Strengthen Higher-Education
through Innovative Financial Tools

THE SHIFT IMPLEMENTATION PACKAGE FOR ITS ADOPTION IN HEIS

QUICK DESCRIPTION

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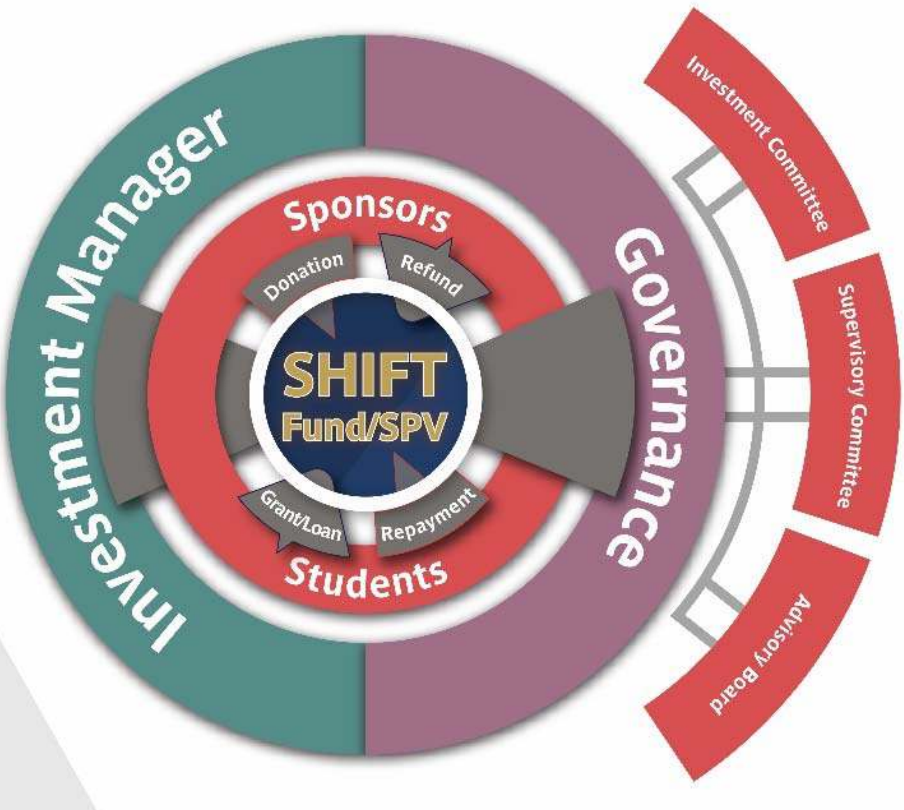
BRIEF INTRODUCTION

The SHIFT project recognizes the need for more intelligent spending of funds for higher education, and seeks to develop new mechanisms to empower students to afford higher education. The project aims at developing and validating (via financial stress testing) an innovative funding model based on the concept of an endowment fund that pools private and public money. Taking in consideration that the HE systems across the EU vary considerably, SHIFT aims to ultimately develop a mechanism that will combine the private sector management of the funds to generate profit with the public sector mission to ensure proper allocation of the proceeds for public policy objectives while flexibly adapting to the various EU higher education environments. SHIFT has the objective of alleviating the financial burden of access to and participation in higher education of students.



SHIFT is designed to work as a PPP model. For PPPs in HE, the return on investment for the private-sector partners may be achieved directly through fee for service (tuition fees), government concessions or a combination of both. Universities may also be keen sponsors of SHIFT, to improve the pool of potential applicants.

The customers for the SHIFT model would be the students. Therefore, it would be advisable to engage students' associations in structuring the SHIFT Model and in the definition of the terms and conditions that would be generated by the endowment fund.

As follows, a figure summarizing the SHIFT model and its component. The Special Purpose Vehicle (SPV) would be led by the SHIFT Governance Board (SGB). The SPV would collect funds from the sponsors to distribute them to the students in the form of soft loans or grants. The endowment fund would be invested in the capital markets by a financial company that has experience in mutual fund or pension fund management.

The SHIFT model has been stress-tested, examining the expected return on the SHIFT investment fund under different scenarios. To enhance the sustainability of the fund, a variety of alternative proxies for the risky share of the portfolio have been considered, focusing the analysis on Socially Responsible Investment funds.

The SHIFT Partners have identified two possible durations for a possible SHIFT fund identified in 3 and 5 years. The duration may be function of investment preferences and risk appetite. A SHIFT Fund based on a short-term investment period should also embed a certain degree of flexibility to envision possible extensions of the investment period in case of returns below expectations and/or losses. The purpose of these stress tests is to simulate the performance of the SHIFT investment fund over a period of time sufficiently long to generate meaningful returns.

In fact, according to the data available, the stress test suggests that once stocks are included in the portfolio, losses might be possible. However, an option to extend the duration of the fund (from 3 to 5 years, or from 5 to 6 years) tends to reduce the chances of a negative (or very low) returns in "recession" scenarios. Simulations also show that an equally weighted portfolio of bonds and stocks might provide better returns than a portfolio where bonds have a weight of 75%, provided that an option to extend is available.

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The main analysis considers a fund size of €1,000,000.

The analysis of the demand risk suggests that awareness-raising campaigns, financial literacy courses and other promotion activities can help reduce debt aversion and lack of understanding about the SHIFT project. However, the stress tests assume that only the funds generated by the SHIFT investment fund are provided to the students. Therefore, the results are not affected by the possibility that students will not repay the loan.

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