

...playing  
until they get it right

Billie Jean King

The future belongs  
to those who believe in  
the beauty of their  
dreams

Eleanor Roosevelt

If I have seen further than others,  
it is by standing on the  
shoulders of giants

Education infrastructure

ppp

comes of age

prep

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Design &  
Technology

*Between 2000 and 2010, global investment in education grew rapidly. Governments began to attract private capital to build and modernize school building infrastructure in the education sector. Global investment has been growing especially strongly since 2005, and even continued to grow during the 2009 to 2010 global financial crisis. The impact of the crisis on public finances and the availability of long-term debt did, however, ultimately have an impact. Activity decreased in a number of countries, and reflecting this, the total volume of investments started to wane during 2011 and 2012.*

## THE RISE OF PPPs

PPPs have been widely applied to the delivery of education facilities in the last 15 years. Under this approach, the governments pay private companies throughout the concession period for the construction, operation, and often the maintenance of education infrastructure facilities. The sheer number of education projects developed through PPPs argues that positive results can be achieved in well-structured education PPP projects as governments benefit from private sector expertise and rely on timely and efficient delivery of infrastructure, operation, and maintenance of the facility. PPPs opened an alternative way of

## WHAT MAKES EDUCATION PPPs UNIQUE?

PPPs in education present a unique set of challenges that distinguish them from traditional infrastructure PPPs such as transport, telecommunications, energy, and water. They rely heavily on political support and imply greater interdependence between the government, which pays for the infrastructure, and the private sec-

tor, which delivers and manages it. Education infrastructure requires thorough preparation and assessment of facilities—including consideration of factors such as demographics, innovation in teaching, and technology changes—that ultimately creates a user-friendly environment for learning and development.



Photo © BSF in Hull / The Winifred Holtby School

delivering essential social infrastructure through the structures of these contracts.

Although PPP use has increased considerably over the last 10 years, traditional procurement remains widely used as countries which promoted the use of PPPs, such as Australia, Canada, Germany, and the United Kingdom, continue to develop education projects through design and build contracts.

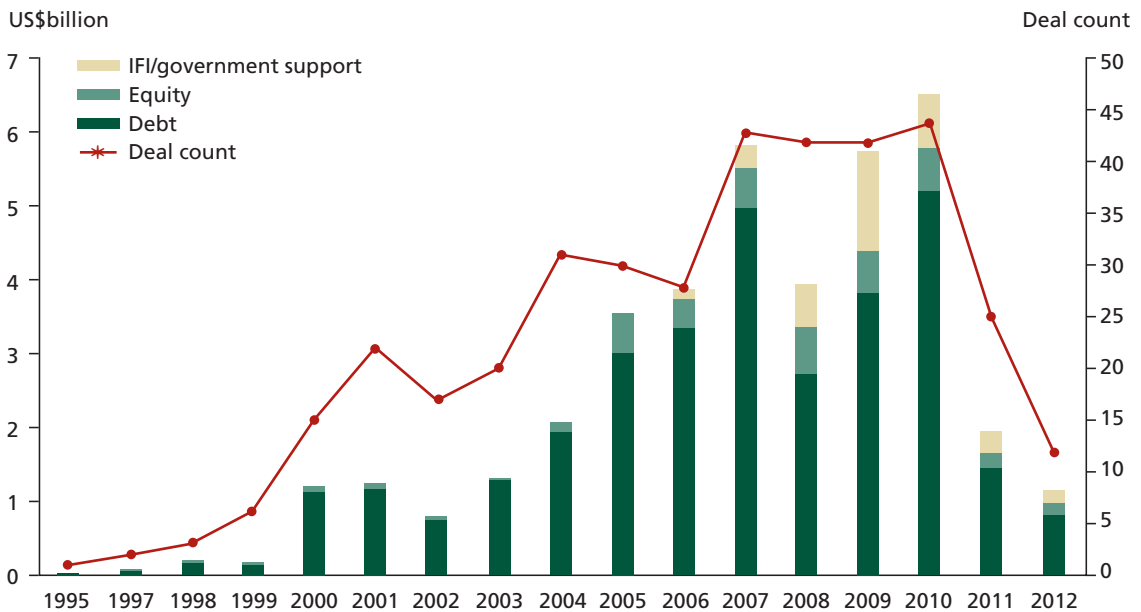
Looking ahead globally, as governments seek to apply the lessons learned from conventional PPP schemes in transport and other economic infra-

structure, education PPPs are well-positioned to grow in importance.

The chart below shows the volume of global investments that went to finance education PPP projects from 1995 to 2012. A total of 383 projects have been recorded to reach financial close within this period, with a total value of around \$40 billion.

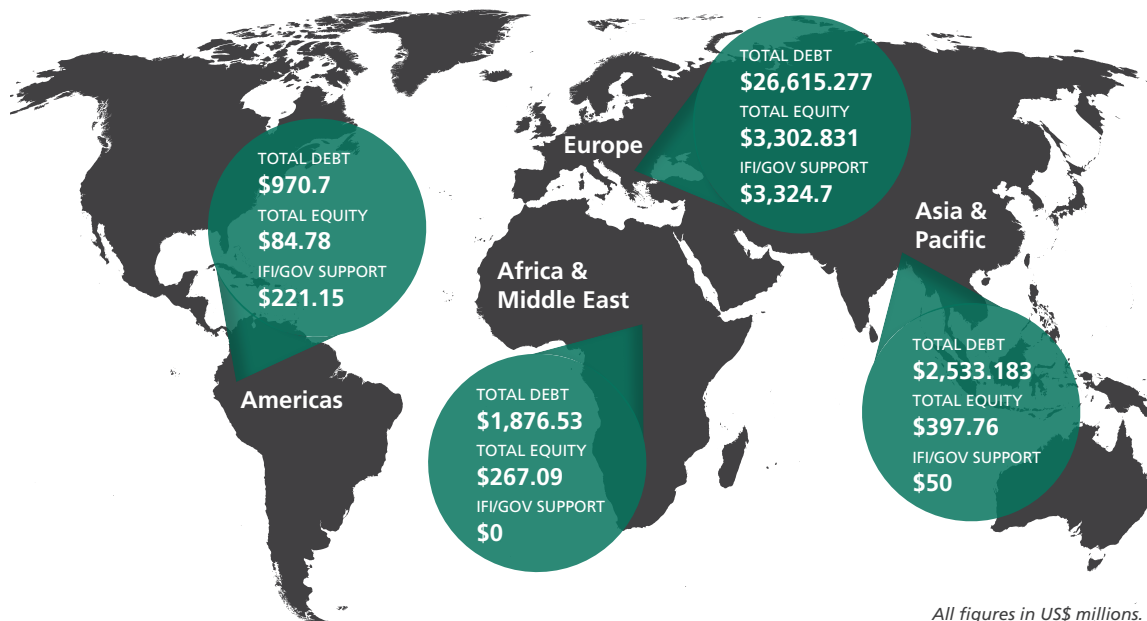
The market was the most active from 2007 to 2010, recording the highest level of investments in education. It is worth noting that the volumes in 2009 and 2010 were bolstered by two multibillion dollar projects in the United

### Global investments in education, by sources of funding



Source: Infrastructure Journal

## Regional investments, by source of funding (1995 to October 2012)



All figures in US\$ millions.  
Source: Infrastructure Journal

Arab Emirates and Belgium. Many education projects during this period (around 37 percent or 140 deals) were small projects with capital value below \$50 million. There were 238 deals between \$50 million and \$500 million.

Among the five deals that had capital values above \$500 million were three British schools: Glasgow Secondary Schools, Tower Hamlets BSE, and South Lancashire Schools PFI. In addition, there were two record high value deals: Zayed University in the United Arab Emirates (worth \$1.2 billion) and the Flemish Schools PPP in Belgium (worth \$2.8 billion).

## WHO PAYS?

The education projects considered here have been financed primarily with the use of debt through project finance structures. This means that commercial banks have lent the bulk of the capital costs required for the construction of projects—usually around 80 percent of project costs. This has been a preferable way for the government to fund construction and modernization for quick and efficient delivery of educational facilities.

Debt levels fluctuated in 2008 at the onset of the global financial crisis, and the share and overall volume of debt financing fell dramatically

before rising again in 2009 and 2010 (thanks to the two aforementioned mega projects in the United Arab Emirates and Belgium). There was a considerable drop in 2011 with a further decline in 2012. Difficult economic conditions are partly the reason for the slowdown in activity, as it has become a challenge to commit public funds to projects in countries with mounting

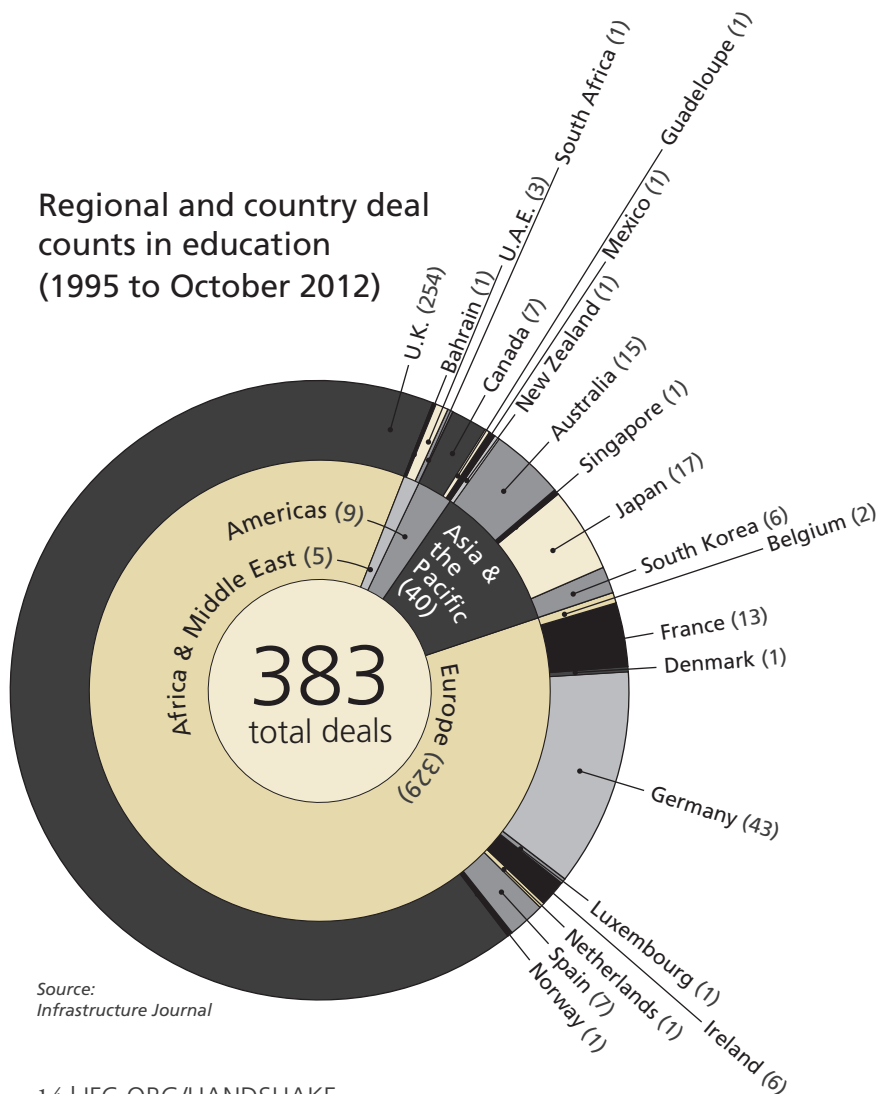
sovereign debt problems and stagnant national economic growth. Changes in politics and ruling governments also meant changes to the priorities of education overall as a sector and the level of investments allocated to it.

## REGION BY REGION

Europe has been the most prominent region for private capital investments in education. It is supported by stable legislation and regulation regimes across its jurisdictions, as well as strong political will and financial and institutional support behind the delivery of education projects. A number of education-specific policies and governments' financial commitments have helped to deliver education infrastructure—primarily school buildings.

Within Europe, the United Kingdom has been the most active market for private capital investments. It was supported by a well-established PFI procurement process,

Regional and country deal counts in education (1995 to October 2012)



Source: Infrastructure Journal

as well as the U.K. government's support in the form of PFI grants and guarantees, the support of the European Investment Bank, and the government's landmark £55 billion Building Schools for Future (BSF) program, which in 2004 announced the goal of rebuilding every secondary school in England. These factors together helped boost private investments in the delivery of a number of school buildings, student accommodation, and higher education facilities in the country. There were a total of 254 projects valued at \$26 billion reaching financial close in the U.K. market since 1995.

However, the United Kingdom may have trouble retaining its position as a global leader in attracting private investments for education infrastructure. In 2010, the newly elected U.K. government conducted a review of the BSF program, which resulted in the cancellation of around 700 schools throughout England. The cuts in the BSF program have affected the volume of private investments in education and lowered the United Kingdom's position in the global education infrastructure market.

## THE FUTURE LOOKS SMARTER

Going forward, emerging markets are set to increase their share in the global volume of education sector investments. Many of today's developing markets will be looking to build or modernize education infrastructure as a result of a growing student population. Emerging markets need to address population needs to create more inclusive growth patterns and to offer their workforce more and better jobs in their national economies. Many countries have already started

to attract private expertise and capital to the construction, operation, and maintenance of schools through the use of PPPs; private capital is sometimes auxiliary and invested alongside regional or central government funding.

The United Kingdom, despite the government's decision to cut the BSF program, is still committed to delivering education projects, albeit through a modified PFI procurement model that came into force in July 2011. This \$4.8 billion priority schools building program now has both PFI and fully government-financed school projects.

Consistently active education markets—including Canada, France, and the United Kingdom—currently have a late-stage mature pipeline of projects in education. Other countries across the globe are also delivering a number of education projects with the help of the private sector, including Brazil, Canada, Denmark, Egypt, Finland, Hungary, India, Ireland, the Netherlands, the Philippines, Poland, Russia, Saudi Arabia, and also the United States. By prioritizing investments in education infrastructure in tougher economic times, these governments ultimately hope to increase enrollment in schools and create jobs for education professionals while getting a head start on fulfilling their economy's skills requirements for the future. □

*Note: The charts were created using the data for the new-build or expansion construction projects and their primary financing; no secondary market activity has been included.*