



Free Market Solutions To Poverty

Publish Date:

April 2012

This article from the [April 2012 edition](#) of the [IPA Review](#) is by Researcher at the IPA, Peter Gregory.

Over the past two decades, much has been made of so-called ‘market-based’ solutions to extreme poverty. The prevailing view is that poverty alleviation schemes premised upon market forces, such as micro finance, offer additional benefits in comparison to traditional charitable or aid activities because they are self-sustaining, empowering and can be profitable for investors as well as participants. Despite the all-too-often forgotten reality that all unregulated economic activity is a ‘market-based’ solution to poverty, this view is largely correct. In providing credit and savings facilities to the poor in providing banking to those who would otherwise be ineligible-micro finance in particular has improved the lives of millions.

However, whilst these programs are simply an extension of established principles of doing business, the Human Capital Project (HCP), the brainchild of John Humphreys from the University of Queensland, supported by the IPA, is an example of a private, profitable enterprise that not only



provides a way out for impoverished Cambodian students but also utilises an innovative financing mechanism that could benefit us all.

'We are not a charity and we are not a bank,' Humphreys told the small group of eager students and parents assembled in the library of the University of Management and Economics in Kampong Cham, Cambodia in October last year. These students had not done well enough to win a government scholarship to university and, as the sons and daughters of rice farmers and street vendors, could not afford to pay tuition fees. Until they had heard the radio ad for the HCP meeting the previous afternoon, they thought they had missed their opportunity to have a university education.

The next three hours were spent explaining Humphreys' cryptic opening line.

Participants in the HCP sign a contract that stipulates the organisation will pay their university fees (usually between US\$200-300 per semester) in return for ten per cent of their income for up to ten years after they graduate. They are essentially selling part of their future earnings in return for the money to go to university. A further component of the methodology is a minimum income threshold that graduates must earn before any payments need be made (whilst tertiary education greatly enhances the likelihood of earning a decent living in Cambodia, it is by no means a guarantee).

Humphreys' claim that HCP is not a bank is valid because the transfer is not a loan. Ten per cent of the students' income for a decade could end up being well short of the initial outlay or indeed, much more. The organisation is taking on the risk of failure and also receives the benefits of success. The HCP refers to this approach to financing as 'personal equity financing'. As Humphreys says, 'Personal equity is a good option for many students because they can't get access to reasonably priced loans. The HCP option is also low risk for the student, because if they don't get a job, then they don't have to pay.'

It is the absence of risk for the students that enables the HCP to work in a humanitarian sense. The students were genuinely delighted when they realised this. Applicant Va Malet told me, 'Compare HCP with other institutions like banks, HCP has no interest and doesn't need collateral'. A further reason the program works is because the payments of graduates are used to fund future students. Battambang student Sorm Vuthy said this was, 'a motivation to get a job with a better salary to help more Khmer people.'

The significance of education in the context of Cambodia's recent history isn't lost on anybody involved with the program. The murderous Khmer Rouge regime, which ruled Cambodia from 1975 to 1979, claimed the lives of 2 million people (a quarter of the country's population) through execution, starvation, exhaustion and disease. Along with the forced removal of all city-dwellers into rural areas, they sought to liquidate all aspects of Cambodian society such as religion, the family, and commerce. This included the country's education system, with the nation's children set to work in rice fields instead of attending school, receiving instruction only in party dogma. Indeed, one famous example of the Khmer Rouge's antipathy towards education was their gruesome practice of murdering anyone who wore glasses on the basis that this indicated they had been

educated and, as such, presented a threat to the revolution.

It is the view of Chan Sam An, vice-president of the University of Management and Economics (Battambang campus), that Cambodian education and Cambodian society in general is still recovering from the genocide, 'Cambodian society was destroyed from 1975 to 1979 and education was so bad from 1979 up until 2003 or 2004. It is still not very good.'

Indeed, Cambodia remains a very poor country. The United Nations Development Program's 2010 Human Development Index ranks Cambodia 124 out of 169 countries in terms of quality of life. The World Bank pegs the life expectancy of Cambodians at just 62, and it is even lower in rural areas. Likewise, the adult literacy rate of 78 per cent is also much lower outside the cities. In addition, Cambodia is a very young country, with 50 per cent of the population under 20 years of age, meaning that many will enter an economy that has a poor record of creating jobs in the formal sector in the next decade.

Significantly, the World Bank estimates that only eight per cent of Cambodians enrol in tertiary education of any kind. The government provides a limited number of scholarships for students to attend university but they are very competitive, and very few students from poor schools in rural areas (where the HCP operates) are successful in obtaining one. Failing this, students have to pay their way. If they or their parents can't afford the fees, and if they don't have the necessary collateral to access a loan, then they miss out. This is the category that applicants to the HCP fall into. As Chan Sam An says, 'Many of our Cambodian students can't afford to go to university. This makes life very hard for them. The HCP is a great opportunity for them. It helps people to live freely, with peace and dignity.'

However, Humphreys chose Cambodia for far more practical reasons than its deprivation or to right historical wrongs. It was simply because he had the necessary contacts in the Cambodian tertiary education system following a stint as a volunteer lecturer at the Chea Sim University. The HCP operates through two campuses of the University of Management and Economics, a private university that specialises in Finance, Business and IT. HCP meetings are held on campus and university employees undertake various administrative tasks on the HCP's behalf. However, the relationship is a two-way street, as the university gains prestige and publicity from hosting the HCP and, of course, the extra enrolments that the HCP pays for. Humphreys relies on his contacts at the university to keep the program running smoothly, 'People like Chan Sam An are absolutely invaluable and the program wouldn't exist without them. They act as translators, administrators and advocates for the program.'

More importantly, the program wouldn't exist without Humphreys. He is currently researching his PhD at the University of Queensland on the role of civil society in helping with developmental goals, with specific regard to the use of nonprofit personal equity to help finance education for low income students. The HCP is the central focus of this study. It simply grew, he says, out of casual discussions he would often have with his friends about the untapped potential of various types of financing, 'my friends and I would often talk this stuff. One day I just decided to get out there and do something about it.'



There is no doubt that the 47 students who have been accepted into the program since its inception in 2007 are happy that he did. Most are from the rural areas surrounding the small cities of Battambang and Kampong Cham, the two locations where the HCP currently operates. Their parents are typically small rice farmers, street vendors, construction workers or moto-drivers (motorbikes that can be hired like taxis). These occupations are very poorly paid and the students understandably aspire to more lucrative careers. As part of the application process for the HCP they are required to state what they wish to study and what occupation they hope to secure after they graduate. Most choose IT, Accounting or English and state they want to work with computers, in a bank or in business. The students are enthusiastic about the opportunity that the HCP represents. Applicant to the Battambang arm of the project, Son Pheaktra said, 'It is a good project. Without it, I wouldn't be here today. I should have been a farmer, but then I heard about HCP and I came to be educated.'

It is on 'contract signing day' that the transformative impact of the HCP is most obvious. The process of signing the HCP contract comes on the third day, following an information session on day one and the interview process through which the successful students are chosen on day two. Humphreys, a university representative, the student and a sponsor (usually one of the student's parents) all sign the contract. The vast majority of the students are the first person in their family to enter a tertiary institution and the parents, in particular, express disbelief that their child should have this opportunity. Potato farmer, Ga Cai Sas told me in Kampong Cham, 'a farmer has no opportunity to send their children to university. Especially after everything we have gone through in this country. We tried many ways, but we never thought this would happen. He will work very hard.'

Whilst Humphreys suggests that the HCP is not a charity, it is certainly a humanitarian organisation and it doesn't operate for profit. Any surplus accrued from graduates' payments is reinvested into the organisation to fund places at university for new students. But opening up the organisation to private investors seeking to make a profit for themselves is firmly on the agenda for the future. Whilst the HCP itself will always remain a not-for-profit organisation, by acting as a conduit for private investors who are involved only to make a profit for themselves, the potential for the organisation to expand its operations and reach new students is huge.

The impact of profitability means much more than the expansion of just this one organisation. The level of funding directed towards countering poverty would expand exponentially if it were profitable for people to do so. And the true value of the HCP is that it is a real life example of this; an example that can be replicated in other countries and into other sectors.

Indeed, personal equity finance needn't be restricted to developing nations. There is no reason why there can't be markets in every country in the world where people could sell their future income to raise money for not only tertiary education, but anything from purchasing a home to starting a business. For many, it may be a much safer option than taking out a loan and investors may see it as an attractive opportunity. At the very least, personal equity finance brings into question the need for governments to fund tertiary education. As Humphreys points out, 'This approach [personal equity finance] undermines one of the rationales for government involvement



in tertiary education, because it ensures that anybody can go to university no matter how poor they are.'

Despite its obvious scope for profitability, the HCP currently relies on donations from individuals in Australia (Humphreys in particular). The organisation is only five years old and, as all Cambodian university courses run for 4 years, there simply aren't enough graduates making payments yet for the program to fund itself fully, nor a comprehensive enough data set to attract private investment.

But that will come.

At the University of Management and Economics (Battambang campus), student Nga Sao Nou told me, 'for the future Khmer students, I will pay the money happily. The money I can earn will help my people'. In establishing the basis for private investment in the HCP and other programs designed to eradicate poverty, he will.