

**ENDOWMENT FUNDS AND SOCIAL JUSTICE
IN THE EDUCATIONAL FIELD**

The author has analyzed activities of endowment funds of foreign universities. The author has substantiated social consequences of donations in favor of elite universities. The article detects obstacles for charity and creation of educational endowment funds in Ukraine.

Key words: higher education, university, charity, endowment, social responsibility and justice in education.

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**ЕНДАВМЕНТ-ФОНДИ І СОЦІАЛЬНА СПРАВЕДЛИВІСТЬ
В ОСВІТНІЙ СФЕРІ**

Проаналізовано діяльність ендавмент-фондів зарубіжних університетів. Обґрунтовано соціальні наслідки пожертвувань елітним університетам. Виявлено перепони благодійності та створення освітніх ендавментів в Україні.

Ключові слова: вища освіта, університет, благодійність, ендавмент, соціальна відповідальність і справедливість в освіті.

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**ЭНДАУМЕНТ-ФОНДЫ И СОЦИАЛЬНАЯ СПРАВЕДЛИВОСТЬ
В ОБРАЗОВАТЕЛЬНОЙ СФЕРЕ**

Проанализирована деятельность эндаумент-фондов зарубежных университетов. Обоснованы социальные последствия пожертвований элитным университетам. Выявлены препятствия для благотворительности и создания образовательных эндаументов в Украине.

Ключевые слова: высшее образование, университет, благотворительность, эндаумент, социальная ответственность и справедливость в образовании.

Formulation of a problem and its relation to important scientific and practical tasks. The Law of Ukraine “On Higher Education” (Article 70, Section 3) entitled the higher educational establishments to found a stable fund (endowment fund) in accordance with a procedure established by the law and in conformity with a statute. The Ukrainian legislator determined a stable fund (endowment fund) as a sum of funds or the value of other property intended for investing or capitalization for a period being not less than 36 months; passive incomes received from such activities are used by a higher educational establishment in order to provide its statutory activity in accordance with a procedure established by a philanthropist or a representative (Article 1). Such an activity is novel for the domestic educational system. However, endowment funds of leading foreign universities created an own model of long-term financing of higher education, which should be thoroughly examined.

Analysis of recent publications on the problem. J. Andreoni (2001; 2006) researched the social and economic nature of charity. Functioning of universities’ endowment funds was analyzed in papers of H. Hansmann (1990), P. Jansen (2006), H. Riggs (2006), T.R. Warner (2006), J. Lerner, A. Schoar & J. Wang (2008), C. Miller & L. Munson (2008), E.W. Sarah (2009), T. Gilbert & C. Hrdlicka

(2012), etc. There is a lack of the respective publications in the domestic scientific periodicals. Perhaps, it is worth mentioning an article of a representative of legal science M. Kushnir (2012). Many aspects of the problem are not only undetermined, but also they are not realized. Understanding an educational endowment as an alternative source of financing a higher educational establishment activity is prevailing.

Formulation of research objectives. An article purpose is to analyze activities of endowment funds of the world leading universities and prospects of implementation of such experience in Ukraine.

Presentation and substantiation of the main research results. Endowment is capital formed due to donations in the form of monetary or other resources for financing statutory needs and activities of non-profit organizations, e.g., educational, medical, cultural establishments, and religious or sport organizations. Whether donors invest their funds in an endowment foundation, they do not take aim at obtaining personal benefits or attaining own goals in any form. At the same time, they reserve the right of coordination and controlling an activity of a foundation and an organization, for support of which it was founded. Further, an endowment fund transfers the capital to trust management of a special organization (established by the fund or an independent management company), which deposits the monetary funds into bank accounts, invests in equity shares, real estate, unit funds, etc. Profit of the capital management is belonged to the organization and used for financing its programs, not submitting it to the bureaucratic approval. Simultaneously, the very endowment capital remains to be inviolable. In such a way a classical endowment guarantees formation of long-term sources of financing an organization activity, its financial independence, and stability.

Foreign universities stored important experience of endowment funds creation. By the end of 2014 there were six universities in the USA, which had endowment funds over than 10 bln USD each – Harvard (the largest endowment in the world founded in 1649), the University of Texas, Yale, Stanford, Princeton, and Massachusetts Institute of Technology (Table 1).

Table 1.

The largest endowments of the USA universities, bln USD

University	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Harvard University	36.4	32.334	30.435	31.728	27.557	25.662	36.556	34.635	28.916	25.473
University of Texas System (system-wide)	25.4	20.448	18.264	17.149	14.052	12.163	16.111	15.614	13.235	11.610
Yale University	23.9	20.780	19.345	19.374	16.652	16.327	22.870	22.530	18.031	15.224
Stanford University	21.4	18.688	17.036	16.503	13.851	12.619	17.200	17.165	14.085	12.205
Princeton University	21.0	18.200	16.954	17.110	14.391	12.614	16.349	15.787	13.045	11.207
Massachusetts Institute of Technology (MIT)	12.425	11.005	10.150	9.713	8.317	7.982	10.069	9.980	8.368	6.712

Sources: List of colleges and universities in the United States by endowment (2014), MIT releases endowment figures for 2014 (2014), Stanford Management Company releases 2014 (2014), L. Milstein (2015), A. Vaccaro (2014), M. Vilensky (2014).

Nevertheless, the Western educational environment more and more frequently highlights problems related to the social justice of creation and functioning of endowment funds.

The first problem – the university endowments are formed due to redistribution of monetary or other resources from philanthropists to receivers without labor mediation, i.e., without personal productive efforts of those ones requiring them. They further become the capital, which creates an investment income flow for the university.

To attain this goal the universities form special branches of professional financiers or entrust asset management companies with endowment management. For instance, in 1974 Harvard University founded Harvard Management Company as a structural branch of the university. The Princeton

University Investment Co., Massachusetts Institute of Technology Investment Management Co, The Columbia Investment Management Company are also founded with this aim.

For a long time the American universities have investing financial resources of endowment funds in securities of national companies and bank deposits. In 80^s of the 20th century profitableness of such investments proved to be less than an inflation rate. Thus, large universities reoriented toward foreign markets and venture alternative assets, which encompassed private equity, hedge funds, absolute return funds, neutral market funds and derivatives, venture capital, real estate from the campus outwards, natural resources, commodities and commodity futures, and even so-called “toxic assets”. Under conditions of the world financial crisis the market values of the university endowments have considerably decreased. For instance, the Harvard University endowment decreased from 36.556 bln USD in 2008 to 25.662 bln USD in 2009. Despite this process, the funds did not abandon from the practice of venture investing. In fiscal year 2014 endowments, the equity of which exceeding 1 bln USD, on average invested 58 % of financial resources exactly in venture alternative strategies (Fitzpatrick, 2014).

In general, managers of the leading endowment funds succeed in generating high profitability for implementation of their current tasks. In 2014 the average profitability of investments at the largest universities of the USA accounted for 16.7 % and fluctuated from 15.4 % in Harvard to 20.2 % in Yale. As a result, in the USA approximately 20 % of universities and colleges of general education have an opportunity to entirely finance educational and scientific and research projects at the expense of investment return. During the last five years Harvard directed 11.6 bln USD of its investment return toward execution of target programs, fundamental discoveries in the process of scientific research, including medicine, additional encouragement of professors from different academic fields. In 2014 Yale used 4 bln USD of investment return for the university development (Vaccaro, 2014).

Simultaneously, there is a problem of the university responsibility to the society and donors for activities of companies, which securities were purchased for financial resources of the endowment. It is known that in November 2014 seven students of Harvard, who had founded the Harvard Climate Justice Coalition, brought an action against the Harvard University to compel managers of the endowment to withdraw its investments from fossil fuel companies. The plaintiffs assert that as of November 14, 2014, the Harvard University endowment contained direct holdings in publicly traded fossil fuel companies worth at least 79 mln USD and, upon information and belief, additional indirect holdings worth an unknown amount. Defendants’ investments help finance fossil fuel companies’ business activities, which include exploration, development, transportation, and the promotion of scientific falsehoods. These activities create greenhouse gas emissions, among other environmental and social harms, and perpetuate worldwide dependence on the burning of fossil fuels for energy. The Harvard Climate Justice Coalition complains that Harvard University is failing to abide by its Charter and the Constitution of the Commonwealth of Massachusetts (Rimmer, 2014). There is a discussion on this issue in the USA, which involved professionals as well as the society (Driessen, 2015).

The second problem – discontinuous accumulation of financial resources in the large endowments serves as an information signal on the university financial stability and its business reputation used to gain additional economic benefit. Thus, for example, the amount of the endowment is reported to ranking entities such as U.S. News, to alumni, to professional associations like NACUBO, and in industry publications like the Chronicle of Higher Education. The concreteness of the endowment is also important for boards of trustees and the presidents whom they hire. Just as outside observers use the endowment as a proxy for institutional success, boards of trustees are inclined to use the size of the endowment as a measure of their success in managing the university (Sarah, 2009, p. 1809). In the total there are new donors to the endowment funds, and the sizes of endowments grow constantly. A recent survey of 851 post-secondary institutions in North America finds that their coffers hold more than 500 bln USD, but some are much better endowed than

others. The richest 10 % of universities control around 70 % of the wealth in the survey. The eight Ivy League universities have amassed more than 110 bln USD, or 21% of the total. This means their investment income often exceeds what they make from tuition fees (The Economist, Feb 7th 2015). Five schools (Harvard, Yale, Princeton, Stanford University and one public institution, the University of Texas) had endowment increases last year of more than 1 bln USD, exceeding the total endowment of more than 90 % of the schools (Perry, 2014). That is “winner-take-all syndrome”: the rich get richer, and the gap widens between the well-endowed, elite schools and the rest (Riggs, 2006, p. 20).

A state also interferes in the affair. In the USA, Great Britain, Australia, Indonesia, and Italy donations of philanthropists to the university endowments are entirely or partially exempt from income taxes. Universities being members of the Association of American Universities receive significant financing of scientific research from the federal budget, whereas opportunities of other higher educational establishments are considerably restricted. Experts highlight that incomes from the large endowments and the state support can cause a mistaken sense of safety at the time of stock exchange fluctuations, weaken the competition between universities and the efficiency of university management, lead to the irresponsibility of the universities concerning donors.

The third problem – «intergenerational inequity» (Jansen, 2006; Warner, 2006): under conditions of regular donations classical endowments excessively accumulate the basic capital in favor of the future generations. C. Miller & L. Munson (2008) suppose that “one of the most important purposes of endowments is to provide very long-term—often perpetual—financial support for various specific or general institutional purposes. Extremely important to understand is that this structure produces multigenerational beneficiaries, beneficiaries a generation or more in the future. Under common law or statute, fiduciaries who manage endowments must take into consideration all beneficiaries—not just today’s students, for example, but students in the future, as well. That fiduciary duty clearly leads to certain investment and payout policies that, in the final analysis, drive the ultimate decisions. Paying out “too much currently” may deprive future beneficiaries. Alternatively, paying out “too little currently” may be depriving current beneficiaries”.

Nevertheless, an American scientist H. Hansmann (1990, p. 14-15) convinces that not only does this process contradict the economic growth theory, but also the idea of justice. He mentions that “there is every reason to believe that, over the long run, the economy will continue to grow in the future as it has in the past and that future generations of students will therefore be, on average, more prosperous than students are today, just as today’s students are more prosperous than their predecessors. Thus, equity does not call for a transfer of wealth, through saving, from the present generation to later ones. On the contrary, it would seem more equitable to have future generations subsidize the present. There could still be a case for transferring wealth to future generations through endowment accumulation, however, if the rate of return on endowment investments is substantially higher than the rate of growth of per capita income. In that case, the marginal gain in utility to the beneficiaries in future generations could exceed the marginal utility loss to the current generation, even though the transfer would be from the poor to the rich. In any event, this argument for endowment accumulation is based on intergenerational efficiency, not equity”.

Each university solves a task of maintenance of “the intergenerational justice” in its own way. Some establish funds being similar to endowments, which function on the principles of endowments, but have other mechanism of formation and usage of their financial resources. For instance, George Soros donates to term endowments, all funds of which or their share can be spent after a maturity date or occurrence of some events dependently of donor desires. Others form quasi-endowments on the basis of own financial resources. In this case, there are no restrictions on donor’s part. Thus, a university can use the main sum of an endowment at any moment. In exceptional cases, the donors propose to spend from 5 % to 10 % of a classical endowment for target needs to prevent the excessive equity growth. The Cambridge University experience is quite interesting. Possessing the budget of approximately 1 bln GBP and the endowment fund in the amount of 4.3 bln GBP, the university

resorted to issue bonds for the first time in 2012. The university put 40-year bonds estimated at 350 bln GBP with a 3.85 % rate to maturity on the stock exchange. Funds will be used for constructing a new real estate complex “The North West Cambridge” and other current needs of the university. Actually, Cambridge has borrowed money to not deprive itself of 4.5 % income from the endowment fund. That is to say, the loan interests and the very debt will be repaid by the future generations, using the increasing investment return from the endowment fund.

The forth problem – rich private universities do not use their opportunities to give students from low-income families (who can receive the Pell Grants (maximum of 5,645 USD), according to the USA legislation) a chance to study. According to a survey by the NACUBO, only 16 % of students in highly-endowed private universities receive Pell Grants, on average, compared with 59 % at the lowest-endowed institutions. At Harvard, 11 % of students receive Pell Grants; at Yale, it's 14 %; Princeton, 12 %; Stanford, 17 %. By contrast, 59 % of students at the University of Texas in El Paso receive Pell grants, 53 % at the University of California at Riverside, and 33 % at the University of California at Berkeley. The University of California at Berkeley has more Pell eligible students than the entire Ivy League put together (Reich, 2014).

Some donors have begun to realize social risks of charity donations in favor of the elite universities, which, first of all, include deterioration of accessibility to higher education for a considerable share of the youth, and propose to support smaller, but more effective educational establishments (Riggs, 2006). In certain U. S. states authorities attempt to implement taxes for large endowments and to place legislative restrictions concerning activities of other charity foundations of the country on educational endowments (Jansen, 2006).

Conclusions and prospects of further research. The experience of endowment-fund establishment of foreign universities begins to be used by Ukrainian higher educational establishments. However, the Ukrainian educational system is not so much concerned with the social inequity as with search for philanthropists interested in development of the higher education. The deep economic crisis and military operations in the territory of Ukraine induce entrepreneurs to aim efforts, first of all, at protection of own businesses. A survey of Ukrainian employers from different business fields, which was conducted in November 2014 by the Fund “Democratic Initiatives” with the assistance of the Ukrainian League of Industrialists and Entrepreneurs, indicated that making donations to higher educational establishments is considered to be expedient only by 6 surveyed experts of 40 ones (dif.org.ua, 2014). Numerous obstacles induce them to abandon from foundation of endowment funds, e.g.:

1) corruption in higher education. According to certain estimations, a higher educational establishment in a regional administrative center with a 5,000 average number of students can generate black financial funds in the amount of approximately 2 mln USD per year. At the same time, 43 % of students think of corruption tolerably, considering it as a way to solve problems and an inalienable part of their lives (Riabchun, 2012);

2) doubts regarding possible directions of effective investing university endowment financial resources, since the economy is corruptive, bank deposits are unreliable instruments, the stock exchange does not perform the majority of its functions, and investing in land, real estate, and foreign assets are not legally regulated. Possible disadvantages of the endowment model also encompass: a high inflation rate; a possibility to gain considerable profit under conditions of formation of a significant “corpus” of an endowment fund; absence of a rapid result for a profit recipient;

3) underdevelopment of the legislation on charity in general and forms of state support in particular. Regulation of endowments in Ukraine is contemplated by a new edition of the Law “On charity and charitable organizations”. According to the Article 9, interests and dividends from charity endowment management are intended for giving aid to beneficiaries determined by donators or their representatives, execution of charity programs, and a mutual charity activity. At the same time, the change of targets, a procedure, and terms of charity endowment usage is possible only on the basis of

an agreement of a donator or a donator's legal successors and according to a court decision, whether a charity endowment is founded on the basis of a testament;

4) absence of university efforts for endowment formation.

Under such conditions scholars and the society should question participation of the state in the process of university endowment formation not only as a legislator, but also as a grantor of property and a source of other financial funds of endowments. It is topical for Ukraine to apply the foreign practice "Philanthropication thru Privatization" (PtP) – establishment of endowments at the expense of direction of all or a share of incomes from privatization at non-commercial and charitable organizations and institutions. In addition to this process, the educational system should comprehend the social lessons of endowment fund activities in the Western universities. Only those Ukrainian universities possessing competitive advantages and actively practicing fundraising will found quite considerable endowments in the future. However, a high level of the population income differentiation is an additional caution to them.

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