Building new campuses in foreign markets: Starting up RMIT Vietnam

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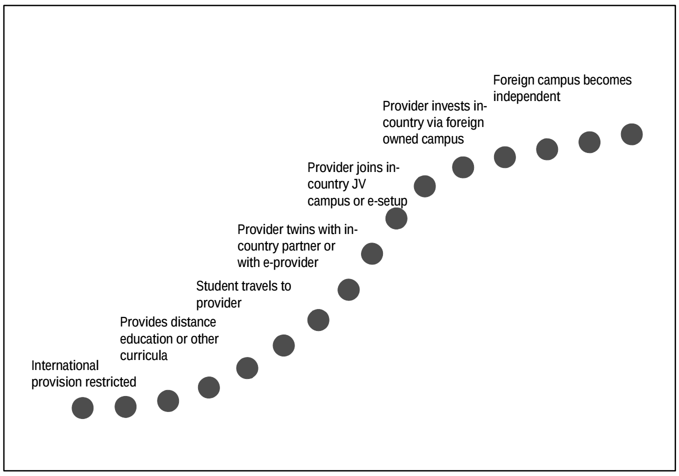
1 Introduction

The internationalisation of tertiary education (here defined as higher education, training and lifelong learning) is following a classic trade-investment cycle whereby trade in education services (in this case students going abroad to study) is followed by delivery in their own countries through franchise or distance education programs, by foreign direct investment in productive capacity (e.g. shared campuses, joint ventures), then by fully-owned campuses whether acquired or newly developed (see figure 1) [1].

Figure 1: Stages of international investment commitment



The investment part of the cycle is not for every institution – many countries are expanding public tertiary education capacity and favour domestic private provision. In any case, prospective offshore providers (and not only from the developed world) may be discouraged by restraints from their home country or by aversion to owning bricks and mortar (or ‘bricks and clicks’ for that matter) in risky environments.

Thus RMIT International University Vietnam, fully owned by RMIT in Australia, a public university, is still something of a special case, the first of its kind in East Asia [2]. Can it be a private-sector model for other education and training institutions for developing campuses or institutions in emerging economies? The International Financial Corporation (IFC), conscious of gaps between supply and demand in tertiary education among its member countries, has seen that opportunity.

The principles and practice of sponsoring new investment projects funded by international financial institutions (IFIs) in the tertiary education sector may be of interest, as well as what happens after the original business and start-up plans of such projects are approved and operations commence. The author was project director from near inception, and CEO from January 2001 at start-up to July 2002 at hand-over of operations on the interim campus to the incoming president.

The purpose of this paper and the one that follows is thus two-fold, to present a particular model of expanding the capacity of tertiary education sector in an emerging economy such as Vietnam, and to highlight some characteristic transitions from plan to reality.

2 Origins of RMIT Vietnam

This paper focuses on the start-up stage of the project, from inception through feasibility, business planning, licensing and regulatory approvals and financing to operations from interim premises. Table 1 provides a list of milestones for reference. The companion presentation addresses the experience of the project post-handover, not only its operations but the mobilisation of educational product, financing and campus development for the challenging stages ahead.

RMIT is a large public university (dual sector, i.e. both vocational education and higher education, then with a total of 50k students) with large international student programs (in 1999 with 6k international students enrolled in Melbourne and 4k enrolled outside Australia, since grown together to over 13k) and a commercial outlook driving it to operate, at least until recently, through subsidiary companies. Its international strategy in the mid-1990s pointed to a small number of offshore campuses, most likely in East Asia.

The country strategy for Vietnam did not originally include campus development, it was to contribute to Vietnam's own development, build up goodwill, and position RMIT favourably over the longer term for future growth in the greater Mekong region. This positioning brought RMIT to provide Ford Motor's start-up training for Vietnam and to build International Cooperation House on the main campus of Vietnam National University Hanoi for joint graduate engineering programs, among other activities[3].

Table 1: RMIT International University Vietnam Project Milestones, 1994-2002

Date	*Milestone*	*Date*	*Milestone*
Dec 1992	Government of Vietnam seeks RMIT staff secondment to assist restructure of higher education	Mar 2000	Vietnam issues enabling decree for foreign investment in health, education and scientific research
Aug 1994	Agreement to provide programs in Vietnam between RMIT and VNU Hanoi	Mar 2000	Mandate and due diligence for finance from IFC and ADB
May 1996-Apr 1997	International Cooperation House developed on VNU Hanoi headquarter campus	Apr 2000	Investment licence issued for RMIT International University Vietnam
Apr 1996	Ministry invites RMIT to explore initiatives for an international university	Jan 2001	Start of operations on interim refurbished campus near HCMC downtown
Jan 1998	Government of Vietnam agrees in principle to allow a campus and invites RMIT to develop a full proposal	Dec 2001	369 students, 58 staff
Mar 1998	RMIT Pre-feasibility study, in-house	Feb 2002	Victorian government gives RMIT approval to borrow
Jul 1998	RMIT applies for land assignment in Saigon South	Feb 2002	Loan and equity agreements with IFC/ ADB and donor respectively
Mar 1999	Campus land reserved	Mar 2002	Investment licence revised to reduce legal capital and interpose a holding company
Sep 1999	Feasibility study completed, mostly outsourced	Jul 2002	Ongoing President appointed
Aug 1999	Application for investment licence		

The government of Vietnam, faced with a massive gap between the supply of public university and college places and demand from qualified prospective students (with near a million qualified candidates applying for 120k university and college places, now near two million students applying for nearly 200k places) was prepared to experiment with a commercial fee-based model of provision. Australia was Vietnam's biggest bilateral official development assistance provider in education, RMIT was active in the country and so its leaders known to the government, it was already the largest institutional destination for students from Vietnam in the world (though numbers were not large), and was seen to have a technological orientation preferred for international education over, say, the liberal arts and social sciences. After informal discussion about the future of technological education, the Minister of Education and Training invited RMIT to make a proposal. This triggered a pre-feasibility study and a proposal which was approved in principle, so a more independent full feasibility study was produced and, with the support of the RMIT Council, a foreign investment licence application could be made.

Then, work began in earnest. The government of Vietnam wanted a model new campus, an institution that exemplified student-centred, resource-based learning, and encouraged full foreign ownership, a ‘pilot project’ to be evaluated, rather than a joint venture. The commitment was bigger than RMIT originally intended but with strong leadership from its vice-chancellor, university approval was obtained and RMIT successfully made an application for a 50 year investment licence and 62 ha land lease[4]. At $62.5m this was Vietnam’s largest FDI project in 2000. In order to deal with this type of project the government of Vietnam created a new regulatory framework for direct foreign investment in for-profit health, education and scientific research, a step then well ahead of its ASEAN neighbours[5].

3 First financial and governance deal

At this stage the parent university underwrote the risk and moved to an early start in refurbished leased premises near downtown Ho Chi Minh City. This gave the venture a seriousness of intent and the courage of that commitment in an unproven market later attracted philanthropic interest. The university came into being in January 2001, with objectives to

- provide professional and vocational education and training programs
- provide outcome related research and consultancy services
- contribute to economic, social and environmentally sustainable development
- provide appropriate levels of return on investment.

The level of commitment was also important in early discussions with international financial institutions. RMIT sought technical assistance from the IFC, whose initial advice was for the sponsor to hold a major part if not all of the equity, and to keep debt to equity ratios as low as practicable. Though there were interested prospective equity investors, RMIT was able to hold all the equity after the start up phase through a gift of USD15m and the prospective capitalization of project development costs. This enabled it to compare commercial bank loans and loan agreements with IFC and the Asian Development Bank (ADB). RMIT chose the latter deal, despite a higher rate than commercial finance, because of the sovereign risk cover that the IFC and ADB brought, the partnerships for further business and development projects, and their better ability through project financing to limit the guarantee that RMIT would have to make, relative to full guarantees required by the commercial banks, such guarantees having implications for the overall debt of the university’s ultimate owner, the state of Victoria.

The due diligence process was not easy but IFC and ADB advice and technical assistance then was invaluable. It was agreed to interpose a holding company between the overseas parent and the Vietnamese venture to enable effective security (to be exercised through a lien on shares abroad in preference to assets in-country), to help RMIT distance risk (though this provides less refuge now as corporate governance trends do not absolve the directors of parent companies for the sins of their subsidiaries) and, in time, to attract other investment for growth, to float the university or sell it.

In order to understand the project and its transitions some of the features of its financial and governance arrangements need explanation.

RMIT Vietnam entered into educational service agreements with RMIT based on RMIT’s experience elsewhere in East Asia but with very restricted payments to the parent for services so that they could not be construed as royalty streams. RMIT cautiously accepted this in the interests of the venture it owned.

However, because of the importance of these service payments to the continuing commitment of corresponding academic staff in Melbourne, RMIT was not prepared to subordinate them to interest payments on the loan, so the lenders sought complicated security arrangements instead.

Though solid market research was done, some of the lines of business areas were new to Vietnam so markets had to be created. Given the predominance of grey or unregulated markets in Vietnam, obvious but undeclared wealth, verification was difficult. Even where active markets were in place, e.g., English language learning, price points set by RMIT were provisional.

At that stage the identity of the principal donor could not be disclosed. By coincidence the IFC and ADB team were in one RMIT room undertaking due diligence while the founder philanthropist was pledging a gift in another room, never to meet. Privacy requirements were later relaxed and the excellent relations continued through the transitions of the project.

In seeking two lenders RMIT doubled the benefits of partnership but multiplied the complexities for what were small loans in their eyes ($7.25m each). Though relations with both IFC and ADB have been very good, hindsight suggests choosing one not two such lenders.

RMIT sought to provide equity in kind for project start-up expenses including offshore expenses and despite favourable original advice this has proven difficult under current Vietnam provisions.

Interposition of a holding company enabled an understandably cautious RMIT university Council to request a reduction in the size of the investment licence from $62.5m to $33.6m invested capital, effectively to cover stage one of the project and to make any take-up of more of the allocated Saigon South campus site (in effect a free option) contingent on future performance rather than initial capitalization. This reduced some of the perception of risk – say from possible future government demands to take up the whole of the site. Even then, acquisition of land use rights for the first stage remained difficult during the start-up period.

4 First educational deal

The business plan identified discrete market segments each of which had to pay its own way and which together had to be profitable: language learning, preparatory and bridging programs, undergraduate and postgraduate programs, industry training and short courses, research and development, community and regional partnerships, study abroad and consultancy and project management. The interim campus – improved by a further gift from Atlantic Philanthropies – was a testbed before final commitments to a greenfields campus were made and a feeder for prospective entry-level undergraduate students. Though return on investment was a core objective, the venture sought to make contributions to Vietnam's development in other ways including an effort to find affordable pathways through scholarships and other means[6].

For RMIT the educational model was an evolution from other ventures. Unlike most of its twinning programs in east Asia, through which over 4000 students were then enrolled, the subsidiary in Vietnam provided all of the academic and teaching staff and most of the teaching and learning services, under franchise. In any case Vietnam was too far from Australia to sustain a fly-in fly-out model of trans-border delivery like that delivered to Singapore, and there were very few opportunities to twin with a local provider at international standards. By taking existing programs, but only those that had been 'renewed' for fully on-line delivery and learning management, the plan was to minimise further product development costs through multi-channel use of programs already ‘on the shelf’ for moderated on-line learning, the intended dominant mode of delivery.

At the time RMIT was making a major investment in ICT infrastructure - a distributed learning system, an academic management system and an enterprise management system for business processes. In Melbourne the program renewal took longer than planned, and the new ICT systems experienced major difficulties (since overcome). Vietnam remained first priority for product development, and academic staff in Melbourne, seeking to contain high courseware development costs generally, tended to think program preparation was for Vietnam alone rather than for global application as intended. Staff in Ho Chi Minh City worked hard to establish robust ICT and learning platforms in a changing environment and to customise the curricula for local application. Program delivery reverted to more face-to-face lecture-style delivery than the ‘hybrid’ model first intended.

Based on its experience elsewhere the parent university retained control of program development, accreditation and quality assurance to ensure continuing support from academic and non-academic staff and to assure stakeholders that academic and other standards were identical. Nobody wanted to risk a second-rate product. This was the main issue for the Ministry of Education and Training in Vietnam too: they were willing to allow RMIT and RMIT Vietnam full control of its curriculum, its student numbers and fee-setting (as a black-and-white agreement to satisfy lenders about regulatory risk), but the new institution had to demonstrate annually to the Ministry’s satisfaction that its standard of provision was the same as in Australia. RMIT was happy to do this as it mirrored what the Australian quality assurance regulators sought. Capacity-building and cost-containment led to plans for a high proportion of local academic staff many of whom were well prepared, and to plans for a large staff development program, but later the proportions of local and international academic staff were revised. Despite cross-visits and cooperation with course moderation and research, earning peer status with academic counterparts at RMIT in Melbourne was a challenge for local academic staff not because of competence but because of distant perceptions.

Insistence on identical high entry standards included English language competency – RMIT Vietnam was an immersion-English site – and student numbers straight into undergraduate and postgraduate programs were initially lower than planned, with the majority needing to undertake English or university preparation programs first.

An ambitious roll-out of award programs was planned for higher education and vocational education and training, with degree and embedded diploma programs based upon common courses where possible (see table 2).

The intention was to make a start in the business and ICT areas and as infrastructure permitted move on to other technological areas, later to such areas as environmental engineering and life sciences when campus facilities would be available. The market for each area would need to be proven in detail but prima facie market evidence was there, as well as markets for corporate training and some applied research. Study abroad was intended to come later as student housing became available.

RMIT was committed to action research and work-integrated learning so the project itself was intended as a test-bed for research, whether on social impact, appropriate technology or innovation in learning methods. Research was understandably slow to get started but got under way with scholarship support, inbound Australian research student visits and joint Vietnam-Australia projects in priority fields (e.g. water, ICT, food, urban infrastructure).

5 First greenfields campus deal

Refurbishment of an attractive interim campus in 2000 enabled a quick start but underlying the original invitation was a commitment to develop another greenfields campus. The Saigon South Development Area was chosen during pre-feasibility as it was then Vietnam's largest new urban development with a modern lifestyle image and close to the city, there was a reasonable likelihood of good infrastructure, land was designated in it for universities, and the Ho Chi Minh City government had established a development authority pledged to simplify approvals. The allocated site actually changed twice, the first time because the city found it had a prior investor commitment, the second time because RMIT found that the site on offer did not have a good river frontage. The city authorities were efficient in the land allocation process but the compensation provisions for the resettlement action plan could not be settled. Even though the downsized investment licence and project plan covered only part of the original 62 ha site the part chosen was still settled or farmed by a number of households. Ho Chi Minh City was suffering (or enjoying, depending on one's ownership of land use rights) a land price bubble inflated to Tokyo prices. Delays by RMIT in gaining Australian state government approvals to financing enabled expectations of resettlement compensation from such a well-publicised foreign investor to rise dramatically as, properly, under World Bank Group and ADB resettlement planning guidelines, this had to be transparent[7].

Table 2: One RMIT Vietnam 2001 plan for introducing undergraduate and postgraduate programs

	2001	2002	2003	2004	2005
School of Business	M Prof Accounting	B Commerce Grad Dip and M Educational Leadership & Management Grad Dip Tertiary Teaching & Learning	M Business Admin M Finance M Business by Research Grad Dip & M Education by Research	M Marketing	B Bus Hotel Management
School of Technology	M Systems Eng (cont) PhD to RMIT (cont)	B App Sci Computer Science B App Sci Software Engineering B App Sci IT & Multimedia Grad Dip Computing, Software Development Stream M Tech (IT)	B Eng Telecommunication B Eng Computer Systems B Eng Electronic B Eng Electrical B App Sci (Information Technology) M Engineering by Research (cont) M App Sci by Research)	B Eng Mech B Eng Manuf and Eng Mgt B App Sci Food Science & Tech B App Sci Envir Sci Grad Dip and M Project Management Grad Dip and M Telecomm Eng	B Eng Environmental Engineering B App Sci Multi Media Grad Dip and M Quality Management Grad Dip and M Manuf Mg

Meanwhile, as activities on the city campus grew to capacity, planning for the Saigon South campus continued and detailed estimates of costs were made. Concessions such as bookshops and cafeteria were not included in the business plan as they were allowable as separate business entities (another black-and-white agreement this time from the Ministry of Planning and Investment), but as student housing was seen as essential to the business the lenders required it be in the business plan. Issues at the time included the means of flexibly accommodating RMIT's educational designs (e.g. multi-purpose not dedicated labs, an uncomfortable issue for enthusiastic but distant academic program providers), estimation of appropriate building and equipment standards (RMIT needed to be above the usual IFC standards of tertiary institute expansion experienced to date), a wet estuarine site, quite normal for Ho Chi Minh

City but a challenge seen from afar, on the path to creating a sustainable campus in the particular environment[8].

Through grants to RMIT Vietnam a network of four learning resource centres were initiated for Vietnam's regional universities in Hue, Danang, Cantho and Thai Nguyen. However RMIT Vietnam's own campus focus was Ho Chi Minh City. At the time of handover to the incoming President the interim city campus suited the start-up well, but lack of closure on land acquisition for the Saigon South campus limited the options ahead. Now there are fine campuses in Ho Chi Minh City and Hanoi, and more importantly lively and viable education, training and research programs, but that story is for the next presentation.

6 Conclusions

Some conclusions from the first stage of the RMIT Vietnam project can be drawn.

- There are strong markets for private tertiary education in emerging economies even though some of them cannot easily be proven.
- For public universities to invest in private education campuses offshore they need an appetite for risk but by doing it this way they can take responsibility for on-campus standards themselves when otherwise they would be reliant on those of local twinning or e-learning partners.
- Parent institution and investor confidence can be helped by having clear project exit strategies at the start and demonstrating contingency exit strategies for each stage of development. RMIT's Council saw a different parachute for each quarter ahead.
- The RMIT Vietnam model can be applied, if not exactly replicated, as campus-building grows among developed-country public institutions using commercial vehicles to invest in building capacity – and growing friends – in emerging economies.
- Simple structures are better; a holding company is useful but it is best not to clutter it with operations or with complicated tax-driven transactions.
- For the scale of most tertiary education investments, co-financing from two IFIs – e.g. both IFC and ADB – is not necessary.
- Having developed campuses through joint ventures and full foreign ownership, the latter if allowed is to be preferred. However the provisions governing FDI in the education sector remain difficult in many countries and the GATS negotiations in the current WTO round need a more concerted effort to remove non-tariff trade barriers in tertiary education. Vietnam is to be applauded for its willingness to open its health and education markets to direct foreign providers though it too has recently tightened up requirements for these industries.
- Relations of overseas subsidiary educational entities to their institutional parents are vitally important. A subsidiary can be too easily forgotten in head office. The new upstart ought to be able to link with other providers if with the permission of the parent. The new venture also needs plenty of flexibility and a closely-engaged board of management.
- Government relations are obviously critical especially where there is an unclear regulatory framework – in Vietnam, RMIT and its then country representative helped create such a framework behind the scenes – and government stakeholders should be cultivated at different levels not only at the top, without breaching the highest standards of probity. RMIT Vietnam's experience also reminds us to keep home-country government and other stakeholders on side too.

- Project documentation, typically in different languages and in several countries, is clearly a vital ingredient of success. Establishing an explicit knowledge management framework – including good document control, which for RMIT involved over 20,000 documents – can make or break effective handovers and a sustainable institution. This is not to say RMIT and RMIT Vietnam got those elements right all the time.
- The experience of RMIT Vietnam is not one neat handover with faithful implementation of an approved detailed business plan. Up to the point where this paper ends and the next begins – July 2002 – there had already been major changes to the investment licence, company structure and corporate governance, the educational programs and in-country leadership. It is important to be prepared for a series of successions as the venture scales up, and be willing to make them quickly.
- RMIT Vietnam started big as a concept and each revision to the plan scaled it back. It can be argued that may have been better to start smaller and scale it up gradually on success at each stage, rather than with initial capital. However with 'no little plans; no magic to stir men's blood' it may not have excited the community's vision or that of philanthropic partners. Certainly the venture had to change to stay viable, and no doubt it will change again. That is the nature of the learning business.

Notes and References

[1] For a good treatment of categories and definitions in international higher education see Jane Knight, 2005: Borderless*, Offshore, Transnational and Cross-border Education: Definition and Data Dilemmas*, Observatory on Borderless Education, October, www.obhe.ac.uk, accessed 26 Jan 2006.

[2] Strictly, RMIT is not the first international provider of higher education to Vietnam. The Chinese dominated Vietnam from 111 BCE to 938 CE and under the Confucian system provided all levels of education including access to some Vietnamese to higher education, particularly from the Tang dynasty when students from Vietnam were eligible to take the competitive examinations in Beijing. See Pham Minh Hac: 'The educational system of Vietnam' in David Sloper and Le Thac Can (Eds): *Higher Education in Vietnam: Change and Response*, Institute for Southeast Asian Studies, Singapore, 1995: 41-61.

[3] For more detail on the origins of RMIT Vietnam see David Wilmoth, 2004a: 'RMIT Vietnam and Vietnam's development: risk and responsibility', *Journal of Studies in International Education*, 8, 2,186-206.

[4] Key people at the time were Prof David Beanland (vice-chancellor of RMIT) and Prof Nguyen Xuan Thu (RMIT's Vietnam representative).

[5] In particular, see Government of Vietnam 2000: *Government Decree on Foreign Cooperation and Investment in the Areas of Medical Examination and Treatment, Education and Training, and Scientific Research*, 06/2000/ND-CP, Hanoi, 6 March.

[6] See Wilmoth 2004a.

[7] GHD Pty Ltd, 2001: *RMIT International University Vietnam Resettlement Action Plan*, World Bank and ADB Infoshops, April.

[8] See David Wilmoth, 2004b: 'Rats in the labyrinth: a sustainability story from Vietnam' in Sarah Holdsworth and Tricia Caswell (Eds) *Protecting the Future: Stories of Sustainability from RMIT University*, CSIRO Publishing, Collingwood, 159-175.