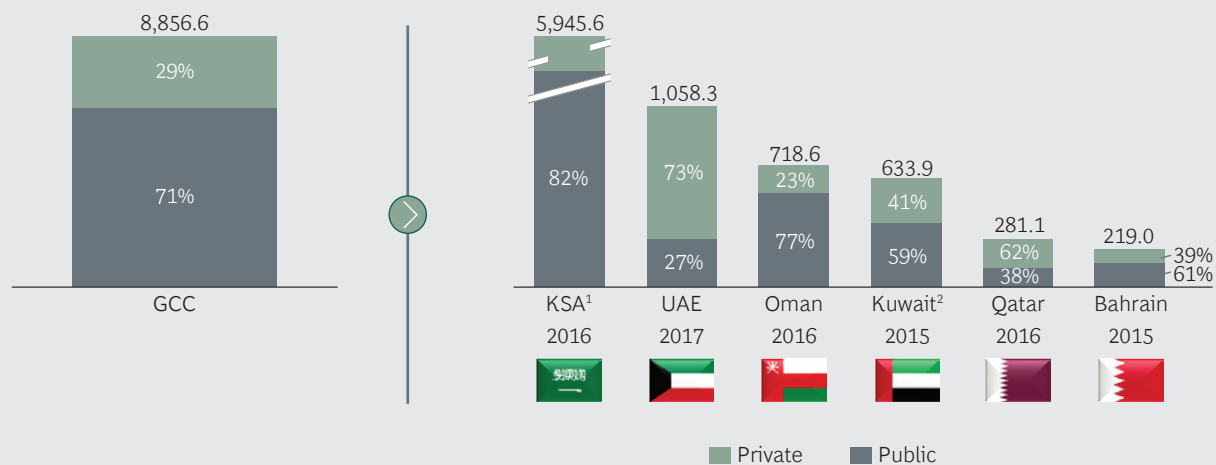
United Arab Emirates (UAE): Mature, Consolidated Market—and Still Growing

The private K-12 education market in the UAE is the most mature of all the GCC countries. (See Exhibit 3.) Approximately 90% of Dubai and Sharjah students, and 65% of Abu Dhabi students, are currently enrolled in private schools. The UAE’s \$4.4 billion market in 2017 is forecast to grow to \$7.1 billion by 2023.

Dubai. The Dubai market is the most consolidated across the GCC, with 25% owned by GEMS Education. Dubai’s private schools have higher-than-average educational outcomes—and high costs.² On the 2015 standardized math test (TIMSS), Dubai’s fourth and eighth graders scored 511 and 512 respectively, above the international average of 500 points. Although 90% of students in Dubai are already enrolled in private schools, the city’s private school market is still expected to grow

EXHIBIT 3 | Share of Private School Students Differs Widely Across GCC Markets

Total number of students per country (in thousands)



Source: Kuwait Statistics Authority; World Bank; Saudi Arabia Ministry of Education (MoE) data; Qatar MoE data; Dubai Statistics Center; Vision2021.ae; Knowledge and Human Development Authority (KHDA); UAE MoE data; FXExchangeRate.com; ADEK Annual 2016-2017 Report; Edarabia; Ministry of Information Affairs Bahrain; Bahrain in Figures 2016; BCG analysis.

¹Saudi Arabia’s private school numbers include both Ahlia and international schools. ² Kuwait’s private education market includes both private Arabic and foreign schools.

from \$1.9 billion in 2017 to \$3 billion in 2023, owing to population growth, enrollment growth, and tuition fee increases.

- **Population growth:** Dubai's population is predominantly expatriates and the number of expatriates is expected to grow even more with the launch of Expo 2020 and other mega-projects. However, some expats have begun to leave the UAE owing to tightening economic conditions and increasing costs of education.
- **Shift toward private schools:** The number of Emirati students (that is, citizens of the UAE) enrolled in private schools is expected to rise from approximately 56% to 66% by 2023, driven by parents' increased interest in private schools and the government's ambition to double the number of Emiratis enrolled in private schools rated "good" or better.³
- **Tuition increases:** The average tuition fee per student is expected to increase at a 4% CAGR between 2017 and 2023, which is a slower rate than in the past (tuition grew at a 9% CAGR between 2012 and 2017). Although regulations will cap tuition fee increases and tie them to the education inflation index and school performance, enrollment growth will counterbalance those restrictions. Revenue per student for expatriates is expected to grow since the average length of stay in Dubai continues to increase, but expatriates may opt for lower-fee schools in light of tightening economic conditions and reduced employer support for education costs. In a survey conducted by HSBC, Europe's largest bank, 75% of expatriate parents said the cost of their children's education made it difficult to keep up with other financial commitments.

In Dubai, there is currently an oversupply of international private schools with high- and premium-range fees, and not enough international private schools with low- and medium-range fees. In 2017, schools with high- and premium-range fees began to ad-

vertise, implement loyalty programs, and slash their fees by as much as 33% to attract and retain students.

Abu Dhabi. The Abu Dhabi private school market is expected to grow approximately 60%, from \$1.3 billion in 2017 to \$2.2 billion in 2023. Of the 373,000 students in Abu Dhabi, 65% are enrolled in private schools. 86% of expatriates are enrolled in private schools, while 37% of Emirati students are in private schools. The private education market will continue to grow, driven primarily by enrollment growth and increases in tuition fees.

- **Enrollment growth:** Between 2017 and 2023, enrollment in private schools is expected to grow at a 4% CAGR, according to Abu Dhabi's Department of Education and Knowledge.
- **Tuition increases:** Tuition fees are expected to rise approximately 4% per year. Expatriate enrollment in schools with mid-range tuition fees will increase, while enrollment in high- or premium-fee schools will level off. This is owing, in part, to the fact that employers are less willing to provide education allowances to subsidize tuition fees for the children of expatriates.

Challenges in UAE. With such a predominant expatriate population, UAE schools experience high churn rates. In addition, school services, such as extracurricular activities and career counseling, are driving up costs and making it difficult to invest in low-tuition schools. Finally, Emirati families have strong views on the cultural environment when selecting a school for their children, and international private schools are less likely to cater to local preferences.

Opportunities in UAE. To meet the needs of Emirati students, there is a need in the UAE for high-quality schools, with a rating of "good" or better, that cater specifically to local preferences (by offering gender segregation and adequate provision of Arabic and religious studies, for example). For expatriate families, there is a need for

high-quality schools, with fees in the low-to mid-tuition range, structured around the Indian, standard UK, International Baccalaureate (IB), and US curriculum. There is also an opportunity to leverage Dubai's drive to become a test-bed for innovation by introducing schools with modern, digital approaches to education.

Saudi Arabia: A \$12 Billion Opportunity

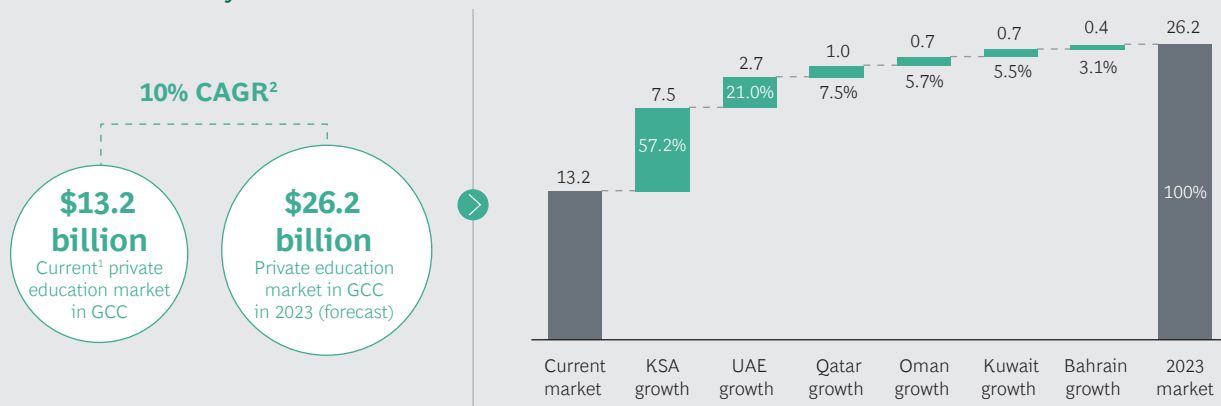
Saudi Arabia's private schools will account for the lion's share of growth in the GCC region. The private education market is poised to more than double, from \$5 billion in 2016 to \$12 billion in 2023. (See Exhibit 4.)

This growth will be fueled by several factors:

- Shift toward private schools:** In line with Vision 2030, Saudi Arabia's Ministry of Education launched an ambitious strategy to raise the quality of education, transform youth mindsets, and strengthen the economy. We estimate that the share of students in private schools is set to increase from 18% in 2017 to 30% by 2023, and the government has offered incentives to
- Expatriate population growth:** The expatriate population continues to grow, and these families are more likely to enroll their children in quality private schools.

support this increased enrollment in private schools. Ahlia schools (private schools delivering the national curriculum) will start to differentiate and complement their offerings with international curricula, new learning resources, and extra-curricular activities. This opens up a very attractive compromise for Saudi students who still want the national curriculum in addition to the enriched offerings of private schools—all in a very Saudi-centered cultural environment. Also, Saudi nationals are now allowed to enroll in private international schools and the country is allowing 100% foreign ownership of companies in the education sector. The Education Evaluation Commission (EEC), Saudi Arabia's quality assurance agency, has already begun inspections of schools, and we expect that the commission will eventually make their outcomes available to the public. This information will likely motivate more families to enroll their children in private schools.

EXHIBIT 4 | In the GCC Region, 57% of Growth Will Be Driven by the Saudi Arabia Market
 Size of GCC k-12 private school market: current and future



Source: Kuwait Statistics Authority; World Bank; Saudi Arabia Ministry of Education (MoE) data; Qatar MoE data; Dubai Statistics Center; Vision2021.ae; Knowledge and Human Development Authority (KHDA); UAE MoE data; FXExchangeRate.com; ADEK Annual 2016-2017 Report; Edarabia; Ministry of Information Affairs Bahrain; Bahrain in Figures 2016; BCG analysis.

¹Bahrain and Kuwait data for 2015; UAE, Dubai and Abu Dhabi data for 2017; all others for 2016. CAGR taken as 2016-2023.

- **Enrollment growth:** Saudi Arabia has a relatively low enrollment rate at the kindergarten level (less than 20% versus 60% to 90% in the rest of the GCC). Vision 2030 and the Ministry of Education has set ambitious targets for kindergarten enrollment by 2020.
- **Tuition increases:** Private school fees are likely to rise faster than inflation as school offerings become more sophisticated in terms of curriculum, learning resources, teacher qualifications, and extra-curricular and ancillary services.

Challenges in Saudi Arabia. Red tape and bureaucracy are not uncommon across GCC markets, and processes to obtain permits and licenses in Saudi Arabia can be inefficient and time-consuming. There is also a shortage of qualified teachers (strict Saudization ratios restrict the number of expatriate teachers and it is difficult to attract qualified expatriate teachers given the competition with the rest of the GCC), and public schools offer favorable salaries, benefits, and hours compared to private schools. The government is making an effort to address these challenges, but change takes time.

Opportunities in Saudi Arabia. Saudi Arabia is still a relatively immature market, with few international schools, limited exposure to international curricula, and limited experience with international investors. There is a strong need for high-quality private schools that offer a variety of curricula and fee ranges. We are already seeing more international partnerships (for example, a memorandum of understanding was signed with the UK in March 2018 to develop teaching methodologies and capacity building in Saudi Arabia, particularly in early education). We also expect to see greater consolidation in the private education market, increasingly sophisticated educational offerings, and additional emphasis on educational support, such as teacher training and extra-curricular offerings. There are also significant opportunities for growth in Saudi Arabia given the announcement of recent mega-projects, such as NEOM, a high-tech

mega-city that will be four times the size of Dubai and will attract Saudis and foreigners alike (current projections do not include these mega-projects).

Qatar: High Demand in an Uncertain Political Climate

Qatar's private school market has the potential to grow from \$1.4 billion in 2016 to \$2.4 billion by 2023. This growth is owing to four factors:

- **School-aged population growth:** There will be an increase in the number of families with children age 3 to 17, but this growth will be somewhat slower than in the past given the current diplomatic crisis and its effect on the expatriate population.
- **Enrollment growth:** The private school enrollment rate for kindergarten is expected to increase from 55% to 80%, and enrollment in other grade levels, which is already high, will continue to hold steady.
- **Shift toward private schools:** The number of students enrolled in private schools is expected to grow, from 62% to 70%, as demand for private schools still exceeds the supply.
- **Tuition increases:** Tuition fees are expected to increase in line with inflation.

Challenges in Qatar. Qatar is embroiled in a diplomatic crisis with its neighbors, which has led to an uncertain political and economic climate. This situation could alter expatriate demographics and negatively affect the overall economy.

Opportunities in Qatar. There is strong demand for private schools in Qatar, across all types of curricula and fee ranges. It used to be that expatriates were not allowed to attend public schools, but the government has had to relax that policy because of the shortage in private schools. There are also opportunities for public-private partnerships given Qatar's transforma-

tion of its public schools into independent schools.

Kuwait: Opportunity for Large-Scale Operators

Kuwait's private school market is expected to grow from \$1.3 billion in 2015 to \$2 billion in 2023. This is primarily owing to two factors:

- **Population growth:** The overall population in Kuwait continues to grow steadily, both for Kuwaitis and expatriates.
- **Shift toward private schools:** Kuwaitis are increasingly shifting to private schools, as families are more willing to spend on education and better quality.

Challenges in Kuwait. The government of Kuwait can sometimes allocate land in inconvenient locations (away from residential areas, for example), offer little support or subsidies for private international schools, and place strict caps on fee increases. In 2016, for example, the Education Minister issued a decree to halt private school fee hikes. Because of competition with the UAE, Bahrain, and Qatar, it can be difficult to attract and retain teachers. Kuwaitization ratios restrict the number of expatriate teachers, and a new decree prohibits visas for expatriates under the age of 30 (although this has been placed on hold for now), which further limits the pipeline of talent. Finally, without comparative data on school ratings, it's difficult for parents to compare school quality.

Opportunity in Kuwait. There is demand for high-quality private schools, across all types of curricula and fee ranges. With its highly fragmented market, primarily composed of standalone private schools, there is an opportunity for large-scale operators to enter.

Oman: Significant Room for Growth

Oman's private school market has the potential to grow from \$1 billion in 2016 to

\$1.8 billion in 2023. Growth in the private education market will be driven primarily by one factor:

- **Enrollment growth:** Only 23% of Oman's 730,000 students are enrolled in private schools, lower than the 30% GCC average, indicating plenty of room for growth. Enrollment in private schools in Oman has grown at a 7% CAGR, whereas enrollment in public schools has only grown at a 2% CAGR. This trend is expected to continue, albeit at a slightly slower rate (approximately 5%).

Challenges in Oman. The private education sector in Oman is relatively immature, with a restrictive regulatory environment (under current law, companies must be 35% locally owned, for example). Oman also has the lowest GDP per capita, as compared to other GCC countries, and therefore its citizens have less purchasing power. In addition, government scholarships favor public school students, placing private school students at a slight disadvantage if they hope to be selected for scholarships to study abroad.

Opportunities in Oman. Omanis place more value on the quality of education than ever before, and the government is engaging with the private sector to increase enrollment in preschools. The private school market is highly fragmented, composed mostly of standalone private schools, and there is a need for high-quality private international schools with low- to mid-range fees.

Bahrain: Investor-Friendly Market

Bahrain's private school market is smaller than other GCC markets, given its smaller population, but it has the potential to grow from \$0.4 billion in 2015 to \$0.7 billion in 2023. This growth is owing to three key factors:

- **Shift toward private schools:** The expatriate population is growing, Bahrainis are increasingly interested in

private schools, and the government is offering incentives to attract private and foreign investment.

- **Tuition increases:** Tuition fees will continue to grow at approximately 3% per year.
- **New enrollment opportunities:** Bahraini schools have better outcomes than many other GCC countries, which has created an opportunity to attract students from Saudi Arabia's Eastern Province.

Challenges in Bahrain. It can be challenging for private schools to navigate the regulatory environment and compete against public schools. The Bahrain Quality Authority classifies 30% of public schools as "outstanding," whereas only 18% of private schools have achieved this classification. With public schools continuing to improve, and a sluggish economy that has reduced consumer spending, Bahraini nationals may be less willing to pay for private schools.

Opportunity in Bahrain. Bahrain is a highly fragmented market, with no large-scale operators. The country offers an investor-friendly environment with fewer barriers to entry than the rest of the GCC region. There is a need for high-quality private international schools with low- to mid-range fees.

The private education market in the GCC is continuing to grow quickly. With strong population growth and greater transparency into school quality, the opportunities for investment are excellent. But private school operators and investors must understand the unique requirements within each GCC market and focus their efforts on underserved segments. With so much fragmentation across the GCC region, there is an opportunity to consolidate schools into networks and scale up over time. By finding the pockets of opportunity and filling the gaps, new entrants and existing operators can make a meaningful difference in the education landscape.

NOTES

1. See "Education Gaining Prominence Across GCC," Kuwait Times, February 20, 2017: <https://www.pressreader.com/kuwait/kuwait-times/20170220/281552290622326>.
2. Parents in the UAE spend approximately \$100,000 on a child's education, from primary school to undergraduate level, which is second only to Hong Kong (at \$130,000). See "Parents in these Places Spend the Most on their Children's Education," World Economic Forum article, August 2, 2017: <https://www.weforum.org/agenda/2017/08/parents-in-these-countries-spend-the-most-on-their-childrens-education/>.
3. See "Dubai's Crown Prince Wants to See More Emirati Pupils in Private Schools," Arabian Business, November 2, 2017: <http://www.arabianbusiness.com/industries/education/382627-dubais-crown-prince-wants-to-see-more-emirati-pupils-in-private-schools>.

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