

# ADB Private Sector Financing for RMIT International University Vietnam: an Investor's Perspective

Professor David Wilmoth  
CEO, RMIT International University Vietnam

4/05/2001

Paper prepared for Seminar on Private Sector Development Strategy: The Strategy in Action – an Investor's Perspective, Asian Development Bank Annual Meeting, Honolulu, 8 May 2001. The Author is Executive Director Major Projects, Royal Melbourne Institute of Technology, and Director-General, RMIT International University Vietnam. The paper has been prepared as a draft at short notice and comments to the author ([wilmoth@rmit.edu.au](mailto:wilmoth@rmit.edu.au)) are most welcome.

## Approach to Investment

On 26 April 2001 the Asian Development Bank approved a credit valued at USD7.5m for RMIT International University Vietnam, a private university established under foreign investment law in Vietnam and fully owned by RMIT, an Australian university. This paper describes the investor's engagement with ADB private financing and reflects upon the process.

Just as education and training are now seen by governments as vital investments for human resource development and the knowledge economy, multilateral financial institutions such as the ADB have recognised opportunities for financing education as a means of assisting emerging economies to bridge their wide gaps in skill formation and educational development. The sector is strong in Asia and growing fast. However, participation in higher education in Asia is still low, and the demographic bulge and growing school completions create severe social pressures, as well as economic needs, for expansion of opportunity.

In Vietnam many hundreds of thousands of eligible university entrants fail to gain a place in the national university system, enterprises cannot find professionally trained staff, and the growing market for private provision is insufficiently developed in quantity and quality<sup>1</sup>.

The ADB's private sector strategy recognises the role of the private services sector in promoting growth and alleviating poverty, and the bank's private sector group has actively moved to engage with the private education sector.<sup>2</sup>

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<sup>1</sup> Kristy Kelly (ed) *Higher Education in Vietnam: Prospects for US Universities*, Institute of International Education, Hanoi, 2000.

<sup>2</sup> Asian Development Bank: *Private Sector Development Strategy*, Manila, March 2000.

The global education market is huge<sup>3</sup>. International education, by which students, education programs or education providers cross national boundaries, is a fast-growing component of the sector, particularly higher education and particularly in Asia<sup>4</sup>. The number of students travelling for education outside their own country is growing fast and the largest share of that growth is in East Asia. This movement has a transforming effect on destination countries and institutions, not only in host universities (e.g. RMIT has 7500 international students in Melbourne, or 22 percent of the student body there), but in local economies and cultures (e.g. international students make up a substantial portion of the population of the City of Melbourne). It enriches international understanding and cultural tolerance.

But sending students and trainees overseas satisfies only a small portion of demand in the emerging economies, and typically for the wealthy and well-connected. Moreover it is often linked with migration and non-returns are seen as contributing to the brain drain and loss of foreign exchange. In Asia this outflow is rarely reciprocated by return movements of students from developed countries to create a balanced flow. Non-tariff barriers to trade such as government monopolies, recognition of academic awards, curriculum controls, visa quotas etc limit the scale of such movements, as highlighted by the education reference to the current WTO services round<sup>5</sup>

Just as in any other industry, trade in education and training through study abroad leads to investment in the origin countries. First, universities establish twinning partnerships with

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<sup>3</sup> See eg James Tooley: *The Global Education Industry: Lessons from Private Education in Developing Countries*, Institute of Economic Affairs Education and Training Unit and International Finance Corporation, London, 1999. Also UNESCO, IDP report, GATE data, IMHE.

<sup>4</sup> e.g. David Ashton, Francis Green, Donna James and Johnny Sung: *Education and Training for Development in East Asia*, Routledge, London, 1999.

<sup>5</sup> See Marjorie Griffith Cohen: 'The General Agreement on Trade in Services: implications for public post-secondary education in Australia' *Australian Universities Review*, 2, 1999 – 1, 2000: 9-15.

local institutions, typically universities, private colleges and professional associations, whereby foreign diplomas and degrees are offered locally through branded courseware and a learning process involving international and local staff. The overseas university only rarely takes an equity interest or provides any tangible assets. This twinning model has expanded strongly in East Asia and not only in poor countries but in countries such as Singapore that choose to limit the number of local university places (e.g. RMIT currently enrolls around 3500 students there).

Sometimes companies are established to solidify these service agreements. Where a third party or the foreign university provides tangible capital (as distinct from the occasional practice of in-country provision of minority equity for intellectual property), the scale of the enterprises can expand and more students and clients can be served. However for some providers and government regulators both at home and abroad, questions of quality assurance have arisen, sometimes real or, in some protectionist cases, imagined. In any case, twinning and joint-venture programs make only a small contribution to meeting the demand for university places and higher-level training so pressing in ADB's region.

The next step along the trade-investment cycle is direct foreign investment. Keen to internationalise their own activity, capitalise on domestic investment in courseware conversion, expand opportunities in emerging economies and provide places abroad for students and clients at home, some foreign higher education providers may seek to invest more actively in direct provision. This may take the form of investment in information and communications infrastructure for e-learning, particularly internet platforms, marketing

networks and learning centers<sup>6</sup>, or in acquiring or building university campuses. Many such ventures, including RMIT International University Vietnam, involve both.

## **Design of the investment proposal**

This is the path RMIT has taken in Vietnam. Its international strategy classified Vietnam as a high-priority country with long-term growth prospects and immediate opportunities for development assistance and community service. There is a large community of Australian-Vietnamese in Melbourne and RMIT has adopted a policy to internationalise its programs, students and staff. After establishing a number of successful university partnerships in Vietnam and providing a building in Hanoi, computers, scholarships and books to universities in Hanoi, Ho Chi Minh City and Hue, RMIT found itself the leading destination world-wide for Vietnam tertiary students studying offshore, albeit still in modest numbers. As the university provided a twinning-style Masters of Systems Engineering with Vietnam National University Hanoi and a large training program with Ford Motor Company, it recognised a stronger economy in Vietnam than shown by official statistics and a passion for learning remarkable even by East Asian standards. It helped that Australia and Vietnam have strong bilateral relations that feature education and training.

When the Government of Vietnam invited RMIT to describe how an international university might be developed, RMIT drafted a proposal that addressed the patterns of demand and the particular needs of Vietnam, matching them with the technological and vocational strengths of RMIT.

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<sup>6</sup> e.g. see NextEd for one and Sylvan Learning for the other.

As a country of over 80m people in transition from a planned to market economy, enriched by its own long tradition of university education but damaged by war and poverty, Vietnam presented particular challenges. Strong though RMIT's partnerships with local universities and their programs remain, the direction of the invitation was towards full foreign ownership and independent international curricula, so that a new university, with a technical and vocational emphasis, might quickly come into being as a model and training ground to assist the development of capacity in the education and training sector as a whole.

To enable such a venture to start in Vietnam required changes to law and regulations as well as changes in attitude to national self-reliance and cultural protection. The government pressed ahead and made the changes. Vietnam has not been given sufficient credit internationally for opening its education, health and scientific research markets to direct foreign investment in a more open manner than most ASEAN and many Asian countries. Determination to meet the educational and employment needs of the exploding number of young people and to provide a skill base for modernising industries overcame traditional caution and political concern about opening up the education sector to private investment.

Nevertheless the very basic levels of infrastructure, less developed state of markets and low average levels of income presented particular challenges to designing a viable project.

First, any foreign university hanging up its shingle and expecting wealthy fee-payers to enrol in a conventional range of programs would be bound to fail. Market research showed a number of promising sectors and discrete sub-markets, each needing its own approach to program development and provision. A student loan scheme, a scholarship program and a

foundation for philanthropic contributions from overseas Vietnamese and others would have to be important parts of the proposal.

Second, to provide programs at international standard at a reasonable price for people in Vietnam and surrounding countries, an educational model different from current Vietnamese practice and indeed at the forefront of current international practice would be needed, with an emphasis on electronically distributed courseware, client-driven learning and rapid staff development of local academics.

Third, a purpose-built campus was essential, given that the telecommunications infrastructure for full on-line delivery is not yet developed and that the new modes of learning require different building layouts and infrastructure setups from that allowed by most existing buildings and practiced by most prospective twinning partners.

Fourth, Ho Chi Minh City was the best location for the main campus, given the government's characterisation of regional higher education policy. The northern regions emphasise scholarship, fundamental research and the humanities, the central regions emphasise culture, the arts and history, and the southern regions emphasise technology, business and applied research. In practice, consistent with the licence and government encouragement, particular opportunities are pointing to a national network of campuses and sites rather than just one location.

Fifth, the international perception and credit grading of Vietnam is one of high risk, and even with continuing economic growth and policy reform, direct foreign investment has been low. Any investment proposal needed to manage a number of risks. RMIT's governing Council, comprising members with considerable experience in business and finance as well as

education and research, rightly insisted on high standards of business planning and prudent project staging. Financial partners would need to have a long-term outlook and perhaps like ADB have objectives that included but went beyond financial returns.

These features shaped the project design. It had to be a new model for private international education and training delivery appropriate to a large transitional economy.

## **RMIT Vietnam**

The goal of RMIT Vietnam is to contribute world-class professional education, practical training and timely innovation appropriate to Vietnam's economic and social development and to its environmental sustainability.

Its objectives are:

- to contribute to human resource development, employment and skills formation.
- to assist economic development and poverty alleviation.
- to strengthen higher education and training.
- to undertake internationally significant applied research and development.
- to extend RMIT's teaching and learning through direct and remote means.
- to provide community service and interactions in Vietnam
- to provide appropriate returns on investment.

An Investment Licence was issued in April 2000 for RMIT to establish RMIT Vietnam and operate over a period of 50 years. The university is constituted within the framework of the Law on Foreign Investment in Vietnam in terms of capital structure, tax, land lease conditions, foreign exchange regulations and repatriation of dividends/profits. It has an

independent ability to set fees and student targets and to control curricula and academic programs.

The main campus will be established on a 62 hectare site within the Saigon South development corridor, close to the centre of Ho Chi Minh City. The main campus will include education and training buildings, a learning centre, research and innovation institutes, staff/administration building, a multi-purpose amenities building and staff and student housing, and will be constructed in the initial stage of development to 2003. Expansion through other stages to 2013 will occur in phase with demand. The main campus will be an international example of environmentally sensitive delta development.

In the meantime, to make an immediate start, RMIT Vietnam has leased a superb inner city site with a French-style villa, classrooms, pool and recreation spaces, and has opened its doors for intensive English language learning and Masters of Engineering students.

Bachelor programs across the IT sector will start from September 2001. This city campus will build up programs over the early years. With generous philanthropic support, RMIT Vietnam is working with other institutions such as Hue University to build a network of university learning resource centers in support of national library development and distributed access to RMIT programs.

The university will offer a range of qualifications including certificates and diplomas, bachelor, master and doctoral degrees. Foreign languages, short courses and preparatory studies will be offered on-campus and on-line as well as technical assistance, consultancy and industry training services.

Foreign language studies in English and Vietnamese will be an early feature for prospective students and clients. English will be the medium of instruction and modes of delivery will be a blend of campus-based, off-site and on-line teaching and learning with periods of workplace experience. All programs will be supported and maintained by RMIT in Melbourne.

Partnerships with industry, government and NGOs are important for training, work placements, research, innovation and quality assurance. Applied research initiatives are being explored in areas such as software development, food nutrition and health, environmental services and appropriate product design.

A mixture of international and local staff are serving in RMIT Vietnam. Through careful selection and a comprehensive staff development program, the ratio of foreign to Vietnamese staff will shift so that most of the teaching and research will be done by Vietnamese nationals. RMIT Vietnam hopes to provide a model for Vietnamese institutions in terms of curriculum, teaching and learning methods, setting educational and training standards and monitoring learning outcomes. It also hopes to learn much about Vietnam and transfer experience to Australia.

RMIT Vietnam will aim to promote equity and access through targeted intakes, scholarships and support programs aimed at reducing poverty, attracting under-represented groups including women, ethnic minorities and people from remote provinces. The university will ensure that staff and students have the opportunity to become socially and environmentally responsible and engaged with the relevant communities.

The university will produce graduates, develop trainees and support government, business and technology clients who will be leaders in this fast changing region. The venture will benefit Vietnam's sustainable economic and social development, contribute to poverty alleviation and enhance the growth prospects of the region.

## **Financing Role of the ADB**

### **Courtship**

RMIT has been in operation for 114 years, with 55,000 students, an asset base of well AUD 1 billion and conservative prudential standards, so financing the project itself was well within its means. However, as the proposal was offshore and potentially risky, RMIT sought partners and approached (and was approached by) a number of prospective equity investors and long-term lenders. The Asian Development Bank was an obvious choice to consider: it is active in Vietnam's education and training sector, its standards are highly professional, Australia is a member, and it is well-regarded by the government of Vietnam so that it would likely be a useful partner to RMIT in fair weather or foul. RMIT had worked on several ADB financed projects across the region.

However both sides needed to think about it carefully. At that stage RMIT sought from ADB a package of equity and debt, and although the former was not ruled out, free equity was by no means assured. Recourse to multilateral offshore finance was new for RMIT and the possible expenses and complications daunting. As it turned out RMIT was able to meet its equity requirement so the discussions turned to long-term credit.

And why would the ADB take an interest in an Australian university? RMIT is owned by the Government of Victoria. Why would an Australian university expect to win an investment licence in Vietnam, where there was then not even statutory provision for direct foreign programs let alone a licence in hand?

RMIT put themselves in ADB's shoes and produced a statement of the reasons why ADB should consider the project favorably. These reasons are still relevant today.

- *Financial returns:* The proposal was financially viable and pitched as such, attracting returns commensurate with risk.
- *Commercialisation of what ADB called the 'soft' sector:* Development banking has successfully project financed such sectors as urban infrastructure, energy and transport in the Asian region. Government provision of education and health, two very important sectors in the alleviation of poverty, cannot meet basic needs let alone latent demand. It was seen as important to invest in new models of private provision in higher education and training which could be replicated through the region. As the largest face-to-face international provider of these services in the region RMIT put itself forward as a reliable commercial operator.
- *Innovative provision of higher education, training and R&D:* The proposal was presented not only as a means of extending an existing model of provision to meet the large human resources gaps in the region, but as an innovative combination of cost-effective distributed learning systems and hands-on practical applications.

- *Development impact, triple bottom line:* As an exemplary social and environmental venture, the proposal was to be reported in a triple bottom line format: 'Socially, it makes a major contribution to the region's skills development, involving a major – and bold – change to policy in Vietnam. Poverty alleviation through scholarships, targeted program development, consistent equity policies and a student / trainee credit scheme are examples. As a greenfields development in the Mekong Delta, utilising the physical environment as a research locale and design theme, particularly through the use of water, the proposal is expected to be of international environmental importance, not only through its own environmental education and research programs'.
- *HR and capacity building in Vietnam:* The government of Vietnam recognised the need for a 'freestanding' example of an institution that could help transform the education and training sector. Capacity building programs were in place with local institutions and were to be further developed.
- *Regional exemplar:* RMIT knows the higher education and training sector in the region well, and was of the view that RMIT International University Vietnam would be a model throughout Asia for many reasons. It was important the pre-eminent development bank of the region (ADB investment officers preferred 'investment bank') associate itself with such a venture and vice-versa.
- *Product development for the ADB:* The ADB Group has very substantial training, education, research and community service activities. The new international university in Vietnam could provide the Bank with a location, expertise and client base (not least

among linked NGOs), to for cost-effectively ADB use in Vietnam, ASEAN-wide and across the region.

- *Role and experience of the bank and country risk mitigation:* In turn, RMIT was attracted to the Bank given its high standing, its major development role, its experience, its expertise and its financial capacity. RMIT saw that country risk for the project would be reduced accordingly, notwithstanding RMIT's own good reputation in Vietnam.
- *Opportunities elsewhere:* RMIT was positive about the long-term outlook for Vietnam and wished to consolidate its leadership in the emerging higher education and training market with the ADB, seeing further joint opportunities in Vietnam and elsewhere.

## Getting into the kitchen before getting into bed

RMIT thought this was an attractive proposition. However the prospective partners had to spend some time in the kitchen before they could get into bed together. From RMIT's documents, ADB had enough to start on, and in January 2000, jointly with the International Finance Corporation, entered into a three-way mandate to develop a revised project plan and financial package. Though RMIT is well experienced as a provider of technical assistance and training services to ADB and its development assistance clients, it was much less experienced at being an international private finance sponsor. At this stage of the project RMIT tended to see the financing deal close by and commencement of activities in Vietnam in sight, whereas for the ADB it is fair to say the proposal was just beginning. Moreover with a cost for the first stage around USD33m, the project was a large one for RMIT but not for the ADB and IFC. There was concern that the project development costs, including

engagement of the ADB and pursuit of co-financing, would be too expensive, with some costs the same whether the project was USD 33m or 330m.

In practice, the mandate cost has been quite good value. The process was more like a continuing project design workshop with top consultants than a blow-by-blow financial negotiation. ADB and IFC colleagues played a vital role in reshaping the proposal, bringing a constructive approach and high professionalism to bear on its formulation and amendment. Coordination and non-duplication in this co-financed framework were issues needing care and attention. The processes of project cost measurement, market verification and due diligence undertaken under this mandate were painful but necessary.

As possibly the largest on-campus provider of international university education in the world (leaving aside distance-provider mega-universities like China TV University, Universitas Terbuka and Indira Gandhi National Open University<sup>7</sup>), with over 13,000 international students on campuses, RMIT is experienced with managing growth in international service delivery. The dictates of project finance design required RMIT Vietnam to be seen not as a prospect for incremental services sector growth but more as a fixed investment, with a beginning and an end, after which student and client growth would hypothetically stop. This was unfamiliar territory for RMIT.

RMIT took the development advantages of the project as self-evident and focused on making the project feasible, viable and bankable. However, once commercial performance was demonstrated, it became clear that social, economic and environmental objectives were important to the ADB, so further clarification and quantification were necessary. In transition

economies like Vietnam relevant data on social and environmental factors are not always reliable or available, and analysts' appraisal requirements can set demanding requirements.

This was readily accepted because RMIT's own mission, culture and performance measures have always addressed social equity and community service, and more recently, environmental sustainability. It is important that privately financed ventures in the services sector address the needs of many groups in Vietnam, not only, say, the emerging wealthy middle class in Ho Chi Minh City. For many years the perception that development assistance to universities in emerging economies benefits only the elite, and do not 'trickle down' by comparison, say, with primary schooling, has held back multilateral bank support. With the transformation of post-colonial education systems around the world this perception has changed, but the onus to show economic and social returns from education and training is still strong. RMIT International University Vietnam offers a good opportunity to show how privately financed education and training can create shareholder value and also contribute to social, economic and environmental development.

The working relationship has been close, intense and friendly. The ADB has shown flexibility and open-mindedness and a willingness to consider scholarship support and other elements beyond the immediate project financing.

### **Are we in bed yet?**

It is too early for this paper to be retrospective. Though RMIT Vietnam has commenced, ADB has approved credit, and equity is firmly committed, final legal agreements let alone

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<sup>7</sup> Mary Lowe Good: 'The role of the university in the global and technological environment of the 21<sup>st</sup> century', *International Education Forum*, 18, 1, Spring and Fall 1998: 85-98.

disbursements are yet to be concluded. Resettlement and land development on the main campus have not yet commenced. Work to conclude the detailed project agreements is programmed as early as next week.

However, already ADB and RMIT are looking ahead to what more we might do together. The ADB's private sector strategy, and the outstanding staff who comprise the Private Sector Group, offer the region an opportunity to develop sound commercial propositions in the education sector, and help member countries develop capacity beyond the limited means of state-provided programs. RMIT and its new offspring, RMIT Vietnam, stand ready to assist.