Chapter 6: Diversifying Higher Education revenue through philanthropy and endowments: implications for the MENA region

Different modalities used to increase resources to meet fiscal constraints in HE were discussed in the previous chapters. Chapter 3 looked at ways to improve efficiency in the use of public funds; chapter 4 discussed the rationale for cost-sharing; and chapter 5 showed how private provision of HE can help improve access and quality.

While these forms of revenue diversification are critically important, there are practical and political limitations to each, at least as complete solutions to the financial problems plaguing most of the world’s public universities and other HEIs. For example, faculty and institutional entrepreneurship can be lucrative for certain high demand programs (e.g., management, computer science, law, and language instruction) in certain institutions or certain facilities, but may do relatively little for the core institutional budgets of a nation’s principal public universities.

Another source of revenue merits discussion: philanthropy and donations held as endowments earning current income (Johnstone and Marcucci, 2010). This practice is mainly found in the U.S. and Northern Europe, although a recent EC (2011) report shows that European universities are tapping into philanthropic resources much less than American universities. While three-quarters of them have used philanthropy to fund research in the past five years, the amounts raised have been small, with only six HEIs raising more than EUR 10 million for research on an annual basis (EC, 2011).

Philanthropy and endowments have traditionally been associated with private elite U.S. institutions. However, in the last fifty years, public colleges and universities have also relied on philanthropic support. In part, the increased philanthropic success of public colleges and universities in the U.S. is due to the increased academic selectivity of public universities such as Michigan, Wisconsin, Ohio State, Illinois, Minnesota, North Carolina and the University of California at Berkeley, Los Angeles, and San Diego, and the UC medical campus at San Francisco to name a few. Building on this innovative source of funds seems to be an attractive solution in other regions, especially to political leaders. In fact, in the face of diverging trajectories of higher educational costs and declining governmental revenues, philanthropy is an attractive political solution precisely for what it is not: increased taxes or tuition fees. Equally important, endowments funded by the state in anticipation of a post-oil economy are similarly attractive; they provide a way for rising costs and revenue needs of HE to be shared between taxpayers, families, and endowment earnings.

Chapter 6 examines how U.S. institutions have succeeded in attracting large amount of philanthropic resources. The following questions and associated topics are addressed:

1. What are the principal forms of philanthropic support to HE? Particular attention is paid to: (i) annual philanthropic fund drives directed at alumni, foundations, and “friends,” from which most of the net proceeds are spent in current operating budgets or current capital projects; (ii) philanthropic capital campaigns, for building up endowments; and (iii) initial “university creating” gifts and endowment or private foundation funds to provide a stream of operating revenue.

2. What are the legal and cultural factors critical to successful fund rising? Using the U.S. as a model, and providing data on both current giving and the top university endowments, some of the refinements of philanthropy are examined, such as legally enforceable restrictions, the need for contracts between donors and the universities or foundations, and the fiduciary obligations of the governing boards or trustees who are responsible for the investment and appropriate use of the revenues.
3. What is the relationship between taxes and philanthropy? As much of the success in the U.S. is based on favorable tax treatment for philanthropy, standard philanthropic practices designed to lessen the tax burdens of donors are examined, such as the deductibility of charitable contributions from income subject to taxation, the foregoing of capital gains taxes on gifts of appreciated property, the avoidance of estate taxes by bequests, and tax deductible gifts that provide a stream of income to the donor.

4. What are some of the limitations on philanthropy in solving the fundamental financial problems of colleges and universities? Cultural factors critical to successful college and university fundraising are discussed, as are some of the costs associated with such philanthropy.

5. What are the trade-offs between philanthropic giving for operations and philanthropy to build endowments? Some variations on endowments, such as funds functioning as endowments, wasting endowments, and state-owned investment funds (or sovereign wealth funds) that can be dedicated for the future support of universities, are described.

6. What are the key issues of endowment management, such as asset allocation and funding or “take out” policies? How do the most highly endowed U.S. universities address these issues, and what lessons are there for countries contemplating the dedication of large state-owned investment funds, quasi endowments, or sovereign wealth funds for the future support of their universities?

6.1 Building a culture of philanthropy

The first theme examined is how to initiate and then annually increase philanthropy, or voluntary giving, to HE. Higher educational philanthropy includes: (i) seeking regular donations for application to a university’s annual operating budget; (ii) less frequent but more focused solicitation of wealthy donors capable of large donations for capital facilities or other special needs of the university; and (iii) creation of, or additions to, a university endowment, invested to return a steady stream of revenue to the institution (in perpetuity). Successful philanthropy requires, among other things, a culture of voluntary giving to HE; the time-consuming and costly cultivation of alumni and friends to predispose them to donating on a regular basis; the active commitment of university leaders to the cause of fundraising; and the government’s willingness to encourage philanthropic donations through tax advantages to donors as well as matching grants to universities.

Philanthropic support to HE (as to any charitable recipient) is constrained by any restrictions placed upon it by the donor, including programmatic uses to which the funds may be put, and also by the amount of the donation that may be spent each year (ranging from the entire gift to only the income and capital gains from the invested donation). Within the confines of these constraints, the donation can be used by the governing board and the management of the college, university, or foundation according to the needs of the institution and the larger purpose, if any, that underpins the university’s quest for the donation.

Colleges and universities in the U.S. periodically (e.g., every six to ten years) engage in “capital campaigns” in which the objective is to maintain the level of annual donations that the institution’s budget has come to depend on, but also to seek much larger donations, either for special designated capital needs or to build up the endowment. The university governing board and the administrative leaders set ambitious multi-year goals (e.g., for the largest and wealthiest U.S. universities, in the range of USD $1 billion or more) and may prefer undesignated gifts that the trustees and administration can direct to the areas of greatest need. But many very large gifts are sought for a
restricted purpose, such as funds for an endowed chair in a particular department or facility, which may require USD $2.5 to $3 million.¹

Occasionally, a very large gift may be given to establish a college or university. Such a gift, generally in the hundreds of millions (and more recently, billions) of dollars, will purchase the land and erect the buildings, and may also establish an endowment to cover (even in perpetuity) a small portion of the institution’s annual operating budget. Stanford, Duke, and Rockefeller Universities and the University of Chicago in the U.S. were created this way, although in each of these cases, the original gift only created the university, while aggressive fundraising and high tuition fees maintained and enhanced them. A similar example in MENA is King Abdullah University of Science and Technology, which opened in 2009. Bilkent University in Ankara, Turkey, created from the gifts of the Bilkent Enterprises and Foundations of Turkish physician, professor, and philanthropist Dr. İhsan Doğramici, is another.

6.1.1 Higher Education philanthropy in the U.S.

As philanthropic support is well established and financially successful in the U.S., examples from there are used to illustrate some principles of fundraising as well as endowment management; many are applicable to universities and countries in the MENA region.

In 2010, philanthropy in the U.S. provided USD $28 billion to public and private colleges and universities, according to the Voluntary Support of Education (VSE) survey conducted annually by the non-governmental, non-profit Council for Aid to Education (Council for Aid to Education, 2011). This level of aggregate philanthropy was in spite of a recession that caused donations to colleges and universities in 2009 to decline by 11.9 percent from the 2008 level, the most lucrative philanthropic year ever recorded for U.S. colleges and universities (USD $31.6 billion).

Most of the philanthropy in the U.S. goes to colleges’ and universities’ operating and capital budgets, with much of it in the form of scholarships, new buildings, research, athletics, university hospitals, and the like, making it difficult to determine the effect on core university operations. Clearly, however, many U.S. colleges and universities, public and private, depend heavily on annual inflows of philanthropy, as well as on proceeds from the billions of dollars in their endowments.

Although virtually all U.S. colleges and universities have some form of organized fundraising, very large-scale philanthropic giving in the U.S. (i.e., upwards of USD $100 million annually) is dominated by colleges and universities with the following characteristics:²

- **Selective admissions**, which translates into large numbers of alumni who tend to be prominent, wealthy, and loyal to their colleges and universities (especially to their undergraduate colleges);
- **Venerability**, or long histories of admitting students from elite families, who themselves turn out to be wealthy, and who continue to give annually, as is the tradition and expectation of U.S. upper classes;
- **Large staffs** devoted to the cultivation of alumni, with up-to-date records, mailing and e-mail addresses; research staff to find “lost” alumni and assess their wealth and giving potential; large numbers of carefully tutored volunteers (both current students and classmates of the targeted alumni) to assist in the fundraising; and abundant resources to cover the expenses of printing, postage, entertainment, and events such as class reunions to appeal to alumni.

¹ The amount required to yield annually at least a USD $100,000 salary plus some expenses at a 4.5% spending rate.
² Some observers would also add winning athletic teams, but the evidence for this is mixed.
• *Boards of Trustees*, particularly at private colleges and universities, composed of prominent alumni and leading businessmen and women, most of whom are expected to give generously annually, as well as to assist in securing gifts from others; and

• *Prestigious faculty* who underlie the prestige and therefore the selectivity of the institution, and who are also able to secure foundation support for their research, which, unlike U.S. governmental research support, is included in the annual VHS surveys of philanthropic giving to U.S. colleges and universities.

Public colleges and universities in the U.S. are now among the leaders in annual philanthropic support as well as in endowments exceeding USD $1 billion. The attraction of top high school graduates to public flagship universities is also a result of the prominence of graduate and advanced professional programs in medicine, law, and business, as some children are inclined to attend the schools their parents did. Thus public universities, and an increasing number of public colleges as well, have been able to attract academically able and ambitious students to their undergraduate colleges; these prominent wealthy families might formerly have considered only private colleges and universities for their children’s education. In addition, soaring costs and revenue needs of public colleges and universities that aspire to selectivity and scholarly prominence, along with the prolonged inability of states to continue funding their public institutions sufficiently, have forced public HEIs to turn to philanthropy to supplement their budgets.

Although the number of institutions conducting annual fund drives has increased dramatically, higher educational philanthropy in significant amounts (i.e., in excess of USD $100 million annually) remains concentrated in the more elite and selective universities and colleges, both public and private. The top twenty institutions, shown in table 6.1, accounted for more than 25 percent of the USD $28 billion of philanthropic donations to U.S. colleges and universities in 2010 (Council on Aid to Education, 2010a and 2010b).

Higher educational philanthropy requires building a culture of philanthropy. In addition to the already described activities of giving and volunteering, a philanthropic culture supportive of public HE also requires certain political beliefs, or public policy assumptions, that are quite distinct from mere philanthropic generosity or a high civic value placed on HE. A philanthropic culture associated with public HE requires donors to understand that government revenue actually comes from taxpayers, and that leaving the financial support of HE entirely to the government not only places the entire burden on the average citizen, but also, under most circumstances, leaves HE underfunded.
### Table 6.1 Top twenty fundraising universities in the U.S. in 2010

<table>
<thead>
<tr>
<th>Rank</th>
<th>University</th>
<th>Public/Private</th>
<th>Amount raised (in USD millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Stanford Univ.</td>
<td>Private</td>
<td>598.89</td>
</tr>
<tr>
<td>2</td>
<td>Harvard Univ.</td>
<td>Private</td>
<td>596.96</td>
</tr>
<tr>
<td>3</td>
<td>Johns Hopkins Univ.</td>
<td>Private</td>
<td>427.59</td>
</tr>
<tr>
<td>4</td>
<td>Univ. of Southern California</td>
<td>Private</td>
<td>426.02</td>
</tr>
<tr>
<td>5</td>
<td>Columbia Univ.</td>
<td>Private</td>
<td>402.36</td>
</tr>
<tr>
<td>6</td>
<td>Univ. of Pennsylvania</td>
<td>Private</td>
<td>381.59</td>
</tr>
<tr>
<td>7</td>
<td>Yale Univ.</td>
<td>Private</td>
<td>380.90</td>
</tr>
<tr>
<td>8</td>
<td>New York Univ.</td>
<td>Private</td>
<td>349.21</td>
</tr>
<tr>
<td>9</td>
<td>Duke University</td>
<td>Private</td>
<td>345.47</td>
</tr>
<tr>
<td>10</td>
<td>Univ. of Indiana</td>
<td>Public</td>
<td>342.82</td>
</tr>
<tr>
<td>11</td>
<td>Univ. of California Los Angeles</td>
<td>Public</td>
<td>340.41</td>
</tr>
<tr>
<td>12</td>
<td>Univ. of Wisconsin</td>
<td>Public</td>
<td>311.85</td>
</tr>
<tr>
<td>13</td>
<td>Cornell Univ.</td>
<td>Private</td>
<td>308.22</td>
</tr>
<tr>
<td>14</td>
<td>Univ. of California Berkeley</td>
<td>Public</td>
<td>307.51</td>
</tr>
<tr>
<td>15</td>
<td>Mass. Inst. of Tech.</td>
<td>Private</td>
<td>307.18</td>
</tr>
<tr>
<td>16</td>
<td>Univ. of Washington</td>
<td>Public</td>
<td>285.22</td>
</tr>
<tr>
<td>17</td>
<td>Univ. of California San Francisco</td>
<td>Public</td>
<td>268.90</td>
</tr>
<tr>
<td>18</td>
<td>Univ. of North Carolina</td>
<td>Public</td>
<td>266.86</td>
</tr>
<tr>
<td>19</td>
<td>Univ. of Michigan</td>
<td>Public</td>
<td>252.10</td>
</tr>
<tr>
<td>20</td>
<td>Univ. of Chicago</td>
<td>Private</td>
<td>251.23</td>
</tr>
</tbody>
</table>

Source: Council for Aid to Education 2011.

Almost three-quarters of this funding came from sources other than alumni, including, in order of significance:

- Foundations (30 percent)
- Alumni (25.4 percent)
- Non-alumni individuals (17.6 percent)
- Corporations (16.9 percent)
- Other than religious organizations (9 percent), and
- Religious organizations (1.1 percent)

### 6.1.2 Limitations, restrictions, and costs associated with Higher Educational philanthropy

Of the total USD $28 billion in 2010 philanthropy, about USD $17 billion paid for current operations, and USD $11 billion funded capital purposes. Although the aggregate data do not reveal the restrictions on philanthropy for operations, much of it is thought to be restricted to student aid, which then reverts to colleges and universities as tuition as well as fees for support of student residences and campus food operations. Since the CAE survey on philanthropy also counts restricted foundation support of research and scholarships (although only from private foundations, not from governmental sources), some of the philanthropy supporting operations pays for specialized equipment, travel, and support staff, and does very little for the institutions’ unrestricted operating budgets.

A major limitation of philanthropy is the expense of obtaining it. Successful fundraising “U.S. style” requires the time and dedication of the institution’s chief operating or chief executive officer.

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3 Council for Aid to Education (2011).
(whether chairman, chancellor, vice chancellor, president, or rector); a full-time professional staff headed by an executive with significant authority, budget, and access to the CEO; research capability to compile and keep up-to-date lists of alumni, friends, and foundations; and a budget for printing, publications, mailing, travel, and cultivation events.

The costs of fundraising are difficult to determine with accuracy, as they vary with institutional size, sector (public or private), and the scale of the institution’s fundraising ambitions and activities. When just beginning, the start-up costs associated with fundraising can take a large percentage of the revenue raised. This percentage will fall over time, as the mailing lists become routine, as the gifts get larger, and as the initial expenses that are oriented to communicating and “friend-raising,” begin to generate more substantial funds. Adding to the difficulty of determining the costs of fundraising, colleges and universities in the U.S. do not like to reveal these costs, as donors sometimes resent the fact that a portion of their donation goes back into the fundraising operation itself, and not entirely to scholarships, research, or the institution’s operating budget.

The thirty-six U.S. research/doctoral institutions responding to the CAE’s 2010 survey reported that expenditures associated with advancement operations broadly included:

- Development and fundraising (52 percent)
- Advancement of services (17 percent)
- Communications and marketing (11 percent)
- General alumni affairs (11 percent)

Advancement of executive management (9 percent)

Given these expenses and other funding restrictions, annual philanthropy in actuality provides far less than tuition fees for most private colleges and universities, and less than the combination of tuition fees and state operating support for public institutions.

A political culture supportive of public higher educational philanthropy also understands that government expenditures (including tax deductibility or other tax advantages to contributions) have opportunity costs and that funding HE, while eminently important, is done at the expense of expenditures on other public needs (e.g., elementary and secondary education, economic infrastructure, social welfare, public health, etc.).

Finally, a political culture supportive of public higher educational philanthropy may be tied to acceptance of the imperative for revenue diversification, or governmental revenue supplementation, including the appropriateness of some tuition fees (Johnstone, 2005). This presents a particular problem in most of Europe and the MENA countries, where a belief persists that HE ought to be supported entirely or overwhelmingly either by the general taxpayer, or by the state (e.g., from oil revenues). This belief, although eroding slowly in many European countries, continues despite the facts that: (i) the beneficiaries of free HE belong disproportionately to the middle and upper-middle classes; (ii) students receive enormous personal benefits, including higher lifetime earnings, greater prestige, more options, and other benefits; and (iii) tax revenues in most countries are insufficient to meet the needs of HE.

6.1.3 Favorable tax treatment of philanthropy

Another feature of successful philanthropy is favorable tax treatment of charitable giving. Although tax laws differ among countries, and although governments may be loathe to forego any tax revenues, successful philanthropy can be greatly encouraged by tax advantages. Four forms are especially significant in the U.S.:
(1) The deductibility of charitable giving from income that would otherwise be subject to taxation. This is the standard followed in much of the world. It is effective in countries in which: (i) a significant portion of tax revenue is collected from individual incomes; (ii) tax rates are high (e.g., 30 to 50 percent); (iii) most incomes (especially high incomes) are known and thus subject to taxation, rather than being easily hidden or otherwise unreported; and (iv) the tax rates are progressive, i.e., falling more heavily on higher incomes. Thus, in a country where high incomes are taxed at a marginal rate of 40 percent, a USD $100,000 gift to a university reduces the donor’s tax liability by USD $40,000; the university gets the full USD $100,000; and the donor is credited with giving the full amount. The underlying tax laws and regulations must carefully stipulate (and may need to limit) the nature of the charities that are entitled to receive tax-deductible donations, and tax authorities must have the personnel and resources to ensure that this expensive (to the state) provision is not abused.

(2) The full deductibility of gifts of appreciated asset value. Income taxes generally do not apply to assets that appreciate in value until the assets are sold, and then a tax (generally less than the tax on earned income) is applied to the asset’s appreciated value. A major tax advantage to philanthropic gifts of appreciated value (e.g., a gift to a university of stock that was purchased by the donor ten years ago for USD $20,000 and that has since doubled in value to USD $40,000) is that the donor can claim a tax deduction of the full appreciated value of USD $40,000, even though no capital gains taxes were ever paid on the stocks. This tax provision effectively bypasses capital gains taxes on gifts of appreciated equities and other appreciated assets, a significant part of the charitable giving of so-called “high worth” donors. The full deductibility of gifts of appreciated asset value is especially beneficial to universities trying to raise large gifts associated with capital campaigns and endowment building.

(3) Charitable gifts that provide both a tax deduction and a flow of income to the donor. Another tax advantage that may be attractive to donors is the charitable gift annuity. By making an irrevocable gift to a university, the donor may elect to receive income from that gift as an annuity and may also take a tax deduction at the time the gift is made. The deduction is, in essence, the estimated present value of the gift that will someday go, without qualification, to the university. This provision is attractive to someone who would otherwise include a gift to a university in a will or estate plan, and who prefers to make the gift while still living, but who cannot afford to forego the income that he or she is now getting from the asset. A long remaining life expectancy and a more generous annuity reduce the estimated present value of the gift that ultimately goes to the university, and commensurately reduce the amount of the allowable tax deduction in the year the gift was made.

(4) Charitable remainder trust (CRT) that provides a variation on the former concept. This is an irrevocable charitable trust in which the recipient charity acts as trustee of the gift, which may be passed on to a surviving spouse or another heir before going fully to the charity. The donor (and eventually his or her heirs, according to the terms of the trust) receive income and a tax deduction at the time the gift is given, but the university eventually receives a gift. Compared to the charitable gift annuity, the provision for heirs reduces the estimated present value of the gift that ultimately goes to the university and thus commensurately reduces the amount of the tax deduction in the year the CRT is given.

The income tax deductibility of philanthropic contributions, the full deductibility of appreciated capital gains, and other features of the U.S. tax code as it affects philanthropy provide, in effect, a substantial governmental contribution (almost a match) to philanthropic giving. The rationale is that most philanthropy goes to socially worthwhile causes, and takes the place of what would otherwise have to be supported by the government (or taxpayers), so that the philanthropic tax deduction may actually be a more cost-effective way of channeling private wealth into education.
6.1.4 Tapping the MENA diaspora for philanthropic support of Higher Education

A possible source of philanthropy for HE in many middle and low income countries is diasporas, or those individuals who have emigrated to other countries but who continue to identify with the country of their birth. This potential is especially attractive for those countries whose most highly educated young people went to Europe or the U.S. for advanced professional training and either remained or re-emigrated to establish successful businesses and professional practices. The appeal to those in the diaspora can be either that they owe something to the home universities from which they received their first degrees (frequently assisted by government grants), or that they have a chance to assist their home universities and make them better for those who are unable to study in Europe or the U.S.

The potential seems significant. The World Bank estimates that about USD $400 billion in savings alone is held by the global diaspora (Ratha and Mohapatra, 2011). The report further estimates the savings in the MENA diasporas at more than USD $42 billion. One problem with initiating diaspora fundraising is the historic lack of culture of philanthropic giving to universities in the MENA region, combined with the fact that many citizens may have received their most significant educational experiences in European or North American universities. But U.S. universities aggressively solicit from international graduates who have returned to their home countries (e.g., China, Taiwan, Korea, India, or Indonesia) and prospered. It would be unfortunate for universities in MENA countries to ignore the philanthropic potential of their graduates who have left and are now financially successful in Europe or the U.S.

Another problem associated with engaging the MENA diaspora is the loss or absence of current contact information: mailing and e-mail addresses, telephone numbers, and personal information, including philanthropic potential. This will be expensive and time-consuming to update, but should be seen as an investment.

A final problem for the MENA diaspora is the lack of tax advantages for philanthropic gifts to a non-profit university or any other charity in another country. However, U.S. law and Internal Revenue Service regulations provide at least two ways for diaspora residents in the U.S., whether citizens or not, to receive a U.S. tax deduction on gifts to a foreign charitable organization such as a college or university. U.S. affiliates of international charities can be chartered as “Friends of...” organizations and secure U.S. Internal Revenue Service 501(c)(3) public charities designation. These charities are fully tax deductible and can accept and process gifts and grants to be sent to approved non-profit charities in other countries. Examples include American Friends of the Paris Opera, American Friends Service Committee, and American Friends of London Business School. Also, public charities known as “intermediaries” can facilitate direct grants to a charity in another country. A fee associated with this process is charged from the intermediary (not from the program) and is often subtracted from the original grant amount and paid to the intermediary organization.

Given the extent of the Egyptian, Moroccan, Palestinian, Lebanese, Tunisian, and other MENA country diasporas, and the importance of their universities to their countries’ futures, any philanthropy should consider including prominent natives of these countries residing in the U.S. or Europe, as well as prominent Americans and Europeans with business and other connections to these countries. Creation of one or more “Friends of...” charities to transfer tax-exempt contributions to universities or university-related foundations will be essential to facilitate this.

6.2 Management of university endowments

The second theme discussed is the management of and accountability for the invested funds, or endowments, meant to provide a flow of funds into the future (most often in perpetuity). An
endowment is a fund owned or controlled by a charitable entity such as a college or university. The invested assets, as an income producing corpus or foundation, continue to yield money for the philanthropic or charitable purpose into the future, after the initial giving has ceased. In a true endowment, the corpus should last in perpetuity, and only the income earned is spent (e.g., interest, dividends from investments, profits from foundations or endowment-owned properties or businesses, and perhaps a portion of capital appreciation, but never diminishing the real value of the corpus or principal, and preferably allowing some growth of principal to maintain a constant stream of earnings after inflation).

The advantage of an endowment is that the flow of revenues continues, assuming it is invested wisely, without additional investment. The disadvantage of an endowment is that one must raise and commit to the endowment USD $20 to $25 for each $1 that the university is allowed to spend each year. Furthermore, restrictions on some endowed funds may incur other current costs or divert the university from the mission of the governing board and faculty. Given the rising trajectory of university costs and revenue needs, the task of raising more, via current funds or additional endowment, is never finished.

There are three principal endowment policy issues to be established by the owners or trustees of the university or foundation owning the endowment. The first is determining the asset allocation among traditional equities, fixed assets (bonds), and more risky but potentially more lucrative investments such as hedge funds, derivatives, real estate, private equities, and the like. The second is establishing the spending policy: i.e., how much of the endowment’s dividends, interest, profits, and asset appreciation can be spent or applied each year to the university’s operating budget. The third is portfolio management: determining how to invest the assets of the endowment within the parameters established by the asset allocation. These three issues are examined next.

6.2.1 Asset allocation

Most university endowments in the U.S. were traditionally held in the form of U.S. securities, or dividend producing equities, and in fixed-return assets such as bonds. More recently, university endowments have shifted towards other forms of assets that are less safe but promise to produce greater returns over time. Such alternative assets include foreign and private equities, derivatives, hedge funds, income-producing real estate, and real estate or other assets that do not produce income currently but that appreciate in value (and thus can provide collateral for a loan, or be borrowed upon for current revenue if needed). In theory, endowment assets could even include businesses, the sole owners of which, and the only entities that can profit from the business, would be the non-profit universities or their foundations.

Small college and university endowments in the U.S. (i.e., those less than USD $50 million) tend to be invested conservatively, concentrating asset allocation in U.S. securities and fixed assets. Larger endowments, however, reveal the trend toward investment in “alternative assets” that are less liquid and feature greater risk, but that may produce substantially greater returns. For U.S. colleges and universities with endowments greater than USD $1 billion, the Annual Survey of College and University Endowments by the National Association of College and University Business Officers (NACUBO) and the Common Fund Institute showed an asset allocation in 2010 of 11 percent in domestic equities, 15 percent in international equities, 10 percent to fixed income assets, and 60

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4 If a philanthropist should donate a business, or even an income-producing property such as an apartment house, to a college or university in the U.S., the governing board of the institution or affiliated foundation will almost certainly sell the property as soon as possible and then invest the proceeds from the sale in equities or other investment grade assets. This is not the case in some other countries, where universities or their affiliated foundations routinely own businesses and other revenue producing assets.
percent to alternative strategies, leaving 4 percent to short term securities and cash (NACUBO-
Comonfund, 2011). Similarly, Cambridge Associates (the largest U.S. endowment advisory firm)
reported that for endowments greater than USD $1 billion, asset allocations in U.S. securities
dropped from an average of 46.2 percent of endowment portfolios in 1996 to only 14.8 percent in
2010. Allocations to bonds similarly dropped over the same time period, from 24.2 to 11.1 percent.
In the meantime, holdings in marketable alternative assets, including hedge funds, event arbitrage,
arbitrage, distressed securities, and market-neutral hedge funds increased from 5.2 percent in 1996
to 24.8 percent in 2010. Table 6.2 shows the shift in asset holdings of U.S. university endowments
with total assets greater than USD $1 billion.

Table 6.2 Change in percentage asset allocation in U.S. college and university endowments
of more than USD $1 billion

<table>
<thead>
<tr>
<th>Form of Assets</th>
<th>1996 (% change)</th>
<th>2003 (% change)</th>
<th>2010 (% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. equities</td>
<td>46.2</td>
<td>33.7</td>
<td>14.8</td>
</tr>
<tr>
<td>Bonds</td>
<td>24.2</td>
<td>18.5</td>
<td>11.1</td>
</tr>
<tr>
<td>Global equities (excluding U.S.)</td>
<td>13.0</td>
<td>13.4</td>
<td>16.8</td>
</tr>
<tr>
<td>Private equities</td>
<td>1.2</td>
<td>4.6</td>
<td>10.3</td>
</tr>
<tr>
<td>Hedge funds and other marketable alternatives*</td>
<td>5.2</td>
<td>17.2</td>
<td>24.8</td>
</tr>
<tr>
<td>All other**</td>
<td>10.2</td>
<td>12.6</td>
<td>22.2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Cambridge Associates 2011.

Note: *Includes macro and market neutral hedge funds, distressed securities, and arbitrage.
**Includes public and private real estate, oil and gas, timber, commodities, and cash.

6.2.2 The spending policy

The second policy issue for the trustees or governing board of the endowment is to determine how
much of the yearly income from dividends and interest, together with the some portion of the
annual capital appreciation, to retain in the endowment to maintain the real value of the principal
amount and how much to spend. Advanced industrial economies can expect to grow at 2.5 to 3.5
percent a year in real terms: that is, 2.5 to 3.5 percentage points ahead of the percentage rise in
prices generally, or the prevailing rate of inflation. Professionally managed investment funds, like
endowments, in such economies can expect to do somewhat better, perhaps 4 to 4.5 percent
greater than the prevailing rate of inflation. This might be higher with a large fund that is
aggressively managed (e.g., heavy on alternative investments) or lower with smaller funds that are
more conventionally managed (e.g., heavy in bonds and domestic large cap equities). The spending
policy should be designed to balance the endowment’s asset allocation policy (i.e., its tolerance for
risk and the aggressiveness of its investment management) with the institution’s need for immediate
revenue and its tolerance for risk (i.e., the degree to which the financial health of the university
would be damaged in a recessionary decline in aggregate endowment values).

Institutions with large endowments tend to rely more on spendable revenue for critical university
operations (e.g., for endowed professorships) than do less endowed institutions. Such institutions
also tend to have more aggressive asset allocation policies and are thus more vulnerable to
downturns in the economy and in the value of their invested funds. Thus college and universities
with endowments in excess of USD $1 billion tend to have higher spending rates, especially in years
when the endowment’s value has declined and the institution needs the revenue to maintain
operations. The NACUBO 2010 endowment study reported that institutions with endowments in

5 Private communication on April 11, 2011 with Jane Mendillo, Chief Executive Officer of Harvard Management Company.
excess of USD $1 billion raised their average spending rates from 4.6 to a full 5.6 percent between 2009 and 2010; in comparison, those institutions with the smallest endowments (i.e., under USD $25 million) actually lowered their spending rates from 3.9 to 3.5 percent (NACUBO-Comonfund, 2011). As a general rule, U.S. college and university endowments have ranged between 4.3 and 5.0 percent for most of the last decade (NACUBO-Comonfund, 2011).

Another feature of an endowment spending policy is the stipulation of the endowment asset value to which the spending, or “take-out,” rate is to be applied. To provide a cushion from the volatility of portfolios (especially ones that have been aggressively managed), many spending policies apply the rates to a “lagging average” such as the average of the prior two or three years. But there are many variations on the combination of base plus rate, as reported in the 2010 NACUBO survey. Of the sixty institutions reporting endowments in excess of USD $1 billion, forty-nine of them (82 percent) employed some sort of established percentage rate applied to a lagging average; eighteen (30 percent) used last year’s dollar spending plus inflation (with upper and lower bounds). Eight institutions reported setting a spending rate each year, and two reportedly spent all available current income from the endowment (NACUBO-Comonfund, 2011).

Most institutions, however, especially those for which endowments constitute a significant portion of their annual budgets, need policies established by the governing board of the institution to enable institution managers to predict revenues and thus plan accordingly. Equally important, the governing board needs to establish a spending policy that is best for the institution’s long run objectives and that provides a bit of financial discipline. In other words, the spending policy should not be excessively driven by short term needs for revenue.

6.2.3 Portfolio management

After establishing asset allocation and spending policies, the owners of the endowment must decide how to manage the portfolio: that is what to buy, sell, and hold within these parameters. For a very small endowment, such decisions may be made by a committee of the trustees, or the legal owners of the endowment, at least some of whom will usually have some experience in cash management and investing. However, to avoid appearances of conflict of interest or other liabilities that might arise from making of investment decisions, most large endowments are entrusted to one or more professional investment managers, who abide by the trustee-established policies on the proper asset mix, but are free to invest to maximize the growth of the endowment over time.

Governing boards or trustees may be aided by investment advisors, who do not themselves participate in the actual investment management decisions but provide knowledgeable and unbiased assistance to endowment owners in the selection and performance assessment of investment managers (Kershaw, 2011).6 Universities in the U.S. with the largest endowments (i.e., in excess of USD $10 billion) may set up wholly-owned private investment management corporations. The governing board retains authority over the policies on asset allocation and spending, but delegates critical investing decisions to an internal, but corporately separate, investment management firm. Management of a USD $10 billion endowment requires talented, well-compensated professionals with diverse experience, e.g., those in international equities, private equities, hedge funds, real estate, and other alternative forms of asset management. Maintaining this talent in-house, but corporately distinct, allows the university to pay salaries and apply employment policies that would not conform to the university’s normal personnel policies, but that are required to retain sophisticated financial operations staff. Box 6.1 describes one example of a

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6 For information on the kind of investment advice that one of the largest of the U.S. investment advisory firms might be able to provide to either a capital campaign or a university endowment, or see Cambridge Associates’ website at <https://www.cambridgeassociates.com/about_us/index.html>.
wholly-owned investment portfolio management company, the Harvard Management Company, which manages most of Harvard University’s USD $27.6 billion portfolio.⁷

<table>
<thead>
<tr>
<th>Box 6.1 Harvard Management Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvard’s endowment was reported to be USD $27.6 billion as of June 30, 2010, but reached more than USD $36.5 billion in 2008 before the market crash of that same year. The endowment is managed by Harvard Management Company (HMC), a private, non-profit, wholly-owned subsidiary of Harvard University. HMC is thus owned (in trust) by Harvard’s corporate governing board, The President and Fellows of Harvard University. As a tax exempt private non-profit corporation, it is limited in the kinds of activities in which it can engage, and manages only the endowment of Harvard University (and a few small affiliated trusts). HMC is governed by a board chaired by the Harvard Treasurer, which appoints the chief executive officer and the major officers and sets the asset allocation and sending policies. HMC actively manages about one-third of the assets in the endowment, principally the fixed income assets and most of the publicly-traded domestic securities, and contracts the rest to outside managers, including most of the alternative investments in hedge funds, real estate, and private equities. As the market value of the total endowment rose dramatically through the 1990s until 2008, the spending policy was lowered to between 3.5 and 4 percent. After the precipitous decline in 2008-09, the spending policy was raised to between 5.5 and 6.0 percent, but with the market recovery, the rate is returning to about 5 percent.</td>
</tr>
</tbody>
</table>

### 6.2.4 Public university endowments

A college or university must be a “legal person,”⁸ rather than a mere “agent of the state” to make legally enforceable contracts as required by philanthropic gifts. Therefore, public colleges and universities in the U.S. that are not public corporations need to establish associated private foundations to receive charitable donations, to carry out the wishes of the donors, and to own the assets given as endowment. These affiliated non-profit corporate foundations are linked to the governing board of the public institution (or in some way to the government or appropriate ministry) and also to the president or rector of the institution, who may serve on the foundation board ex officio. The foundation, however, is managed separately, and is generally free from the state or university’s personnel policies and other restrictions.

The affiliated foundation, as a non-profit corporation and like the governing boards of private universities, establishes the asset allocation and spending policies. Also like the governing boards of most private colleges and universities, the board of the affiliated foundation generally contracts one or more professional portfolio managers and possibly a professional investment advisor who do not buy and sell assets, but who advise the governing board on asset allocation and spending policies, and assist in the selection of one or more professional investment managers. However, a very large public university endowment foundation may establish its own investment management corporation to do all or most of the actual buying and selling within the foundation’s asset and spending policy parameters. The University of Virginia, one of the most heavily endowed U.S. public universities, is one such example. The asset allocation, the spending policies, and most of the actual investment management are carried out by the University of Virginia Investment Management Company, which

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⁸ That is, a private non-profit or public corporation that can execute legally enforceable contracts, hold and dispose of property, and sue and be sued.
is a separate (from the university) non-profit, State of Virginia non-stock corporation governed by a Board of Directors, three of whose members are chosen by the University's Board of Visitors (the university governing board) and one by the president of the university.\footnote{See the University of Virginia Management Company http://uvm-web.eservices.virginia.edu/public/}

### 6.2.5 Other forms of endowment

While most endowment assets conform to the governing board or trustee’s asset allocation policy (as in domestic or international equities, fixed assets, alternative assets, and the like), there are some variations, such as:

- **Income-producing real estate or businesses as endowments.** It is not uncommon for a major gift to be in the form of income-producing real estate or business. The practice at most colleges and universities in the U.S. would be to sell such assets as soon as practicable and add the proceeds from the sale to the endowment portfolio, under the theory that neither the institution’s trustees nor its administration have the experience or time to manage a business, apartment complex, or farm.

- **College or university facilities as endowments.** Similar to a true endowment, a philanthropic gift can be in the form of land, buildings, or even expensive scientific equipment that will not last in perpetuity, but may last a very long time.

Similarly, while most endowments or endowed funds are meant to be invested to yield annual income in perpetuity, there are some exceptions:

- **A wasting endowment.** Sometimes a donor wants his or her donation to be spent out over a set number of years. Sometimes referred to as a wasting endowment, such a gift can provide a larger sum of annual operating revenue to the charitable cause than can a true endowment, in which the trustees have an obligation to preserve the real value of the principal and hence have less to spend annually. The wasting endowment, in contrast, can spend a more substantial portion of the principal, or corpus, each year, in addition to the earnings from interest and/or dividends.

- **Reserves functioning as endowment.** Finally, institutions that are essentially philanthropic but that also take in revenue either from new philanthropy or from fees, such as non-profit universities and hospitals, may frequently run annual operating surpluses that go into reserves. There is no legal obligation for reserves to be spent for any particular purpose, or to be husbanded in perpetuity as with a true endowment. At the same time, they may be invested and co-mingled with the true endowment, even with the objective to build up the endowment, and may be treated as though the reserves were true endowment.

### 6.2.6 University endowments in the U.S.

Although endowments at U.S. colleges and universities are still recovering (as of early 2011) from the precipitous declines in asset values after 2008, there were about 370 colleges and universities in the U.S. with endowments of more than USD $100 million in 2010, and sixty with endowment assets of more than USD $1 billion (NACUBO-Commonfund, 2011). Table 6.3 shows the largest U.S. university endowments in 2008.
Table 6.3 Top twenty endowments of U.S. universities in 2008

<table>
<thead>
<tr>
<th>Rank (2008)</th>
<th>University</th>
<th>Public/Private</th>
<th>Endowment (in $ 000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Harvard Univ.</td>
<td>Private</td>
<td>$36,556,284</td>
</tr>
<tr>
<td>2</td>
<td>Yale Univ.</td>
<td>Private</td>
<td>$22,869,200</td>
</tr>
<tr>
<td>3</td>
<td>Stanford Univ.</td>
<td>Private</td>
<td>$17,200,000</td>
</tr>
<tr>
<td>4</td>
<td>Princeton Univ.</td>
<td>Private</td>
<td>$16,349,329</td>
</tr>
<tr>
<td>5</td>
<td>Mass. Inst. Tech.</td>
<td>Private</td>
<td>$10,068,800</td>
</tr>
<tr>
<td>6</td>
<td>Univ. of Michigan</td>
<td>Public</td>
<td>$7,571,904</td>
</tr>
<tr>
<td>7</td>
<td>Northwestern Univ.</td>
<td>Private</td>
<td>$7,243,948</td>
</tr>
<tr>
<td>8</td>
<td>Columbia Univ.</td>
<td>Private</td>
<td>$7,146,806</td>
</tr>
<tr>
<td>9</td>
<td>Univ. Texas (Austin)</td>
<td>Public</td>
<td>$6,895,038</td>
</tr>
<tr>
<td>10</td>
<td>Univ. of Chicago</td>
<td>Private</td>
<td>$6,632,611</td>
</tr>
<tr>
<td>11</td>
<td>Texas (A&amp;M) Univ.</td>
<td>Private</td>
<td>$6,259,791</td>
</tr>
<tr>
<td>12</td>
<td>Univ. of Pennsylvania</td>
<td>Private</td>
<td>$6,233,281</td>
</tr>
<tr>
<td>13</td>
<td>Notre Dame Univ.</td>
<td>Private</td>
<td>$6,225,688</td>
</tr>
<tr>
<td>14</td>
<td>Duke Univ.</td>
<td>Private</td>
<td>$6,123,743</td>
</tr>
<tr>
<td>15</td>
<td>Emory Univ.</td>
<td>Private</td>
<td>$5,472,528</td>
</tr>
<tr>
<td>16</td>
<td>Univ. of Washington</td>
<td>Private</td>
<td>$5,350,470</td>
</tr>
<tr>
<td>17</td>
<td>Rice Univ.</td>
<td>Private</td>
<td>$4,610,164</td>
</tr>
<tr>
<td>18</td>
<td>Univ. of Virginia</td>
<td>Public</td>
<td>$4,572,613</td>
</tr>
<tr>
<td>19</td>
<td>Cornell Univ.</td>
<td>Private</td>
<td>$4,416,095</td>
</tr>
<tr>
<td>20</td>
<td>Dartmouth Univ.</td>
<td>Private</td>
<td>$3,360,159</td>
</tr>
</tbody>
</table>


Note: Public university system data are reported only for the flagship university campuses.

6.2.7 Limitations of philanthropy in support of Higher Education

There are limitations to endowments as well as to annual philanthropic contributions even in the U.S. For example, the highest endowments are mainly concentrated in elite institutions, both public and private. These institutions are characterized by very large numbers of very wealthy alumni, whom the institutions assiduously court after their graduations. But for most HEIs, especially U.S. public colleges and “second tier” universities, whose alumni are not usually as wealthy and who have not been so aggressively courted, philanthropy can be a costly struggle. Furthermore, philanthropic revenues may be quite significant on the margins of growth, but their percentage as a share of the total operating budget, even at successful philanthropic institutions, remains quite small.

Additionally, both endowments and annual giving are frequently restricted, and do not necessarily go to operations that the institution might pursue in the absence of restrictions. Philanthropy can, in some instances, divert money from other pressing educational needs or even distort a university’s mission, if the scholarly and teaching programs become altered to make the program more attractive to potential donors. Finally, philanthropy is expensive. It takes money to raise money, particularly at the start. In short, philanthropy is not without some downsides, nor is it likely to become a truly significant revenue source for most universities in most countries.

In an international context, while philanthropy seems to be an attractive solution to increase funding for universities, to be successful, higher educational philanthropy requires large numbers of extremely wealthy alumni or friends who will give to a university, as well as a political culture supportive of giving to public HE, rather than exclusively to private education. These features may not exist in all countries. Ultimately, philanthropy can play an increasing role in financing HE in virtually all MENA countries. However, its role will remain limited for most institutions in most MENA countries for the near future.
6.3 A state investment or sovereign wealth fund dedicated to university operations

The third theme is related to the management of an endowment using a state-established quasi-endowment, such as a dedicated sovereign wealth fund, for the long-run financial support of one or more of the country’s universities. The issues for state-owned or sovereign investment funds dedicated to the maintenance of a country’s universities are limited mainly to those of asset allocation and effective investing to balance the need for long-run growth with prudent risk management. These are not unlike the issues involved in a state-run pension fund.

Special reserve funds, held for long-term growth, as opposed to official reserves held for pensions or for currency stabilization, are sometimes termed sovereign wealth funds (SWF) (Teslik, 2009; Mezzacapo, 2009). The distinction between traditional currency reserves, state pension funds, and SWFs is not precise. However, SWFs have in common with large university endowments an orientation to equities, diversification into five or six different asset classes, few liquid assets, and increased holding of alternative assets such as real estate, private equity, and hedge funds (Swensen, 2000). Total SWFs under management in 2009 were estimated at USD $3.8 trillion, with the largest SWFs in the MENA/Gulf State region in the United Arab Emirates, Kuwait, and Qatar (Committee on Global Thought, 2010).

6.3.1 Similarities and dissimilarities of SWFs to private non-profit endowments

The assets of a state-owned investment fund dedicated to the future support of some or all of a country’s universities could be restricted similar to the way that endowment spending is restricted: e.g., allocated to particular universities, facilities, or programs; or to capital as opposed to operating purposes; or to a particular spending policy, including provisions for allowing changes given changes in circumstances. The main difference between the legally enforceable restrictions on privately-donated endowments and a state-created, state-owned SWF dedicated to one or more universities lies in the seeming vulnerability of the latter to changes in the financial and political goals of a particular country. However, this is not unlike the potential vulnerability of a state-owned and state-controlled pension fund. Thus a state contemplating SWF to function as a university endowment can, at least in theory, choose the specific restrictions on these funds as well as the degree of stability or relative inviolability within the authorizing law. Three models illustrate the conceptually different degrees of retained state control over a dedicated SWF, and thus different degrees of protection from a future diversion of dedicated funds.

At one extreme, the governing entity of an existing SWF could theoretically dedicate the entirety or a portion of a SWF to the future support of one or more universities, possibly with no new authorizing legislation required. This appears to be the case in Saudi Arabia, where the lavishly endowed international King Abdullah University of Science and Technology (KAUST) was created. However, KAUST was created solely to compete with other world class universities and to draw top graduate students and academics from around the world to a truly modern, internationalized, English language university. It was not created with any thought to providing a model for endowment financing of Saudi universities generally, or with an eye towards financing education in a post-oil future. Therefore, while KAUST gives some indication of the cost of such a venture, it does not provide a useful model for the concept of sustainable SWF financing for HE.

A second model is one in which a country with substantial current sovereign wealth designates a portion of that wealth to endowing HE in the future. This is similar to long-range governmental planning for the future financing of any component of a country’s public sector, whether defense, internal security, basic education, HE, or public health. Furthermore, even for intended dedication of the proceeds of a SWF to HE, there needs to be identification of the specific colleges or universities to receive the revenues, determination of how much revenue would go to each designated institution, and establishment of the roles of the Ministries of Finance and Higher Education in the
allocation of such revenues. As public funds are essentially fungible, intended dedication would not in itself provide any significant financial protection to the universities in the event of a future decline in public revenues, nor would it provide an incentive to encourage the universities to seek other income, such as philanthropy, tuition and other fees, or external grants and contracts.

More significant protection could be afforded with legislation explicitly dedicating all or a portion of a SWF to the future financial support of the state’s selected colleges and universities. As with a state pension fund, such a dedication would probably not be inviolable, but would be more secure than in the first model, in which the dedication of the country’s aggregate sovereign wealth in reserve occurred without specific legislation.

At the other extreme, a third model exists whereby there is an actual transfer of ownership of funds from a SWF to a non-profit foundation, chartered by the state to benefit selected institutions and under the trusteeship of a governing board; this would be at least partially removed from the government and would provide more significant protection to the financial future of selected colleges and universities.

6.3.2 Making the special case for Higher Education

Although these models are hypothetical, with the exception of KAUST, it seems unlikely that a government in the MENA region or anywhere else would abandon the right to allocate the proceeds from its SWF in the future in whatever way it deemed best for the nation at that time. Although HE in all countries is regarded as a critical public investment worthy of support, the claim of any public need (e.g., basic education, scientific research, public health, public infrastructure, national defense, or care for the poor or the elderly) has to be judged at the margin (that is, evaluating the need for additional resources) and weighed in comparison with all other competing claims. It is not obvious that HE’s case for special dedication of a substantial portion of a country’s current sovereign savings is more important than any other public need.
6.4 Conclusions

Based on the discussion in this chapter, some conclusions regarding the potential for philanthropy and endowments to play a significant, beneficial role in the future financing of HE in the MENA region are:

1. Philanthropy is an option for additional revenue for HEIs, and is an important funding source for public and private universities and colleges in the U.S. Although not currently used in MENA, given the successful experience of the U.S., the concept of philanthropy seems to be worth exploring in the region.

2. Building a culture of philanthropy is expensive and needs to be considered an investment. It requires: a culture of giving to HE (which some MENA cultures consider the responsibility only of the government); up-to-date information on alumni and other potential donors, including current contact information and estimates of giving potential; and the time and resources to engage in the necessary cultivation of prospects. Small donors can become large donors, and even those who will never be able to give a large donation in their lifetimes may be induced to make a bequest in their will or estate plan.

3. Philanthropy, whether broad-based or targeted at a few affluent donors, is greatly helped by tax advantages. Accepting that foregone taxes are a suitable governmental expenditure is necessary.

4. Endowments are gifts not to be spent but invested. The non-profit governing boards of universities or affiliated foundations acting as trustee owners of the endowment have a fiduciary responsibility to invest the principal carefully and to honor all restrictions placed upon the gifts that have been entrusted to their care. This includes gifts made long ago and for which there may be no known descendents or other directly interested parties.

5. Trustee owners of endowments have three basic duties: (i) to establish an asset allocation policy; (ii) to establish a spending rate that will preserve the real (i.e., inflation adjusted) value of the corpus, and provide a constant stream of revenue to be spent; and (iii) to manage investments, a duty often contracted out to professional investment managers.

6. A country that holds large investments in reserve (i.e., more than is required for normal currency stabilization or the provision of pensions) may consider dedicating SWFs to serve as endowments for the partial support of selected universities and other institutions of HE. Such funds will continue to be owned by the state (under the trusteeship of key ministers and central bankers). The assurance of a source of revenue not subject to the politics of annual governmental budget-making may assist in a university’s management and planning, as well as in its quest for other non-governmental sources of revenue.

7. In the MENA region, there seem to be individuals of sufficient wealth who appreciate the centrality of HE to their countries’ futures and who can encourage colleges, universities, and governments to develop philanthropy as a consistent stream of revenue to HE. Although philanthropy should not replace reliance of HEIs on an appropriate share of annual governmental budgets or be considered an alternative to cost-sharing, it should be recognized and cultivated as a potentially significant source of revenue.