

Monograph: February 2024

Endowment Funds in Education

An endowment fund is money that is invested to help support education. In the West, universities and schools receive large endowment funds from alumni and donors, which they use to provide scholarships, build facilities, and support research. This allows these institutions to offer high-quality education to students.

In India, endowment funds are not as common, and universities often rely on government funding for support. This can limit the resources available for students and faculty. However, some schools in India are starting to develop endowment funds to improve the quality of education and offer more opportunities to students.

Overall, endowment funds in education are crucial for providing resources and opportunities to students. While the West has a long-standing tradition of endowment funds, India is beginning to see the benefits of building these funds to support education.

This monograph offers the insights into following:

1. What are Endowment Funds?
2. Endowment Funds – Global Scenario
3. Endowment Funds – In India

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Endowment Funds: An Introduction

What is an Endowment Fund?

A pooled fund of money, 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.

Features of Endowment Funds

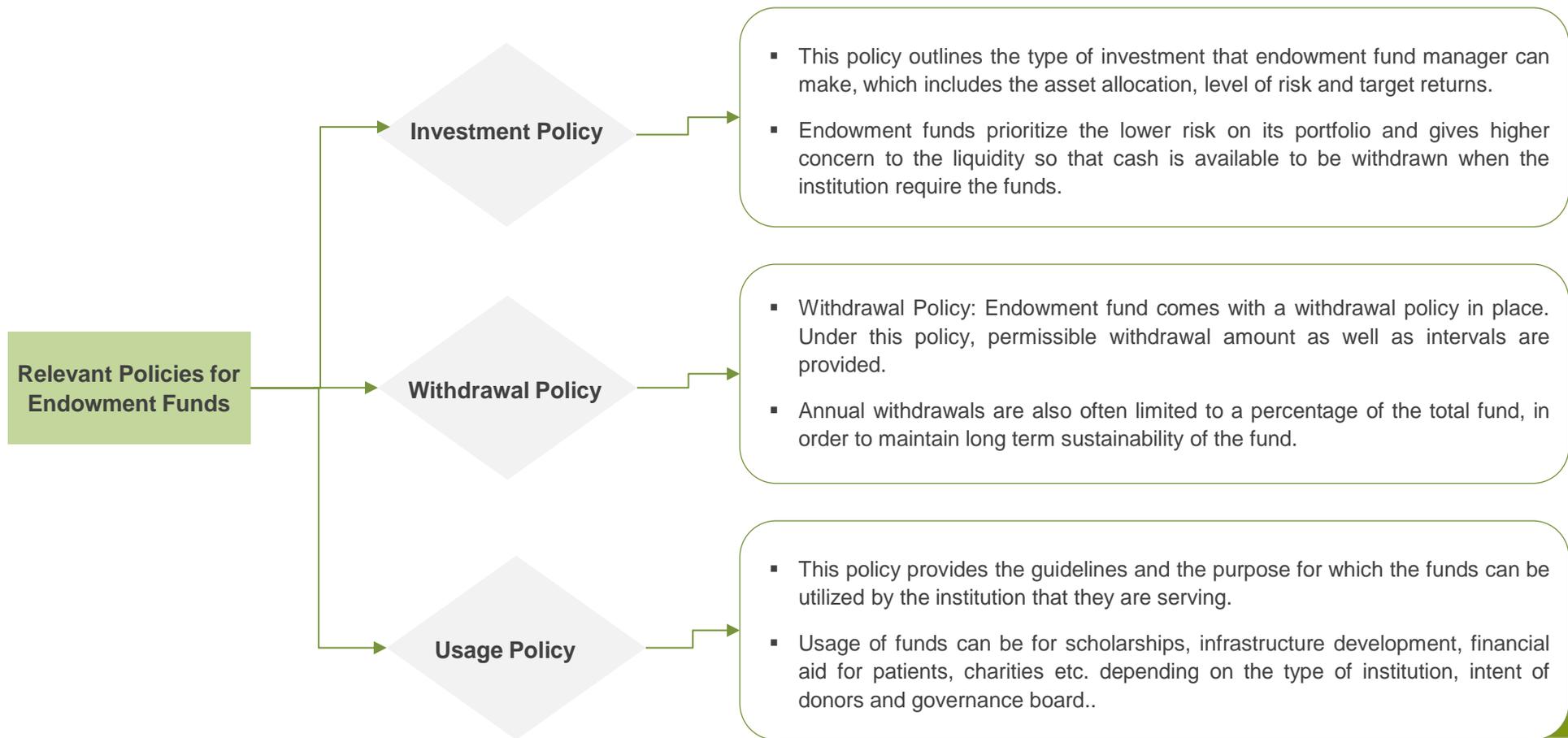
- **Global Phenomenon:** Endowment funds are a global phenomenon established to fund hospitals, schools, higher education institutions and charitable organizations to ensure their long-term financial stability and program support.
- **Rely On Donations:** They rely on donations, investing these contributions to generate income.
- **Utilized for perpetuity:** The income is generated and utilized to fund activities for the institution's benefit, often in perpetuity.
- **Managed by many renowned institutions:** Many renowned institutions abroad have successfully managed endowment funds for decades, accumulating billions of dollars in assets. For Example, Harvard University, Yale University, Stanford University etc.
- **Less popular in India:** IIT Delhi Endowment Fund inaugurated in 2019, has become India's first such endowment fund to be created following the model of prestigious universities in the west.

Sources of Funds?

- The funds and donations are majorly provided by the alumni of the institute or corporates & philanthropists as, either as an act of gratitude for their own education at the institute, or to honor an individual and his contribution, or as a means of giving back to the society respectively.

Endowment Funds Policies

Most endowment funds are subject to the certain policies, according to donors' intents i.e., investment policy associated with asset allocation, risk & return framework; withdrawal policy associated with withdrawal limits; usage policy associated with purpose of utilization of funds.



Types of Endowment Funds

An endowment fund is a collection of various individual funds, purpose of each fund being decided by the donor. The individual funds, typically belong to one of the following classes:

	Term Endowment	Quasi Endowment	Restricted Endowment	Unrestricted Endowment
Principal	Principal amount can be used after a specified time or event	Restrictions on both principal and income usage,.	Restrictions on both principal and income usage depending on the purpose,.	Restrictions on principal and income usage is not dependent on the purpose,.
Withdrawal of Funds	Only income earned from funds can be withdrawn	Both principal and income from the fund can be withdrawn	Both principal and income from the fund can be withdrawn as per the donor's intent	Both principal and income from the fund can be withdrawn as per the governance body.
Time Period	Term endowments can exist for perpetuity	Quasi endowments are not restricted to exist permanently	Restricted endowments can be permanent, or time bound based on donors' intent.	Time Period is defined by the governance body of organization
Purpose	Purpose of term funds can be restricted or unrestricted depending on donor's intent	Purpose of quasi funds can be restricted or unrestricted depending on donor's intent	There are limitations to the use of capital. Funds can be used only for restricted purposes.	Funds can be used for any purpose as per the decision of governance body
Governance	Governed by the donors	Governed by the governance board of the organization	Governed by the donors	Governed by the governance board of the organization

Benefits & Problems of Endowment Funds

There are various benefits of endowment funds for the organizations they support. There are also some problems attached to these funds. The benefits and problems of endowment funds are discussed hereunder:

Benefits

- **Financial Backbone:** Endowment funds supports the organizations to achieve the organization's goals by serving as a financial backbone.
- **Fund Management:** Experienced fund managers ensure meticulous fund management providing a steady income on investments.
- **Consistent Income Stream:** Endowment funds serves as a dependable and consistent income stream for the organization which provide stability during the financial reversals.
- **Supplementary Source Towards Annual Fund:** Endowment funds offers supplementary backing to the organization's annual fund.
- **Diverse Utility of Funds:** As the utilization of funds is dependent upon the different intent of donors, endowment funds enables the utilization of fund proceeds for diverse programs and initiatives.

Problems

- **Restricted Utility:** Funds from designated donations have restrictions on the purposes for which the funds can be utilized.
- **Withdrawal Limitations:** There are limitations imposed on the withdrawals from the endowment funds which can occasionally impede operational flexibility. This can hinder the organization's ability to allocate resources as needed.
- **Financial management Concerns:** There is over-reliance of universities on their endowment funds, leading to a form of financial complacency. Also, the aggressive investment strategies used by some universities can expose them to significant market risks. suffer substantial losses, impacting their ability to fund university programs.
- **Governance and Priority Issues:** Endowments can sometimes lead to a misalignment of priorities within universities. The focus on growing these funds can overshadow the primary educational and research missions of the institution.

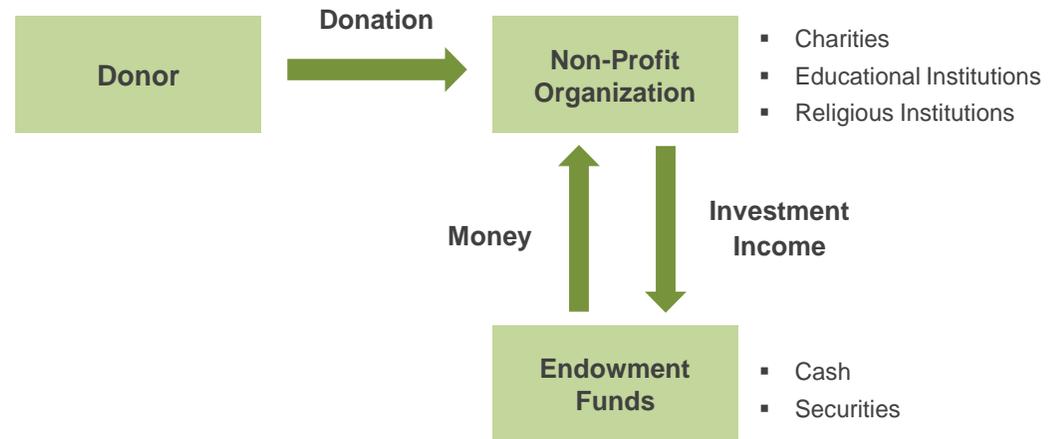
Application of Endowment Funds

The application of an endowment fund starts with donation from the individuals, groups and organizations. The sum received from donations is invested in diverse assets and the returns generated are used for permissible activities. Working of endowment funds is explained below:

Steps in Application of Endowment Fund

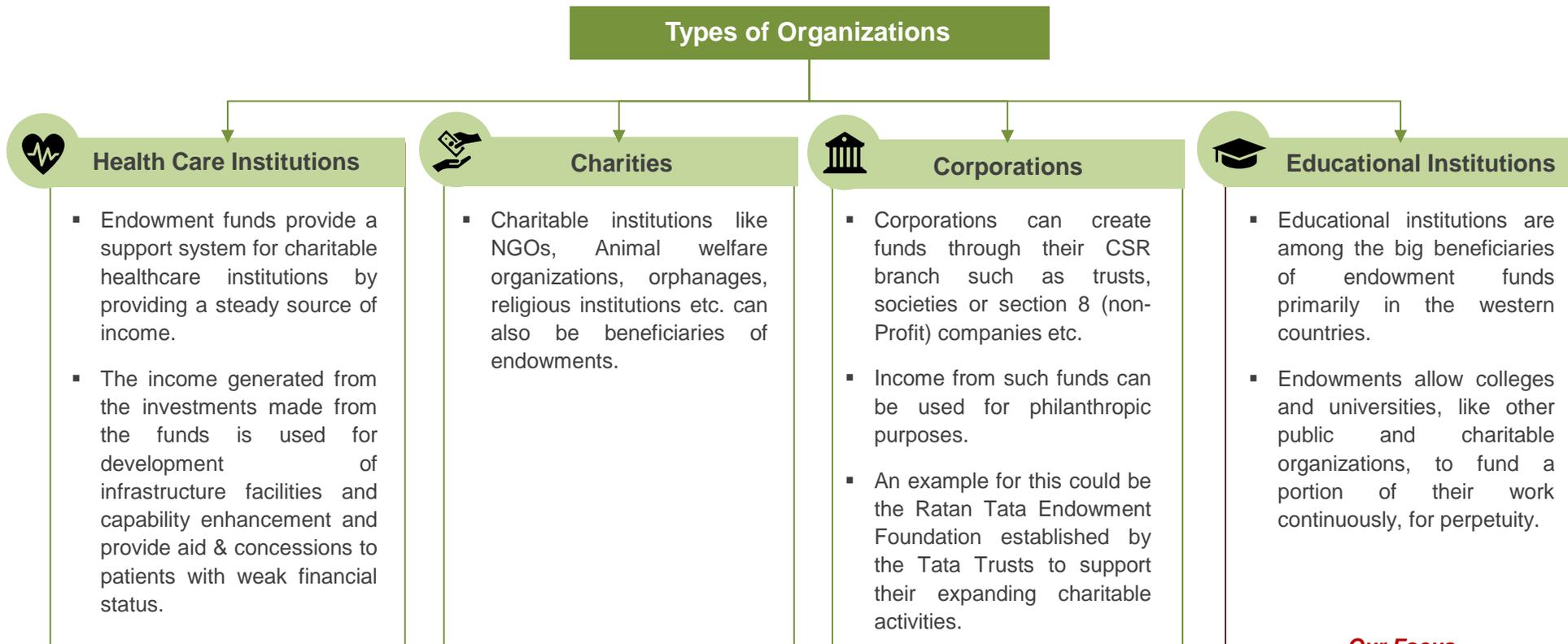
- Endowment funds are initially invested by donors for certain charitable purposes.
- They can be usually established as trusts, or even as societies and section 8 (non-profit) companies in India, which keep them independent of the organizations that they support.
- Endowment funds can invest in cash, equities, bonds, and other types of securities that generates investment income.
- The beneficiary of an endowment fund must be a non-profit organization instead of individual investors unlike a typical investment fund – such as a mutual fund where beneficiary can be individuals or profit-making entities..
- Typically, the principal value of an endowment fund shall be kept intact, while the investment income can be used for certain purposes.
- Thus, an endowment fund can be held permanently. The donors restrict the purposes an endowment fund can be used for. For example, a donor may provide capital to a fund with an intent to fund the fee for the students.

Working of Endowment Fund



Types Of Organizations That Create Endowment Funds

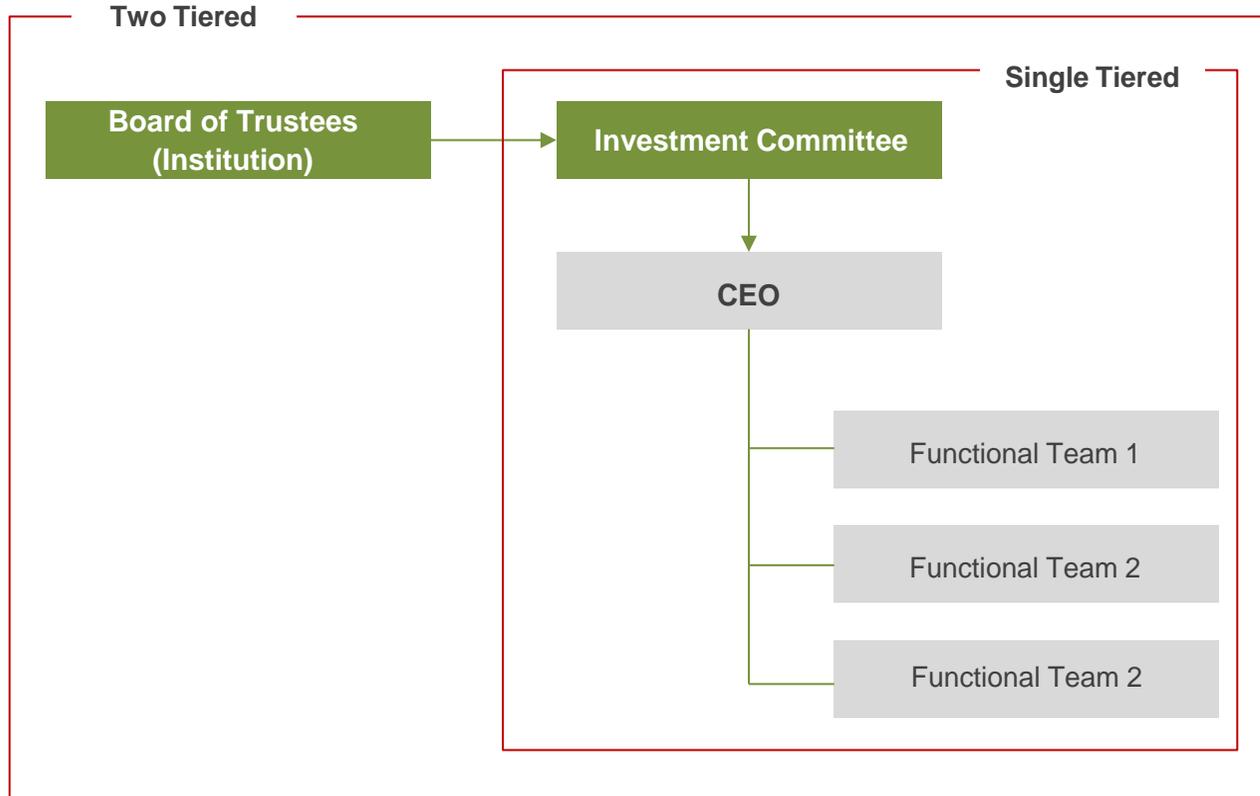
Endowment funds are established to fund nonprofit organizations and activities, including universities, hospitals, and charities. They are typically structured with intact principals and investment income available for use.



Our Focus

Structure and Governance Model of Endowment Funds – Global Scenario

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.



Our Takeaway

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.

World's Largest Endowment Funds

The largest 50 endowment funds in the world represent over a trillion dollars in assets. Universities are one leading category from the world of endowment funds, particularly those from the United States..

Top 10 Largest Endowment Funds Globally

Rank	Endowment Fund	Founded	Total Assets (in Billion)	Region	Organization Type
1.	Ensign Peak Advisors, Inc	1997	\$124	North America	Religious Institution
2.	Stanford University	1991	\$77.1	North America	Educational Institution
3.	Japan Science and Technology Agency	1996	\$75.1	Asia	Government Agency
4.	Harvard Management Company	1974	\$72.7	North America	Educational Institution
5.	Yale University	1973	\$54.4	North America	Educational Institution
6.	Princeton University	1987	\$41.7	North America	Educational Institution
7.	Lilly Endowment	1937	\$40.8	North America	Philanthropic Foundation
8.	University of Pennsylvania	-	\$39.3	North America	Educational Institution
9.	MIT Investment Management Company	2004	\$38.6	North America	Educational Institution
10.	University of Michigan Office of Investments	-	\$32.9	North America	Educational Institution

Our Takeaway

- The reason for large size of the funds with these institutions is that their endowment funds are very old and have grown very large over the period.
- There are no Indian universities with large endowment funds as it is only recently that some universities have started creating endowment funds.
- In 2022, the Ministry of Education issued e endowment fund guidelines to help Indian central universities initiate the process to create endowment funds.

Endowment Funds: In US & UK

Universities in US & UK have some of the largest endowment funds with fund size in billions of dollars. Some key observations regarding these funds are discussed here:

USA

- Non-taxable vehicles to contribute to future funding requirements
- More than 80 US universities with an endowment fund in excess on one billion dollars
- Endowment size of all college funds (688 in number) put together - \$ 839 billion
- The average endowment size for FY23 is \$1.2 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)

Rank	Endowment Fund	Total Assets (in Billion)
1.	Stanford University	\$77.1
2.	Harvard Management Company	\$72.7
3.	Yale University	\$54.4
4.	Princeton University	\$41.7
5.	University of Pennsylvania	\$39.3

No.	Donors	University	Amount
1.	Ratan Tata	Harvard	\$50 M
2.	Anand Mahindra	Harvard	\$10 M
3.	Narayan Murthy	Harvard	\$5.2 M
4.	Nandan Nilekani	Yale	\$5 M
5.	Naveen Jindal	University of Texas	\$2.3 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

Rank	Endowment Fund	Total Assets (in billions)
1.	University of Oxford	\$8.1
2.	University of Cambridge	\$7.8
3.	University of Manchester	\$0.54
4.	King's College London	\$0.29
5.	University of Glasgow	\$0.22

Need for Endowment Funds in Educational Institutions

Educational institutions in general and universities in particular have endowments to save for different purposes in the future. These needs can differ for different institutions based on their vision and intent of the donors of endowment.

Offset part of running cost

- As the educational institutions are non-profit making entities, endowment funds support the universities or other educational institutions for offsetting the part of their annual operating costs which helps them survive for the future.

Increasing cost of education

- A common argument for the need of endowment funds is that the cost of a university education may well rise in the future, as it has in the past, so the income from endowment funds can be used to finance the education of succeeding generations of students

Maintaining liquidity

- Another possible reason for maintaining a large endowment is to have a reserve against financial reversals. Income may fall suddenly for various reasons: the number of qualified admissions applicants who can afford full tuition may drop; private contributions may decline; federal grants for education and research may be cut after a change in administrations.

Provide for scholarships

- Perhaps, one of the most significant support of income from endowment funds is that it can be used for providing scholarships and aid to students with weak financial status

Provide funding for capital investments

- Educational institutions need to spend on developing infrastructure and other such capital investments over long periods of time in order to cater to increase demand or improving the quality of education. Endowment funds fulfill this need by providing for additional resources apart from what are provided the establishing authority.

Endowment Funds Scenario In India

Indian universities have begun to create small endowments of their own: several IITs, IIMs, BITS-Pilani and the Indian School of Business have all established endowments either directly or through their alumni network in the past 15 years. Most have yet to grow beyond \$1 million but have seen some steady contributions over the past few years.

Challenges for endowment funds in India

- **Difficult to attract large funding for most universities:** The amount of funding required for to create an endowment fund big enough to make some significant impact on the financing of the institution is out of reach of most universities as the standard procedures of the endowment funds disallow any expenditure beyond the long-term rate of return. 
- **Absence of organized donation:** There is a lack of organized donation to the universities in India. In fact, the relatively low cost and ease of setting up a university in India has meant that it's far easier for a philanthropically-minded wealthy individual to simply set up her own university than to donate to an existing one. And those who prefer to donate to an existing university, it is often to their foreign alma-meters. 
- **Lack of government support:** Govt. intervention in terms of management of these donations is also high, as they restrict areas where these donations can be invested. 
- **Lack of pro-active institutional initiatives:** There is also a lack of initiatives from the universities in India to raise funds from their alumnus. This is evident from the fact that IIT Delhi established the first academic endowment fund in the country only as recent as 2019. 

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

No.	Institution Name
1.	IIT Delhi
2.	Aligarh Muslim University
3.	Banaras Hindu University
4.	IIM Ahmedabad
5.	University of Delhi

Way Forward

- India, however, is on the right track. With educational costs increasing 2-3 % 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.

Legal Constructs Of Endowment Funds in India

Endowment funds are non-profit organizations established as a separate legal entity from the institution that they serve. They can have one of the following legal construct under the Indian law:

	Trust	Cooperative Society	Section 8 Company
Legislation	State Public Trusts Act or general principles of trust law	Multi-State Cooperative Societies (Amendment) Act & Rules, 2023	Companies Act, 2013
Authority	Charity Commissioner (where state public trust law applicable)	Registrar of Societies	Registrar of Companies
Minimum number of members	Two Trustee	Fifteen Persons	Two Directors
Management	Trustee	Governing Body	Board of Directors
Mode of Succession	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
Regulatory Ease	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
Liability	Trustees could be held liable for breach of trust where liability would not be limited	Independent status. Limited Liability	Independent status and limited liability

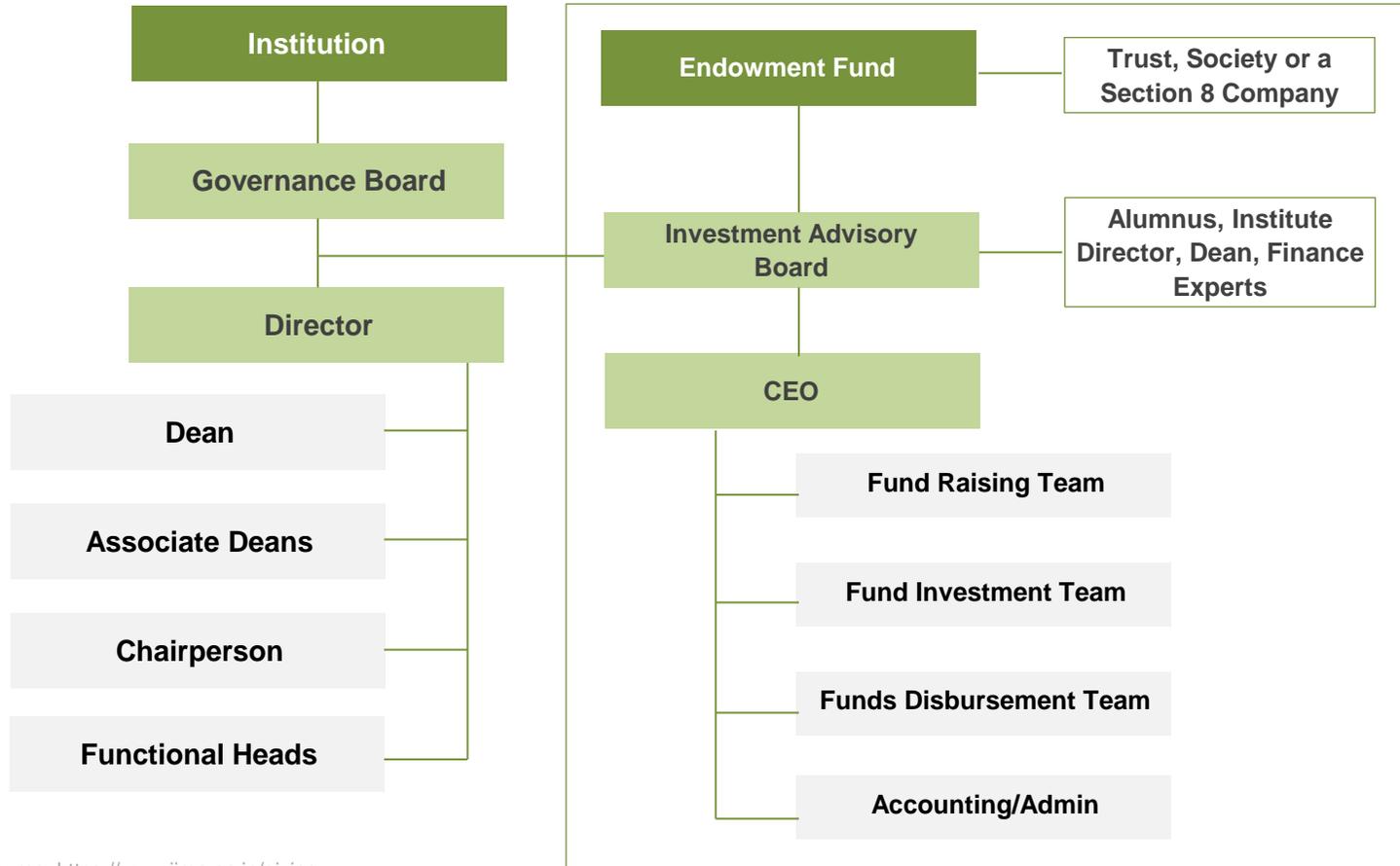
Recommendations

Universities or other educational institutions in India are recommended to register their endowment funds as a section 8 (non-profit) company under the companies act 2013. because of the following reasons:

- ✓ Existence of a uniform national law (Companies Act 2013)
- ✓ 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)

Structure and Governance Model of Endowment Funds - In India

Endowment funds in India must be created as separate legal entity from the institution that they serve. It is a non-profit organization (NPO) registered as trust, society or section 8 (non-profit) company.



Key Takeaways

- Endowment funds in India must be registered and operated separately from the institution that they serve. To ensure the independence of the endowment fund.
- However, presence of university members on advisory board of the fund is not recommended so that endowment fund can operate with complete autonomy and avoid any vested interests and bias on the part of members of the institution

Current Regulatory Guidelines and Investment Framework in India.

There is no specific guidelines or regulation for the governance of endowment funds of all the institutions. However, education ministry has released guidelines to set up an endowment fund in central Universities recently.



Education Ministry Guidelines For Central Universities

- Central University endowment fund issued by the Ministry to all university vice-chancellors, a 7-member Central University Endowment Fund (CUEF) board comprising:
 - ✓ the Vice-Chancellor of the University,
 - ✓ a finance officer,
 - ✓ two professors from different departments
 - ✓ And three donors nominated by the Executive Council for three years will govern the endowment fund.
- The guidelines further include the creation of separate bank accounts for donations, maintenance of separate and transparent accounting, investment of donations for intended purposes, etc.
- The Board will then take a call on the utilization of funds and place the report in front of the finance committee meeting of the university.
- A reasonable percentage of the fund, not exceeding 50 per cent may be spent annually with a view to maintaining a good corpus for the future,
- The central varsities need to set up an inspirational value to the amount of corpus fund to be mobilized according to its alumni strength, average salary of alumni, and possibility of mobilizing donations.
- The ministry guidelines also allow institutes to open a Foreign Contribution Regulation Act (FCRA) account to accept donations from outside India.



Asset Allocation for 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 Foreign Institutional Investors (FII)
- Investment in exchange traded derivative contracts permissible for FIIs
- AsFII, 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

Criterion for required fund for educational institution

Different methods can be used by different institutions to set up the endowment funds. These methods or scenarios are discussed hereunder:

Institution: College / School / University

Method 1	Method 2	Method 3
Initial Capital Expenditure + Planned Capital Expenditure <hr/> Total planned capital expenditure <hr/> Endowment Fund as X% of CapEx	Forecasted Sum of Annual Operating expenditure of "X" number of years (A) + Planned capital expenditure to be done over "X" years (B) <hr/> Total Planned Expenditure over "X" years <hr/> Discount Rate X%	Forecasted Sum of Annual Operating expenditure of "X" number of years  <hr/> Total Planned Operating Expenditure over "X" years <hr/> Discount Rate X%
Endowment Fund would be certain percentage of Capital Expenditure	Present Value of Total Planned Expenditure over "X" years after discounting	Present Value of Total Planned Operating Expenditure over "X" years after discounting

Estimated Endowment Fund Value

Key Takeaway

- The endowment fund shall earn minimum benchmark return equivalent or less than other investment funds such as sovereign wealth funds, hedge funds, mutual funds etc. as these usually carry lower risk and more liquidity concerns.

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