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# A B C of Endowment

**I**f you were to count the higher education institutes in India, you would find that there are about 20,000 universities, colleges and independent institutes. More than a million Indian students study in these, but the quality of education, infrastructure and other facilities in most, is far from the best.

Some of these institutes have a good reputation, but many are yet to get to international standards. The main reason behind this is that high quality education comes with a high price tag.

In India, while government institutions are supported by funds from central and state governments and, to a lesser extent, by student fees, private institutions are run through tutorial fees. With the demand for education increasing, the government will end up with a limited ability to support any more institutes. Most private institutes get their funds from charging a high fee from students and leave to them the job of branding the university. For the near future, it seems as if good education will come at a high cost, either to the student community or to the government.

To increase the institutes in India that are at par with international ones, each institute needs to be built around a continuous and steady source of income which accounts for its existing operational costs and allows for a future that includes world-class infrastructure and faculty. Renowned institutes like Harvard University, Yale University, Cambridge University, Oxford University and many others have been able to accomplish this through endowments.

## What is an Endowment?

An endowment is a pooled fund of money (or gifted property), the principal of which is typically held in perpetuity and invested. A part of the returns is used by the institute to fulfil objectives and the remaining is flowed back into the principal to ensure market growth. Colleges use a part of this to fulfill their needs, while the rest is added to the principal amount to ensure market growth.

An endowment allows for both immediate funding, and long-term financial security. Usually, an endowment fund is a collection of various individual funds. The purpose of each individual fund is decided by the donor. Donations are generally made by the alumnus of the institute or their associates, either as an act of gratitude for their education at the institute or to honour an

individual's contributions. In some cases, they are made just as a means of giving back to society.

### How Endowment Funds Help

**Financial stability:** Endowment funds are perpetual. A major chunk of the donation is used for private, domestic and foreign investment, emerging markets, and absolute return assets, and the returns are used to maintain operational costs. The fund ensures availability of funds, not just for a limited time period but also for the future.

**Use of risk capital:** With a continuous inflow of finances, institutes can plan the future growth of the institute. They can fund new programmes and start new initiatives, which otherwise generally are shelved from a lack of funds or because of the high risk factor associated with any initiative.

**Permanence and longevity:** Successful endowments by institutes have proved lucrative for generations of students.

**Decreased financial burden on students:** With funds flowing in from endowments, institutes can afford to reduce the tuition fee to a considerable extent.

### Types of Endowment Funds

Individual funds typically belong to one of these categories:

**Term Endowment:** The return on investment from this fund is used for a particular time (decided mutually between the donor and the institute) and for a specific purpose. The institute is free to use the principal on the expiry of the term.

**Quasi Endowment:** The institute may take either the annual return or some portion of the principal for use from this endowment.

**Unrestricted Endowment:** The donor gives the institute the freedom and flexibility to use the returns from this gift for any purpose.

**Restricted Endowment:** This fund is ring-fenced for a particular purpose defined by the donor.

**Donor-Restricted Charitable Gifts:** A gift that is received by an institution which is unrelated to its solicitation and is accompanied by a restriction as to purpose (or time).

### Endowment Funds: Indian Scenario

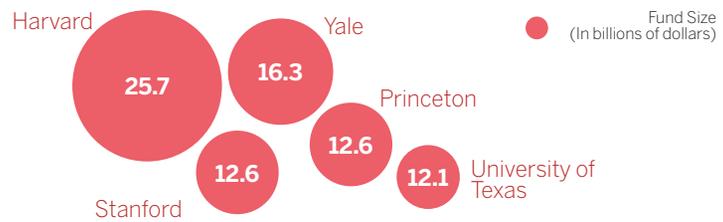
In India, the practice of raising private donations from corporations and individuals is not prevalent. While a majority of the premier institutes in India have progressed in this regard, student fees and government funds (for public colleges) are still the main sources of income. With educational costs increasing by 2-3% every

TABLE 1

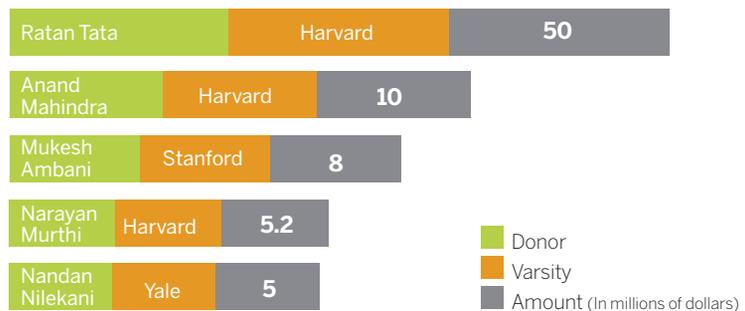
## The Fund Moguls



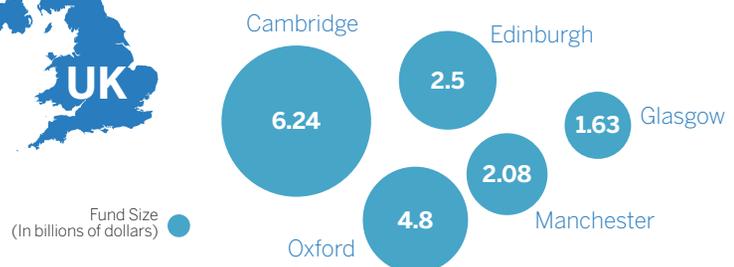
In the US, non-taxable vehicles are expected to contribute to 53 universities, with a fund size of \$1 billion and more. Endowment size of college funds (813 in all) put together will be around \$312 billion. Top colleges such as Harvard have separate money management teams:



### Universities seeing an inflow of contributions from individuals, groups



The UK comes in at second place, still only a comparatively small percentage of what premier institutes in the US have. Endowment size of the top five UK universities is less than the fund size of Harvard alone:



### FUND FACTS

Endowment funds ensure that students don't bear the brunt of educational costs

year, institutes are realising that these costs should not be passed on to students.

However, such initiatives are still in the early stage (except in a few cases), with a significant impact yet to be felt.

A comparison with higher education institutes in the United States shows the distance that India

has to cover. In the US, 53 universities have an endowment fund in excess of a billion dollars. The total endowment size of all college funds is \$312 billion. The maturity of such initiatives is reflected in the fact that institutes like Harvard University and Stanford University have separate money management teams.

These international institutions have also seen donations and contributions from Indian businessmen. For example, Ratan Tata has made a \$50m contribution to Harvard University. Similarly, Anand Mahindra (Harvard University), Mukesh Ambani (Stanford University) and Narayana Murthi (Harvard University) have contributed \$10m, \$8m and \$5.2m respectively. (Table 1: Endowment Funds of US and UK Universities)

### Absence of a Philanthropic Culture

One of the main reasons for the dormancy of such initiatives in India is the absence of a philanthropic culture. Education has always been a social welfare activity, a monopoly of the state. Private participation in the education sector has begun only recently.

Another major reason is the lack of government support. Indian businessmen and corporations often donate to foreign higher education institutes as no tax is levied on them.

Also, the government imposes many restrictions on the management of these donations (Non-profit organisations cannot invest in private sector companies). Institutes have also not shown any pro-activeness in coming up with such initiatives where they look at alumni as a means of raising big enough resources. This is evident from the fact that many institutes are making efforts to establish a perpetual endowment.

However, some of the elite Indian higher education institutions have understood the importance of an endowment fund. Institutes like IIM, Ahmedabad; XLRI, Jamshedpur; IIM, Kozhikode; Indian School of Business, Hyderabad; IITs at Madras and Kharagpur; College of Engineering, Pune, have either set up or are in the process of setting up an endowment fund. The activity, however, can be seen in a limited number of institutes. To match international quality standards, this culture needs to be percolated across the breadth of the higher education spectrum.

### Options for Governance Model

University or college endowment funds either have a single-tiered governance model, where the endow-

TABLE 2  
**Restricted Endowment**

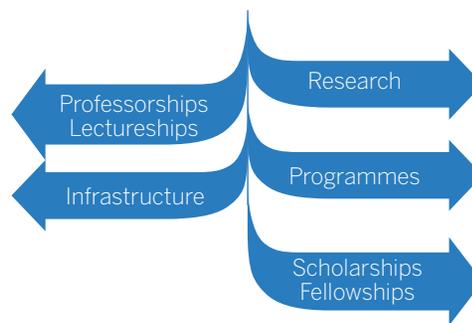
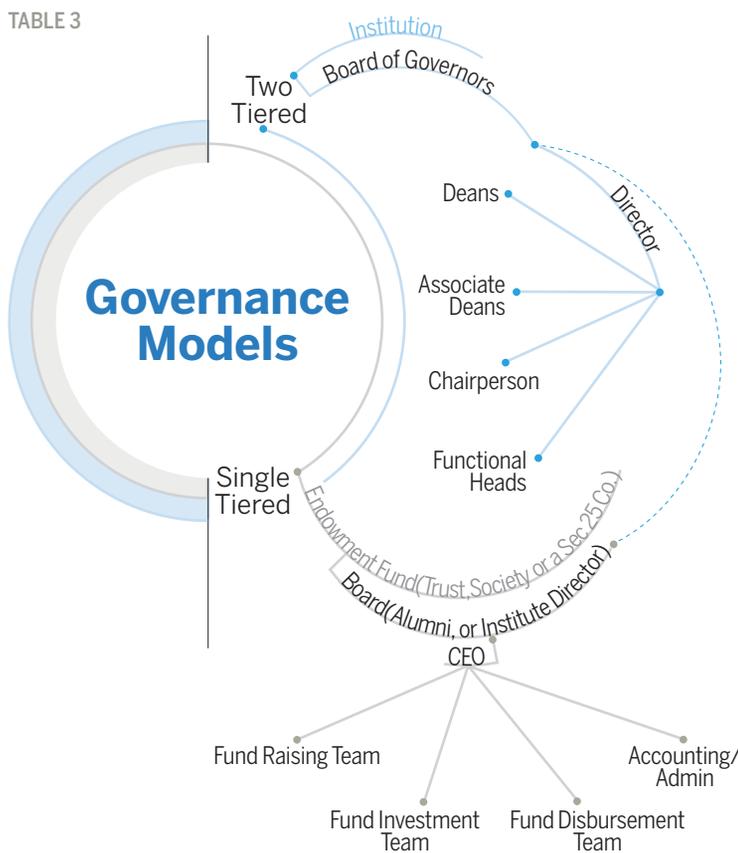


TABLE 3



### FUND FACTS

IIM Ahmedabad and Kozhikode, XLRI Jamshedpur, ISB Hyderabad, IIT Madras are in the process of setting up an endowment fund

ment fund team acts independently with the top management of the institute, or a two-tiered format where the fund team activities are overseen by an investment committee, which is further governed by the statutes laid down by the Board of Governors of the institute. (Table 3: Governance models).

Our understanding of the model, going by its use in some of the endowment funds in India, suggests that there is close involvement of alumni at the board level and at fund-raising level. **EDU**

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