

Client Alert

Global Islamic Finance & Investment Practice Group

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Saudia Arabia's new finance minister faces questions over implementing Vision 2030 in education sector

Saudi Arabia last week appointed Mohammed al-Jadaan as the country's new finance minister. Al-Jadaan has reinforced his commitment to the country's Vision 2030 initiative, which was revealed earlier this year to serve as a "roadmap" for developing the Kingdom's economic and infrastructure during the next 15 years.

One of the major planks of Saudi Arabia's Vision 2030 economic reform programme is education. The education sector is seen as fundamentally important to the future success of the Kingdom and the country's ability to compete internationally with the best of the best.

Al-Jadaan will have to look at a number of issues when assessing how best to deliver on the education investment needed to satisfy the Vision 2030 goals. At present, the Kingdom funds around 80 per cent of education directly but it is likely that more private sector involvement, both in constructing and financing schools, will be needed.

The PPP option

One option is public private partnerships (PPPs), which have been used around the world as a means of fulfilling government education policy. Some of these projects have been a resounding success. Others have not.

The starting point of any discussion on the implementation of PPPs in the education sector is public policy. The policy framework sets the key parameters for the government and private sector and is the instrument through which both the government and private sectors can be held accountable for the success or failure of the PPP scheme.

Shifting the capital expenditure school building burden from the government to the private sector is a key policy feature of the Saudi government but it is clear that other objectives are equally important. A review of Saudi Arabia's National Transformation Programme (NTP)

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provides interesting insights into what the government intends to achieve. The NTP reveals eight education strategic objectives, namely:

- providing education services for all student levels
- improving recruitment, development and training of teachers
- improving the learning environment to stimulate creativity and innovation
- improving the curriculum and teaching methods
- improving student values and core skills
- enhancing educational systems to address national development requirements and labour market demands
- developing creative financing methods, and
- increasing private sector participation.

The real question is do PPPs work in the education sector and will they be a success in Saudi Arabia? It is worthwhile taking a tour of the global PPP education market at this point. Europe, by far, has been the pioneer in the education PPP sector over the last 15 years. European countries have closed more deals than the rest of the world put together by at least a factor of three. The United Kingdom has been the leader within Europe, followed by France and then Germany. The Americas are next in the rankings with 20 projects in Canada, 13 in the US and at least one in Mexico. After that is Asia, followed by Africa.

When the projects in these jurisdictions are analysed a number of trends can be identified. The table below sets out some of the key features, together with their advantages and disadvantages.

Structure	Description of Services	Advantages	Disadvantages
Outsourcing infrastructure	<ul style="list-style-type: none"> • School building • Financing capital works • School maintenance 	<ul style="list-style-type: none"> • Increase in number of schools • Allows existing schools to be renovated • No government capital expenditure 	<ul style="list-style-type: none"> • Achieving Quality • Achieving value for money
Outsourcing Management	<ul style="list-style-type: none"> • Finance • HR • Leadership 	<ul style="list-style-type: none"> • Allows schools to focus on teaching • Private sector innovation 	<ul style="list-style-type: none"> • Defining suitable KPIs • Achieving value for money
Outsourcing Supporting Services	<ul style="list-style-type: none"> • Catering • Cleaning • Security • Transportation 	<ul style="list-style-type: none"> • Allows schools to focus on teaching • Cost savings 	<ul style="list-style-type: none"> • Accountability • Defining KPIs
Outsourcing Professional Services	<ul style="list-style-type: none"> • Teacher Recruitment • Teacher Training • Quality 	<ul style="list-style-type: none"> • Allows schools to focus on teaching • Innovation • Higher standards 	<ul style="list-style-type: none"> • Accountability • Defining suitable KPIs • Achieving and

	certification		maintaining high quality teaching
Outsourcing Teaching	<ul style="list-style-type: none"> Teaching children 	<ul style="list-style-type: none"> Improvement in teaching standards Teaching provided in rural/remote areas 	<ul style="list-style-type: none"> Accountability Defining KPIs Achieving and maintain high quality teaching

Key question

The fundamentally important question is which of the above approaches should be adopted by a host government embarking on PPP in the education sector for the first time. At one end of the spectrum, the government could decide to grant a PPP concession on the basis that all of the above features are combined into a single project and outsourced to a single private sector developer. The developer would be in charge of: building schools; financing school building; administration and finance; catering, cleaning and transportation; teacher training and recruitment; and the teaching of children.

The education of the child population of a country is an intrinsically sensitive and delicate issue. Governments cannot afford to get it wrong by first deciding to outsource to the private sector through a public private partnership and second adopting the wrong PPP structure. The consequences are potentially dire. For that reason, it is fairly unusual to see PPP projects in the education sector covering such an expansive scope. The determining factor often turns on a country's lack of fiscal flexibility, combined with a crumbling education infrastructure and a willingness amongst politicians to take a risk on the private sector. In other words, the government has no choice.

If such wide-sweeping projects are to succeed, the interests of the public and private sectors must be closely aligned and reflected in the terms of the PPP agreement. This has proven to be an incredibly difficult task. Successfully allocating risk so that the public sector obtains value for money in the provision of PPP services whilst the private sector is fully incentivised with appropriate returns on its investment has generally been elusive.

Unless the host government has no choice, it is arguable that the better approach is to limit the role of the private sector to school construction (including the financing of that construction) and facilities management. The interesting piece is facilities management. This can be packaged in an expansive manner, or in a more limited fashion. The expansive approach includes "soft facilities management", for example, the support services referred to in the table above: cleaning, catering, transportation and security. The more limited approach is often referred to as "hard facilities management" and typically includes buildings maintenance, energy management and life cycle renewal.

The distinction between soft facilities management and hard facilities management proved to be extremely controversial in the context of the PPP programme in the United Kingdom. The politically charged national debates culminated in the cancelling of the Public Finance Initiative (as it was referred to locally) and the introduction of a new scheme called PF2. The conclusion was that PPP projects were best structured on a

hard facilities management basis and that soft facilities management did not achieve the value for money that the UK government had originally anticipated.

Each country, of course, is different and it could be argued that the United Kingdom had its own unique circumstances. Nonetheless, the choice of the type of facilities management – soft or hard – is a critical threshold question for any government embarking on a public private partnership in the education sector.

Saudi Arabia will have to decide how it wishes to proceed with its education PPP programme and what that programme will look like. The Kingdom has a significant advantage in that it has no shortage of success stories in closing multi-billion dollar infrastructure deals. Almost all of these deals have been in the industrial sector: petrochemicals, power and water – to name a few. Many of these deals were project financed on a build own operate (BOO) basis and fall into the same conceptual ball park as a PPP project.

However, social infrastructure is different and the achievement of value for money should be an imperative. A number of key threshold decisions will have to be made but considering that hundreds of PPP deals in the education sector have been closed globally, the Kingdom is in a uniquely informed position to guide the sector to success.

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