



Monograph: August 2011

## Endowment Funds – Current Scenario in India

---

1. Endowment Fund – The Basics
2. Types of Endowment Funds
3. International university Endowment Funds (US and UK)
4. Endowment Funds in India – Challenges and Activity
5. Endowment Funds in India – Legislation, Governance and Tax Regulations
6. Endowment Funds Abroad – Structure and Governance
7. Endowment Funds in India – Structure and Governance

### About Eduvisors:

Eduvisors is a business research and consulting firm focused on Education sector in India.

For more information, please contact:

#### Bharat Parmar

T: +91 (124) 4119162, 4229162 Extn. 106

M: +91 98117 99162

E: [bharat@eduvisors.org](mailto:bharat@eduvisors.org)

To unsubscribe, please write to [unsubscribe@eduvisors.org](mailto:unsubscribe@eduvisors.org)

### Disclaimer:

*This Monograph has been prepared for clients and Firm personnel only. It provides general information and guidance as on date of preparation and does not express views or expert opinions of Eduvisors. The Monograph is meant for general guidance and no responsibility for loss arising to any person acting or refraining from acting as a result of any material contained in this Monograph will be accepted by Eduvisors. It is recommended that professional advice be sought based on the specific facts and circumstances. This monograph does not substitute the need to refer to the original pronouncements and is based on publicly available information.*

# Endowment Fund: The Basics

## What is an Endowment?

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 utilized by the institute to fulfill various objectives which are in line with the institute's vision, and the remaining part is ploughed back into the principal to ensure market growth. An endowment, thus allows for both, immediate funding and long-term financial security for the institution.

## Who donates?

The donations are majorly made by the alumni of the institute or their near and dear ones as, either an act of gratitude for their own education at the institute, or as a means to honor an individual (and his contribution), or as a means of giving back to the society.

## Benefits of an Endowment Fund -

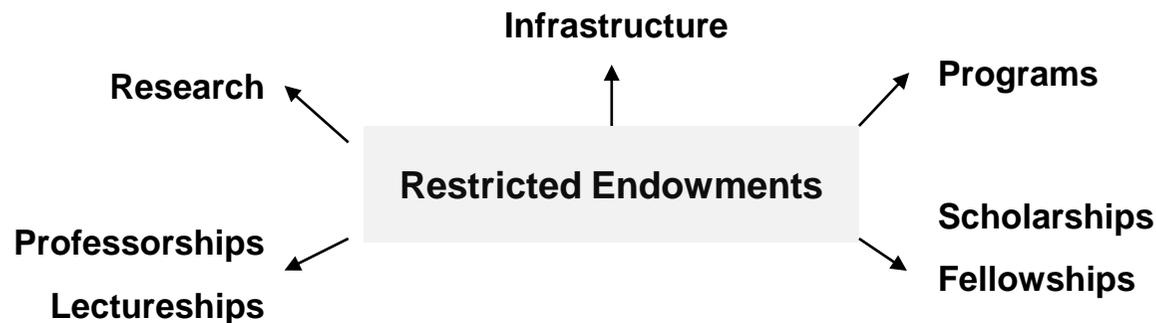
- ✓ **Financial Stability**      The perpetual nature of the fund ensures continuous availability of funds, year over year.
- ✓ **Use of Risk Capital**      Institutes can fund new programs and start new initiatives, which otherwise could have got shelved due to lack of funding or the high risk factor associated with any new initiative
- ✓ **Improved Perception**      An institute with an endowment fund is considered as a stable and financially mature one. This will also influence the donors to gift more
- ✓ **Permanence & Longevity**      Generations to come are impacted positively by an endowment fund
- ✓ **Reduced Tuition Fee**      With funds flowing from external sources, tuition fee can be reduced to a considerable extent, which till now is the major source of revenues for Indian educational institutes

# Types of Endowment Funds

An endowment fund, thus is a collection of various individual funds (thousands in case of a full fledged endowment), the purpose of each fund being decided by the donor. The individual funds, typically belong to one of the following classes:

1. **Term Endowment:** A fund of money, the return on investment of which is to be utilized for a particular period of time (decided mutually between the donor and the institute), for a specific purpose. Once the term expires, the institute is free to use the principal as it sees fit.
2. **Quasi Endowment:** A fund, from which the institute may take either the annual return or some portion of the principal for use as and when the need arises.
3. **Unrestricted Endowment:** A gift, where the donor gives the institute the freedom and flexibility to use the ROI for whichever purpose the college desires to focus on.
4. **Restricted Endowment:** A fund, which is ring fenced for a particular purpose, as defined by the donor.

Majority of the donations (three-fourth or more) made towards the large endowment funds (like The Yale Endowment) are restricted gifts which is bestowed by the donor for a particular purpose.



# Endowment Funds: In US and UK

## USA

- ✓ Non taxable vehicles to contribute to future funding requirements
- ✓ Fifty three US universities with an endowment fund in excess on one billion dollars
- ✓ Endowment size of all college funds (813 in number) put together - \$ 312 billion
- ✓ Top colleges like Harvard and Stanford have separate money management teams in place
- ✓ Top universities seeing an inflow of contributions from Indian businessmen (and business groups)

No.	University Name	Fund Size ( in billion dollars)
1	Harvard University	25.7
2	Yale University	16.3
3	Stanford University	12.6
4	Princeton University	12.6
5	University of Texas System	12.1

No.	Donor	University	Amount
1	Ratan Tata	Harvard	\$ 50 m
2	Anand Mahindra	Harvard	\$ 10 m
3	Mukesh Ambani	Stanford	\$ 8 m
4	Narayana Murthi	Harvard	\$ 5.2 m
5	Nandan Nilekani	Yale	\$ 5 m

## UK

- ✓ UK – the country with the largest endowments funds after USA
- ✓ Endowment size still only a comparatively small percentage of what premier institutes in US have
- ✓ Endowment size of top five UK universities less than fund size of Harvard University alone

No.	University	Fund Size (in billion dollars)
1	University of Cambridge	6.24
2	University of Oxford	4.80
3	University of Edinburgh	2.56
4	University of Manchester	2.08
5	University of Glasgow	1.63

## Investment Areas

Domestic Equities, foreign Equities, Emerging Markets, Private Equities, Absolute Return Assets, Real Assets, Fixed Income

## Endowment Funds: Scenario in India

*“The culture of raising private donations from corporations and individuals, is not prevalent in India. Whereas, most of the major institutes in India have recently started making progress in this regard, student fee and govt. funds (for the public colleges) are still the main income generating sources.”*

### Challenges

- **Absence of a philanthropic culture:** Education, as a social welfare activity has been considered as a monopoly of the state in the past, with institutions being provided govt. grants and funds.. It is only recently that private participation in the education sector has increased.
- **Lack of govt. support:** Indian businessmen/ corporations often donate to foreign higher education institutes, as donations to trusts are exempted from taxes. In India, trusts running education institutions are exempt from tax only if their are registered under the charities commissioner or as a section 25 company under the IT Act. Also, donors (individuals and corporations) do not get cent percent tax exemption in case of a contribution. Govt. intervention in terms of management of these donations is also high, as they restrict areas where these donations can be invested (NPOs cant invest in private sector companies).
- **Lack of pro active institutional initiatives:** Institutes, till recently, have also lacked the pro activeness to look at alumnus as a means of raising huge resources. This is evident from the fact that efforts to establish a perpetual endowment has been started by a majority of the institutes in the last decade.
- **Highly tiered ecosystem:** The number of elite institutes which produce quality alumnus is less. As a result, individuals with an ability to act philanthropic is limited.

*“India, however, is on the right track. With educational costs increasing 2 to 3 % every year, institutes are realizing that transferring these costs to the students is not a sustainable idea. Institutions (beneficiaries) and donors (individuals and organizations) are scaling up their efforts to explore this previously dormant area.”*

### Institutes in India having endowment funds (In place or in process)

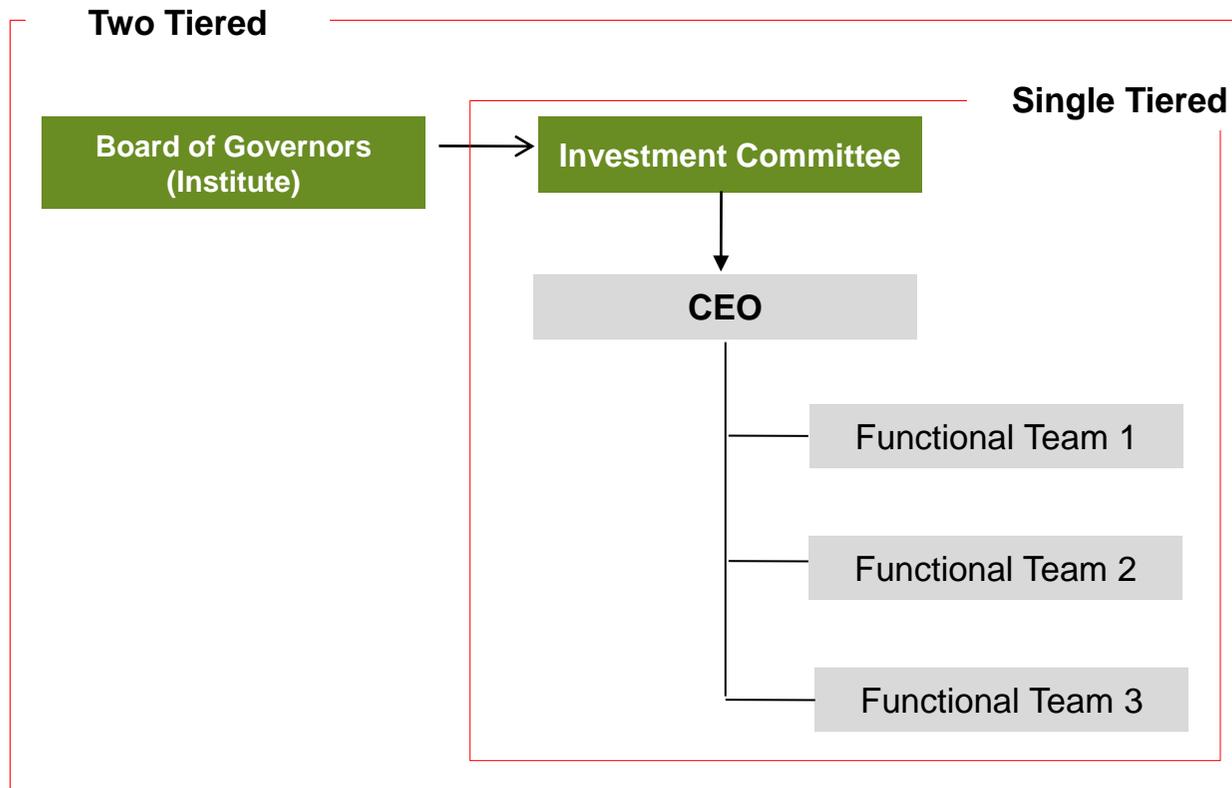
Indian Institute of Management, Ahmedabad  
XLRI Jamshedpur  
Indian Institute of Management, Kozhikode  
Indian Institute of Management, Bangalore  
Indian School of Business, Hyderabad

Indian Institute of Technology, Madras  
Indian Institute of Technology, Bombay  
Indian Institute of Technology, Kanpur  
Indian Institute of Technology, Kharagpur  
College of Engineering, Pune

The Doon School  
Woodstock School

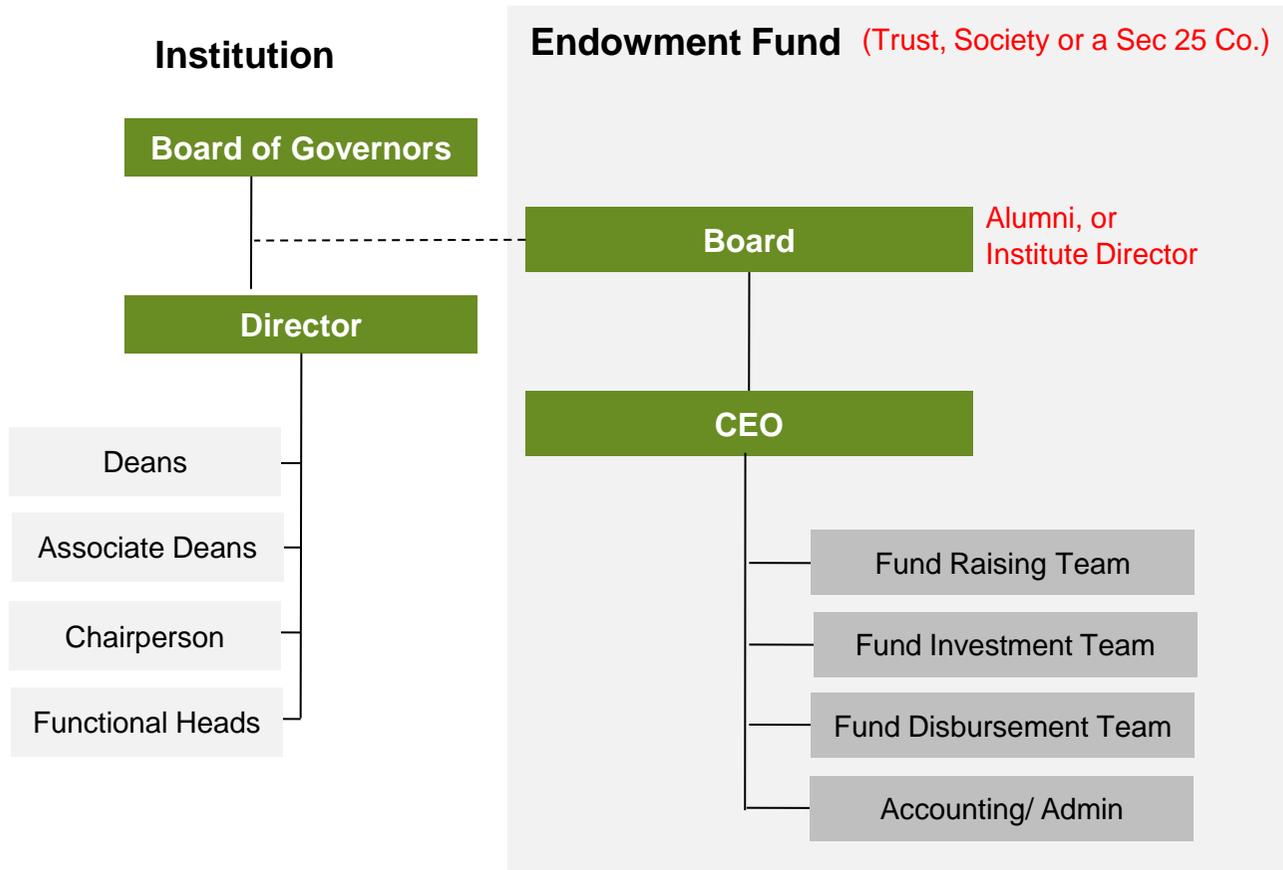
# Endowment Funds Globally: Structure and Governance Model

University/ college endowment funds have either a single tiered governance model, where the endowment fund team acts independently with the top management of the institute being a part of the Board, or a two tiered structure where the fund team activities is overseen by an investment committee which is further governed by the statutes of laid down by the Board of Governors of the institute.



The university has its representation in the Board/ Investment Committee through an elected nominee, who could be the Vice Chancellor, Vice President (Finance and Administration), University President or the Vice President, past Deans of the University etc.

# Endowment Funds in India: Structure and Governance Model



## Why Section 25 company?

- ✓ Existence of a **uniform national law** (Indian Companies Act)
- ✓ **Closely regulated** and **monitored** as compared to a trust or society thus ensuring **proper management and high accountability** by the Registrar of Companies
- ✓ Specifically **prohibits the income to be provided to its members as dividends** (unlike in a society of trust)
- ✓ Allows a registered partnership firm to be a member of the Section 25 company
- ✓ **Internal Governance**
  - High control in the hands of the members - Members have voting rights and can demand submission of annual reports for inspection
  - Member presence (through an appointed nominee) in the section 25 company board ensuring accountability towards the institute

# Endowment Fund: Legal Constructs

Not for profit Endowment Funds can be a:

	Trust	Society	Section 25 Companies
<b>Legislation</b>	State Public Trusts Act or general principles of trust law	Societies Registration Act, 1860 or as amended by states	Companies Act, 1956
<b>Authority</b>	Charity Commissioner ( <i>where state public trust law applicable</i> )	Registrar of Societies	Registrar of Companies
<b>Minimum number of members/ trustee</b>	One Trustee	Seven persons	Two persons
<b>Management</b>	Trustee	Governing Body	Board of Directors
<b>Mode of Succession</b>	Appointment or as per the terms of trust deed	Election by members of general body or as per the rules and regulations	Election by members
<b>Regulatory Ease</b>	Procedure for registration simple  Specific approval/ registration required for receipt of foreign donation	Procedure for setting up is fairly simple  Specific approval/ registration required for receipt of foreign donation	Lengthy and cumbersome procedure for setting up  Specific approval/ registration required for receipt of foreign donation
<b>Liability</b>	Trustees could be held liable for breach of trust where liability would not be limited	Independent status	Independent status and limited liability

# Endowment Fund: Taxation Summary

## Tax Exemption Conditions

The organization

- ✓ Must be organized for religious or charitable purposes
- ✓ Must spend 85% of its income in any financial year on the objects of the organization
- ✓ No part of the income or property should be used for the benefit of the founder or the trustee (and their family), or a donor who has contributed more than Rs 50,000 in an year
- ✓ Must file its annual income return
- ✓ Should ensure that the income is applied and accumulated in India

## Tax Deduction for Donors

- ✓ Donor will be able to avail benefit only if the organization is registered under Section 80 G, IT Act
- ✓ Cent percent tax deduction allowed only for donations for specific govt. funds (as mentioned under Section 80G, IT Act)
- ✓ For donations towards endowments not mentioned , 50% of the donation amount (subjected to a maximum of 10% of annual income) will be deducted from the taxable income

# Current Regulatory and Investment Framework in India

- No specific regulation of Indian endowment funds
- Endowment funds cannot be classified as a venture capital fund or a mutual fund or a collective investment scheme, which could bring them under the regulatory framework of SEBI
- Endowment funds can further not be classified as '*non-banking financial institutions*'
- Foreign endowment/university funds seeking to invest in Indian ventures may invest under the Foreign Direct Investment (FDI) route, as Foreign Institutional Investors (FII), or as Foreign Venture Capital Investors (FVCI)
- SEBI grants licenses and regulates operation of FIIs and FVCIs.
- There are investment restrictions on FIIs and FVCIs investing in India.

## Indian Endowment Funds

- Primary Securities market (i.e. IPO) of equity shares- as retail investors
- Secondary securities market- both equity and debt instruments
- By way of private arrangements in unlisted companies- both in equity and debt instruments
- Overseas investment by a trust/ society engaged in educational activities is restricted. Such trust/ society can invest in an entity outside engaged in the same line of work with the prior approval of the Reserve Bank of India

## Foreign Endowment Funds seeking to invest in India

- Primary Securities market (i.e. IPO) of equity shares- if registered as FII or FVCI
- Investment in exchange traded derivative contracts permissible for FIIs
- As FVCI, investment in debt instrument of venture capital undertakings in which equity investment has been made, is permissible.
- By way of private arrangement in equity shares of unlisted companies/ preferential allotment in listed companies
- Would be required to comply with India's policy of restrictions/ prohibitions on investment in certain sectors, such as real estate



Monograph: August 2011

## Thank You

---

For more information, please contact:

**Bharat Parmar**

T: +91 (124) 4119162, 4229162 Extn. 106

M: +91 98117 99162

E: [bharat@eduvisors.org](mailto:bharat@eduvisors.org)

### Gurgaon

A-25/12  
DLF Phase 1  
Gurgaon – 122 002  
India

### Delhi

1400A  
14th Floor, Devika Tower  
6 - Nehru Place  
New Delhi – 110 019  
India

### Bangalore

1084, Sobha Daffodil,  
Somasundarpalya, Sec -2,  
HSR Layout, Bangalore 560 102  
India

### Hyderabad

Lotus 107, Serene County  
Gachibowli  
Hyderabad – 500 032  
India