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CONTENTS

ENDOWMENT FUNDING AS AN EFFECTIVE FORM OF EDUCATIONAL FUNDRAISING

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Abstract

The purpose of this study is to structure the classic elements of educational fundraising and substantiate the endowment funding model as an effective form of educational fundraising. By structuring the classic elements of educational fundraising and identifying their specific features, we classified the actors of charity, types of educational fundraising, and stages of a fundraising campaign. Structuring educational fundraising within the framework of financial intermediation models allows us to detail the specifics of the fundraising services market and its participants, as well as identify endowment funding as a key form of educational fundraising. Endowment funding has been identified as a key form of educational fundraising and is a common tool for attracting and effectively using donor funds for universities worldwide, allowing them to mitigate the volatility of revenue from core activities. In modern conditions, endowment funds represent a well-established and optimal tool in global practice for attracting additional resources to the field of education, simultaneously promoting the economic interest of employers in investing in education, allowing for increased funding through annual income received from the placement of public and private capital without the right to use the capital itself.

Keywords: endowment funding, fundraising, educational fundraising endowment, endowment fund.

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Introduction

Educational fundraising is the process of raising resources, primarily monetary, for project implementation that an educational institution cannot secure internally. Fundraising activities are based on the principles of philanthropy, social responsibility, and rational financial planning. One common form of educational fundraising is an endowment - a target capital fund formed from charitable donations to a university. Specific characteristics of this fund include its long-term and systemic nature, the use of only the income from the endowment's capital for the development of scientific projects, and the fund's operation by a management company.

The overall socioeconomic impact of an endowment fund is concentrated in the interconnected mechanism of the resource raising model, i.e., the procedure and stages of fundraising activities; the cause-and-effect relationships of philanthropy; and the relevant scientific and educational projects financed by the endowment. In practical terms, this is expressed in the adapted use of specific financial and investment instruments, social incentives for donations, and the complementary influence of the business environment and innovative education.

The goal of this study is to structure the classic elements of educational fundraising and substantiate the endowment funding model as an effective form of educational fundraising.

Methodology

The theoretical, methodological, and informational basis of the study was provided by the works of economists; legislative and other regulatory legal acts; materials from economic periodicals; analytical materials and expert assessments; and online information resources on the issue under study.

The main approaches to conducting the study include methods of positive, normative, comparative, and systemic analysis; synthesis, generalization, and scientific abstraction; as well as tabular and graphical methods of data presentation.

Results

Classic elements of educational fundraising encompass a system of actors (subjects): universities – as producers of new knowledge and beneficiaries (recipients); the business community – as systemic donors (donors, philanthropists); university graduates – as special donors; management companies – as operators of endowment capital growth. Depending on various criteria, educational fundraising is differentiated by type (Table 1): by implementation method (external and internal fundraising); by direction of spending funds (operational and project); by potential donors (internal corporate and external corporate); by channels of information and interaction with potential donors (telephone, personal mail, in-person personal, event fundraising).

Table 1.

Classification of types of educational fundraising

Classification Criteria	Types of educational fundraising	Definition
By direction of spending funds	Operational fundraising	It is aimed at ensuring the ongoing activities of an educational organization by covering the current expenses of the project (utility bills, salaries of organizers, tax and transportation costs, etc.), therefore it is usually less attractive to donors than other types.
	Project fundraising	Fundraising for the implementation of specific ideas, goals and objectives related to the implementation of a future project.
By method of implementation	External fundraising	This involves engaging specialized agencies and professional consultants outside the educational organization's staff to find potential donors. In the future, payment for donor search services may be considered operational fundraising.
	Internal fundraising	Associated with the search for potential donors for specific projects by the employees of the non-profit organization itself.
By potential donors:	Internal corporate fundraising:	Fundraising with alumni, students and their relatives, and employees. Through information and interaction channels with potential donors
	External corporate fundraising:	Fundraising with representatives of the business sector.
Through channels of information and interaction with potential donors	Telephone fundraising	Working with potential donors through phone calls
	Postal personal fundraising	Working with potential donors through personalized email campaigns
	Personal fundraising	Working with potential donors through personal meetings and conversations
	Event fundraising	Organizing special events (lotteries, auctions, concerts, exhibitions, etc.) to attract donors

The multiplicity of educational fundraising types and the diversity of its actors necessitate structuring the elements of a fundraising campaign through a decomposition analysis in accordance with the stages of its classic cycle: planning, implementation, monitoring and control, and effectiveness analysis.

Thus, the fundraising campaign planning stage includes identifying fundraising goals and objectives; assessing resource needs; selecting a fundraising method; selecting target potential sources (donors); and developing a fundraising plan for each target donor segment. The implementation stage of planned educational fundraising activities consists of selecting the methods and tools for conducting the fundraising campaign. During the monitoring and control stage of fundraising campaign implementation, corrective actions and risk prevention are implemented. The final stage, associated with assessing the results achieved through various educational fundraising, evaluates the effectiveness of planning and implementation of the fundraising campaign.

Structuring educational fundraising within the framework of financial intermediation models allows us to detail the specifics of the fundraising services market and its participants, as well as identify a form of educational fundraising known as endowment funding.

Endowment funding, as a key model of educational fundraising, is a common tool for attracting and effectively using donor funds by higher education institutions worldwide, enabling them to mitigate the volatility of revenue from core activities.

An endowment fund for a higher education institution is a target capital fund formed from voluntary donations and transferred to a trust to generate investment income, which is used for long-term, stable financing of the university's activities to effectively implement its strategically significant goals.

In the analytical landscape of developed countries, the question of the nature and general mechanism of endowment funding is practically absent, as these aspects of the problem have already been algorithmically and systematically developed (Hansmann, 1990; Schumacher, 2003; Lee, 2008; Lerner, Schoar & Wang, 2008; Conti-Brown, 2011; Rosen, 2016; Meyer & Zhou, 2017; Dawson, 2018). Among the current issues, one can note the issues of country-specific nuances of endowment funding development in an open economy, diversification of charity entities, as well as problems of the operational dynamics of endowments. In particular, these are the studies: Ottonicar S.L.C., Arraiza P.M., Armellini F. - with an emphasis on the formation of open models of science and connections between universities and business (Ottonicar et al., 2020); Hacker (2008) - with a new assessment of endowment funding taking into account country characteristics and improving partnerships in society (Hacker (2008); Ramsden D. (2008) - with an assessment of the Yale endowment spending formula (Ramsden, 2008); Jeffrey Liebman and Alina Sellman

(Liebman & Sellman, 2013) - with an emphasis on the importance of developing the social impact bond instrument in the development of endowment funding (Mehrling, 2005); Sedlacek & Jarvis (2010) – with an analysis of endowment spending methods (Mehrling, 2005; Sedlacek & Jarvis, 2010); American Council on Education (2014), Commonfund Institute (2012) – with large-scale studies in the field of improving university endowment fund management strategies (American Council on Education, 2014; Commonfund Institute, 2012). Recently, issues related to the development of effective methods for managing endowment fund income and expenses have become relevant (The Harvard Kennedy School Social Impact Bond Technical Assistance Lab).

The specification of the object-subject nature of university endowment funding allows us to distinguish the following entities:

1) The university as the beneficiary, i.e., the recipient of income from the endowment capital.

2) A specialized non-profit organization, created in the form of an endowment fund, established by individuals and legal entities interested in the development of the university based on their voluntary property contributions, pursuing socially beneficial goals for the university. The fund generates the endowment capital and transfers it to the trust management company. The highest governing bodies of the fund are the Management Board and the Board of Trustees, which must include representatives of the university, major donors, and independent individuals.

3) Donors (donors) of the endowment fund, i.e., individuals and/or legal entities making monetary donations to form and/or replenish the endowment capital. Donors may include university administrators, faculty and staff, alumni, alumni associations (unions) of the university's alumni (faculty), partner enterprises, non-profit organizations, and other philanthropists.

4) A management company, to which the endowment fund's target capital is transferred for trust management. Income received from the trust management of the endowment capital through its investment in financial assets is transferred to the university as the beneficiary, which must ensure its strict use in accordance with the fund's statutory objectives, donation agreements, and financial plan.

The objects of university endowment funding are: donations; target capital; income from the trust management of the endowment capital.

In some countries, universities themselves may own the endowment, which may be managed by a special division of the university (its subsidiaries) or by external independent managers. It should be noted that there are differences between endowment funds, charitable foundations and alumni associations according to a number of criteria (economic nature, source of income, actors, source of funding, donors, management of spending), presented in Table 2 and Table 3.

Table 2.

Comparison of an endowment fund and a charitable foundation

Criteria	Endowment fund	Charitable foundation
The economic nature of the fund	This is always a target capital, i.e. it assumes mandatory investment and income from it.	These are financial resources, but usually not capital, meaning they are not intended to be circulated or generate income from investment. The funds can be used directly and immediately to meet the relevant needs of a given social sector.
Source of income	Voluntary donations from donors	Voluntary donations from donors
Actors (subjects of financial relations)	- foundation; - donor; - management company (generates income)	- fund; - donor
Source of funding	Income from investing endowment capital.	Fund resources
Potential donors	A more clearly defined circle of potential donors, consisting largely of graduates of a particular university.	An undefined circle of potential donors
Managing spending	It is carried out by a collegial body - the board of trustees within the framework of the goals established in the Charter of the organization	The donor can identify a specific goal and a specific recipient of the assistance provided. For example, the donor may choose to pay for the education of a specific student; this charitable act can be carried out independently of any foundation.

Table 3 .

Differences between university endowment funds and alumni associations

Criteria	Endowment	Alumni associations
Circle of participants	A wide range of participants	Members of the associations are only university graduates of different years.
Number of participants	Possibly a relatively small number of participants	A large number of participants – according to the contingent of graduates
High-quality composition of participants	It is more significant to involve representatives of the business elite in donating sums	These may be representatives of all layers of social stratification of society, including representatives of socially vulnerable groups of the population, i.e. they themselves may need help
Amount and frequency of contributions	The amount and frequency of donations are determined by the benefactor.	As a rule, these are small amounts, acceptable to a wide range of middle-class representatives.
Share of participation in the formation of the fund.	The largest contributions are made by philanthropists and large companies	Typically, everyone participates a little bit.
Acceptability of anonymity of people contributing funds	Anonymity of benefactors is acceptable	The identity of the association members is clearly established
Purposes of using financial resources	The goals are specified in the charter and relate to the development of the university. As a rule, there are no funding goals for alumni events.	The main goals of alumni association funds include financial support for events such as alumni meetings and maintaining alumni records.

Discussion

The analysis shows that endowment funds have a number of advantages over traditional forms of educational fundraising (Table 4). These include: development of the financial autonomy of the university; minimization of the risk of spending the endowment capital itself; independence from one-time donations; high transparency; risk distribution; strengthening of "feedback" with the university stakeholders (employers, alumni, the public, etc.); tax benefits (for donors, the fund and the university). Along with the advantages, endowment funding has a number of disadvantages for universities (Table 4): additional costs, including transaction costs, associated with fundraising events and endowment capital management; deferred time nature of the positive effect of the endowment; the need to attract highly qualified specialists in the field of law and finance; complication of accounting and the need for an annual audit; transformation of the organizational structure of the university.

Table 4.

Advantages and disadvantages of target capital

Advantages	Disadvantages
- development of the university's financial autonomy based on an additional source of financial resources and the formation of a financial reserve at the beginning of the academic year; - avoidance of the risk of spending the endowment itself, which is inviolable and serves as a guarantee of future income, i.e., the emergence of opportunities for long-term planning of the university's activities and the financing of a wide range of strategic areas; - relative independence from additional one-time donations to the endowment; - a more transparent structure and operating scheme compared to charitable foundations; - risk distribution among the participants in the formation of endowment funds; - the opportunity to make the university's activities more transparent; - strengthening feedback with university stakeholders (employers, alumni, the public, etc.); - tax incentives (for donors, the foundation, and the university)	- the requirement for significant expenditures, including transaction costs, to form and increase the university's endowment, as well as its management; - the delayed, temporary nature of the positive impact of the university's endowment; - the need to attract highly qualified legal and financial specialists to effectively form and manage the endowment; - the complexity of accounting procedures and the need to ensure annual audits; - the need to implement internal organizational transformation at the university.

Depending on the operational characteristics of endowments, such as the number of donors, the degree of diversification of their structure, the size and frequency of donations, and the fund's operational transparency, three models were studied: "closed," "open" ("retail," "democratic"), and "mixed" (Table 5). Most university endowments were initially created under the "closed" model, but as they matured, they transformed into "open" models. Today, most university endowments abroad operate under a "mixed" model, in which a significant portion of the endowment (over 70%) consists of large donations.

Table 5.

Models of university endowment funds

Criteria	"Closed" model	"Open" model (retail, democratic)	"Mixed" model
Number of donors	A small number of donors	A large number of donors	A large number of donors
The degree of diversification of the structure of donors	Low donor diversity. Typically, these include the university's director, who makes the initial contribution, and three to four large entrepreneurs who sponsor the university.	A diversified donor structure, including alumni and their associations, faculty, university staff, students and their parents, employers, partner organizations of the university in the scientific field, business representatives, non-profit organizations, etc.	A diversified donor structure, including alumni and their associations, faculty, university staff, students and their parents, employers, partner organizations of the university in the scientific field, business representatives, non-profit organizations, etc.
The size of one donation	Large size of a single donation	Donations of various sizes	Large size of a single donation
Frequency of fund replenishment	Rare replenishment	Regular replenishment	Regular replenishment
Information transparency of the fund's functioning	Low	High	High

The effectiveness of the university endowment fund is multi-component and is determined by the effectiveness of the fundraising campaign, the social focus of expenses and investment returns (Table 6).

Table 6.

Performance criteria for the university endowment fund

The process being assessed	Criteria for the effectiveness of process organization
Efficiency of fundraising in an endowment fund	- Amount of funds raised; - Market value of capital; - Endowment fund growth rate; - Increase in the number of donors; - Number of donations during the reporting period; - Ratio of large to small donations; - Share of endowment fundraising expenses.
Social efficiency of spending	- the amount of funds transferred to the UHPO; - improving the quality of education; - implementing the university's social projects; - the number of scholarship programs for students and the total amount of their funding; - the number and cost of funded projects to update the university's educational and methodological resources; - the number and amount of funding for faculty support programs; - the number and cost of funded promising and breakthrough research projects.
Efficiency of fundraising in an endowment fund	- Return on invested capital; - Risk profile of financial instruments; - Degree of investment portfolio diversification; - Compliance with investment objectives.

Conclusion

Thus, the advantage of endowment funding over other educational fundraising tools is that it uses investment income from endowments created by donors rather than direct donations to finance universities. This ensures long-term, stable, and flexible funding for universities.

Endowment funds, in today's global context, represent a proven and optimal tool for attracting additional funding to education, while simultaneously fostering employers' economic incentives to invest in education and increasing funding through annual revenues generated from the placement of public and private capital without the right to use the capital itself.

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