Band-Aid Policy: An Assessment of Cambodia’s Cash Transfer Program, Poverty, and Debt Among Rural Households

Abstract
The Cambodian Identification of Poor Households (IDPoor) cash transfer program was introduced as a blueprint social policy to assist the impoverished population from falling into extreme poverty. While the IDPoor program has garnered significant attention from researchers, fewer studies have its implications in relation to debt. This paper examines the relationship between the IDPoor cash transfer and the recipients’ poverty and debt situation. Drawing on semi-structured interviews with 40 IDPoor rural households in Takeo and Kampot provinces, this study reveals that the IDPoor cash transfer only partially meets recipients’ basic needs, offering limited assistance in poverty alleviation. This study found that IDPoor recipients often prioritize using their cash transfers to service debts to microfinance or private lenders rather than allocating funds to essential needs such as food and utilities, contradicting the intended purpose of the cash transfer. These findings suggest a need to re-assess the impact of the IDPoor cash transfers program, guiding policymakers in crafting more effective measures to tackle long-term poverty and over-indebtedness in Cambodia.

Keywords
IDPoor Cash Transfer, Poverty, Debt, Microfinance, Rural Households, Cambodia

INTRODUCTION
Social policies have rapidly emerged as a new mechanism to fight against poverty and vulnerability in many developing countries over the last two decades – and Cambodia is no exception. To promote economic development and financial inclusion, microfinance institutions (MFI) have flourished in Cambodia following market liberalization in the early 2000s, enabling millions of Cambodians to acquire loans to survive or to thrive (Bylander, 2016). In Brazil, debt became an essential tool for many Brazilians to escape poverty and enjoy economic security (Lavinas, 2018). Despite easy access to MFI credits and loans, poverty and inequality continued to persist in Cambodia, increasing marketing privatization led by neo-capitalists, resulting in unequal distribution among the population (Brickell & Springer, 2016). This led the Cambodian government to introduce the National Social Protection Policy Framework (NSPPF) 2016-2025 to assist impoverished populations in maintaining their livelihoods through the cash-transfer scheme called the Identification of Poor Households (IDPoor) and subsidized health insurance scheme, Health Equity Fund (HEF).

The IDPoor provides direct cash assistance to selected poor households, with each family member receiving US$ 6 to US$ 10 per month based on their poverty level, extremely poor or moderately poor (Sun, 2020). Each IDPoor household recipient received an average of US$20 to US$75 per month, depending on the household size and the condition of each household member,
including children under two years old, a pregnant mother, disabled, or elderly – for additional cash assistance. Although modest, IDPoor cash assistance became a reliable source of income for the recipient and, in some cases, collateral or source for repayment of microcredit or private loans because it is regularly paid through Wing Bank’s cash transfer system. The collateralization and the use of cash transfers for credits is not a new phenomenon. Torkelson (2020) highlighted a very similar discourse whereby the South African cash transfer program, through a coercive and monopolistic financial system, enabled cash grants to be transformed into collateral for credits and encumbered by debts to private companies.

While there is a growing list of literature (e.g., Mares & Carnes, 2009; Niño-Zarazúa, 2020; Rosser & Murphy, 2023; Rudra, 2007) discussing cash transfer schemes as vital social safety net policies in developing nations, the debates surrounding the notion that welfare fosters dependency remain prevalent. However, some scholars have attempted to dispel the myth of dependency. For example, Ferguson (2015) attempted to intervene in the dependency debates by suggesting that dependency is not such a bad thing, and under certain circumstances, it should be promoted (163). Ferguson (2013, 2015) further suggested that South Africans’ deep sense of personhood is based on interdependency rather than independence, so being dependent on social assistance can promote better social belonging and inclusivity. Likewise, Hanna (2019) argued the myth of welfare dependency by studying the effects of Indonesia’s cash transfer scheme, Program Keluarga Harapan (Hopeful Family Program), and found compelling evidence that welfare programs actually gave people the necessary tools to achieve financial independence, provided the assistance is dependable and consistent rather than sporadic and temporary. Ferguson and Hanna provide a useful framework for analyzing Cambodia’s IDPoor program and the recipients’ dependency attitudes towards the welfare program in relation to debt.

Existing studies on the IDPoor cash transfers program in Cambodia (e.g., Harder & Wendt, 2021; Hiilamo et al., 2020; Kaba et al., 2018; Kolesar et al., 2020; Kwon & Keo, 2019) primarily focused on the health coverage scheme, HEF, an extension social assistance program for the IDPoor beneficiaries. Similarly, there is a long list of literature on microfinance over-indebtedness in Cambodia (e.g., Bylander, 2015; Bylander et al., 2019; Green and Estes, 2019; Green and Bylander, 2021; Green et al., 2023). Meanwhile, fewer studies (e.g., Brickell et al., 2020; Im & Oum, 2021) examine the relationship between IDPoor cash transfers and microfinance debt. It is, thus, important to examine the connection between IDPoor cash transfer and microcredit debt since both microfinance institutions and cash transfer programs were established as social policies aiming to alleviate poverty. The overarching question is, why has poverty remained widespread, and why are more Cambodians trapped in debt than ever? According to the World Bank (2022), Cambodia’s poverty rate stands at 17.8%, while private household debt reached 180% of the country’s gross domestic product (GDP) (Ou, 2023). With many rural households benefiting from the IDPoor program (Kaba et al., 2018) and tens of thousands in rural Cambodia experiencing over-indebtedness1 (Bliss, 2022), this study posits that the IDPoor recipients are likely indebted to

---

1 A situation in which an individual or a household has accumulated debts beyond their ability to repay them comfortably.
microfinance or private banks, using their cash transfer to service debts rather than fulfilling basic needs. Providing minimal cash assistance to impoverished, vulnerable individuals—some lacking land ownership and mired in debt—is akin to applying a “band-aid on a corpse,” echoing Ravi’s (2015) critique of poor health policy in India. Examining how IDPoor beneficiaries utilize cash transfers can yield important insights for evaluating the program’s impact and effectiveness, guiding poverty reduction strategies, microcredit regulation, and financial literacy policies.

This study makes three significant contributions to the literature. Firstly, it contributes to the existing literature on welfare programs in developing countries by discussing the collateralization of social policy within a financialized capitalist system and the interplay between social welfare payments and microfinance institutions, as evidenced by prior research (e.g., Han, 2018; Gago, 2015; Levinas, 2018; Torkelson, 2020; Cavallero & Gago, 2021; Wilks, 2015). Secondly, the study provides empirical evidence of the causes (high inflation, financial illiteracy, unemployment, unethical microloan practices, debt, and nominal welfare) that keep millions of Cambodians impoverished today. Lastly, it offers valuable insights into the financial strategies of cash transfer recipients, particularly those indebted to microfinance, shedding light on their prioritization between basic needs and debt servicing.

**MAKING SENSE OF THE TARGETED WELFARE PROGRAM**

Welfare programs are part of social policy development constructed to provide income assistance and social services to reduce poverty among impoverished populations (Aravacik, 2018; Borjas, 2016; DiNitto & Johnson, 2021). At least 170 countries worldwide implemented some form of welfare program (Social Security Administration, 2019) – either universal or selective, depending on factors such as economic performance, tax policy, employment, poverty rate, and political orientation. Since the 2000s, the social assistance program has expanded rapidly and become a popular mechanism to address poverty and vulnerability in the Global South, with at least 180 programs currently operating in 130 middle- and low-income countries (Niño-Zarazúa, 2020). The World Bank (2018) reported that social safety net programs in developing and transition countries, including cash transfers, pensions, and school feeding programs, have helped at least 36% of the poor population escape extreme poverty and reduced the poverty gap by 45%. The report acknowledges that social safety net beneficiaries remain in poverty, failing to ensure a minimum standard of living to lift them out of deprivation (World Bank, 2018; World Bank, n.d.).

While Mares and Carnes (2009) and Rudra (2007) have shown poverty decreases after countries implement cash transfer programs, some studies (e.g., Barchiesi, 2011; Borjas, 2016; Niño-Zarazúa, 2020; Rosser & Murphy, 2023; Taylor, 2002; Wang et al., 2019) have cautioned the varying impacts of the targeted welfare program in the global south, such as increasing *dependency* and *poverty*. As Niño-Zarazúa (2020) suggested, the ineffectiveness of welfare programs in addressing long-term poverty in some emerging economies is mainly due to their modality design features concerning *scale* and *scope of coverage*. The selective or targeted coverage of welfare programs in developing countries often affects the poor the most because these countries do not have effective *countercyclical policy* instruments for countering the impact of...
macroeconomic crises (Ocampo, 2002; Stiglitz, 1999; Telvi & Vegh, 2005) – such as the COVID-19 pandemic, inflation, and regulation on microloan practices. Without a response policy in place to prepare for a disaster or a crisis, developing countries’ populations are often among those who suffer from poverty and over-indebtedness the most. According to Wheatley (2022), an unprecedented event such as COVID-19 led to a big surge of debt in developing countries because many who lost jobs and income were forced to take more loans to cope with daily needs — they also had to bear the rising cost of refinancing existing borrowings and the resumption of debt repayments that were suspended after the pandemic hit at a time of resource scarcity.

In this article, I demonstrate how the targeted IDPoor cash transfer program has only temporarily reduced extreme poverty to a limited extent but has not effectively addressed long-term poverty, given the sharp increase in debt in Cambodia over the past decade. This study concludes that the targeted cash transfer program is ineffective without accompanying macroeconomic response policies.

CONTEXT AND METHOD
In Cambodia, poverty exhibits diverse facets and implications, primarily characterized by economic deprivation, which manifests in income inadequacy, limited access to essential services, and susceptibility to external shocks. Despite significant progress in poverty alleviation from 1992 to 2011, driven by foreign aid for national development (Ear, 2012; Young, 2016), economic growth fueled by Chinese investment (Hughes & Un, 2011), and stability following the 1997 coup under the neoliberal doctrine of the free market (Springer, 2010) — recent challenges, notably climate change, market privatization, inflation, and the COVID-19 pandemic – have jeopardized these achievements.

Over the past decade, Cambodia has significantly progressed in poverty reduction, cutting rates from 33.8% to 17.8% between 2009 and 2019, according to the World Bank’s Poverty Assessment Report (Yuth, 2022). Despite this progress, one in five Cambodians live in poverty, with up to 50% facing multi-dimensional poverty or vulnerability (Organization for Economic Co-operation and Development (OECD), 2018). Many Cambodian households survive on less than US$ 3 daily, with nearly three-quarters falling below the US$ 1.25 threshold (Habitat for Humanity, 2023). Additionally, approximately 4.5 Cambodian workers, primarily engaged in vulnerable sectors like domestic work, construction, and garment factories, face a high risk of slipping back into poverty during economic shocks (Habitat for Humanity, 2023). The COVID-19 crisis further exacerbated poverty, pushing rates to 22.8% in 2022 due to job losses, income reductions, and pre-existing debts (VNA, 2022).

Around 61% of Cambodians live in rural areas, with 77% of rural households relying on traditional farming for sustenance (USAID, n.d.). Recent years have seen Cambodian farmers with the repercussions of climate change including drought and unpredictable rainfall – leading to food and income insecurity (Reid, 2022). Notably, national deforestation driven by forest conversion for agriculture and development projects through Economic Land Concessions (ELCs) ranks among the key contributors to climate change in Cambodia (Milne & Mahanty, 2015). The
increasing commodification of agricultural production and reliance on markets with unequal terms of trade further imperil farmers (Guermond et al., 2023). Consequently, many farmers turn to microfinance institutions (MFIs) or so-called microlenders to cope with daily consumption and basic needs, risking their land as collateral. Reid (2022) reveals that nearly half of 1,800 Cambodian borrowers in a survey resort to loans for family sustenance, facing high interest rates and short repayment windows. To reclaim land titles from MFIs, borrowers often resort to informal lenders like loan sharks, incurring monthly interest rates of 20% to 30% (Green & Bylander, 2021; Green et al., 2023). Recent studies indicate that 25% and 50% of microfinance borrowers struggle with monthly payments surpassing their incomes (Green et al., 2023). The burden of loan repayments forces 65% of borrowers to make sacrifices such as reduced consumption, migration for employment, land sale, and withdrawal of children from school (Bliss, 2022; Green & Bylander, 2022; Green et al., 2023; Guermond et al., 2022; Natarajan et al., 2021; Seng, 2018).

In 2016, the Cambodian government expanded the blueprint IDPoor cash transfers program to tackle poverty, enhance social protection, and promote economic stability (UNDP Cambodia, 2022). The IDPoor program provides temporary monthly cash assistance to vulnerable groups: (1) those below the poverty line, (2) those at high risk of falling into poverty, and (3) vulnerable individuals like infants, children, pregnant women, the disabled, and the elderly (ADB, 2017). The IDPoor monthly cash transfers vary based on recipients’ poverty category, determined through a checklist assessing household economic conditions. For instance, eligibility for IDPoor card level 1 requires proof of residency, unemployment, lack of income, absence of valuable assets like vehicles, and inadequate housing (Ministry of Planning, 2022). Should the recipient’s economic conditions improve, the IDPoor card will be withdrawn. The IDPoor program also offers subsidized healthcare through HEF, additional cash for vulnerable households, education scholarships, and emergency cash assistance during crises like natural disasters or COVID-19 (World Bank Group, 2018). Since expansion in 2016, many international development partners and international organizations, including the German Agency for International Cooperation (GIZ), the Australian Government’s Department of Foreign Affairs and Trade (DFAT), the World Bank, the Asia Development Bank, the UN Development Program, and Oxfam – played a crucial role in shaping the IDPoor program and the broader social protection policies in Cambodia through both technical and financial assistance.

Since the NSPPF’s implementation, the Cambodian government has spent US$ 900 million in cash assistance for impoverished populations (Long, 2023). The largest expenses include the IDPoor and HEF, with approximately 3.8 million Cambodians receiving IDPoor cash assistance monthly and 2 million Cambodians enrolled in the HEF (Department of IDPoor, n.d.; OECD, n.d.). Despite these efforts, millions, including IDPoor recipients, still grapple with poverty. The COVID-19 pandemic exacerbated conditions, leading to increased poverty and indebtedness due to jobs and income losses. In response, the government extended the IDPoor program to provide emergency cash assistance, aiding approximately 700,000 individuals by February 2021 (UN News, 2021). Conversely, Cambodian MFIs saw heightened profits during the pandemic, shifting focus from poverty alleviation (Flynn & Vantha, 2021). Criticism from 135 non-governmental
organizations (NGOs) highlighted the sector’s self-regulation, prioritizing profits over the welfare of impoverished Cambodians, while governmental and National Bank of Cambodia (NBC) responses were deemed inadequate (LICADHO, 2020).

Method
This study employed qualitative methods conducted in Cambodia from April to June 2023, focusing on the socioeconomic well-being of IDPoor recipients. Semi-structured interviews were conducted with 40 IDPoor recipients\(^2\) across four villages in southern Cambodia: Prey Theat and Tuol Tbeng villages in Takeo Province and Ta Prum and Ang Svay villages in Kampot Province. These sites were chosen due to logistical constraints and the availability of contacts. The study specifically targeted rural households, reflecting the prevalence of poverty and vulnerability in Cambodia’s rural areas (Ministry of Planning, 2019; ADB, 2012). It is also important to note that while many Cambodians live in the provinces, their livelihoods are now trans-local, spanning urban-rural, rural-rural, and transnational dimensions (Green & Estes 2019, 2022; Lawreniuk & Parsons, 2020).

Interviews were conducted in Khmer and lasted 45 to 60 minutes. They were recorded, transcribed, translated into English, and analyzed with consent from participants. Recipients, aged 32 to 81, were purposively selected, representing various educational backgrounds and marital statuses. The interviews explored recipients’ livelihoods, spending priorities for IDPoor cash assistance, and reliance on this assistance to meet household needs and address debt.

Table 1. Summary of IDPoor Cash Transfer Recipients Interviewees

<table>
<thead>
<tr>
<th>Locations</th>
<th>IDPoor Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provinces</td>
<td>Villages No</td>
</tr>
<tr>
<td>Takeo</td>
<td>Prey Theat 4</td>
</tr>
<tr>
<td></td>
<td>Tuol Tbeng 11</td>
</tr>
<tr>
<td>Kampot</td>
<td>Ta Prum 17</td>
</tr>
<tr>
<td></td>
<td>Ang Svay 8</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
</tr>
</tbody>
</table>

Employing Braun and Clark’s (2006, 2019) reflexive thematic analysis approach, data coding was guided by the study’s focus on how recipients sacrificed cash assistance to manage debt while ensuring the inclusion of all pertinent information. The analysis also considered the researcher’s

\(^2\) Half of the selected IDPoor recipients were extremely poor and qualified for IDPoor level 1, whereas another half were poor and qualified for IDPoor level 2.
observations and interpretations of the community, complemented by publicly available sources to corroborate findings and deepen understanding of the socioeconomic context.

POVERTY AND DEBT SITUATION AMONG IDPOOR BENEFICIARIES
Cambodia’s deep-rooted corruption, traditional farming practices, financial illiteracy and unethical practices of financial literacy training enacted by microfinance providers, lack of quality healthcare and education, and poor public services and infrastructure are among the major factors adding to the cycle of poverty already permeating the population (Bylander & Res, 2021; Frigillana, 2017). The COVID-19 pandemic, the withdrawal of Everything but Arms (EBA) trade preferences by the European Union in 2020 due to human rights violations and shrinking space for democracy and civil society, and the lapse of the United States’ Generalized System of Preferences (GSP) in 2020 have led to factory closures, jobs laid off, and income loss pushed millions of Cambodians into poverty.

As of 2020, Cambodians hold the world’s highest average amount of MFI loans, totaling US$ 3,804 per capita (Human Rights Watch, 2020). The rising debt among households in Cambodia in recent years, particularly those in rural areas, was mainly caused by factors such as the easy-access loans, the absence of systematic impact study by the Cambodia Microfinance Association, and the limited capacity of the NBC to regulate the MFI’s code of conduct lending guidelines and legal mechanism to enforce compliance (Guermond et al., 2022; Green et al., 2023). NBC has never issued strong consumer protection regulations to protect borrowers from unethical lending practices (Human Rights Watch, 2020). Consequently, the household debt rose by 85% annually, escalating from 9.6 million riels (US$ 2,400) to 17.7 million riels (US$ 4,400), exceeding 95% of all incomes in Cambodia (Equitable Cambodia & LICADHO, 2021; Ministry of Planning, 2020). According to LICADHO and Sahmakum Teang Tnaut (2019), and Reid (2022), 2.6 million Cambodians borrowed from MFIs, accumulating a total debt of US$10 billion in 2019, within a country where the average individual earned a meager US$ 1,700 annually (Se, 2020). Cambodia went from having no banking services in the 1990s to having a microfinance industry catering to 3.06 million borrowers, predominantly rural, out of a population of 16.09 million (Guermond et al., 2023). Over two decades, the industry’s micro and small loan portfolio burgeoned from US$98 million in 2004 to over $16.4 billion today, around 60% of the country's GDP (Green & Bylander, 2021). Given the statistics, Cambodia emerges as the most microfinance-saturated country globally, surpassing even the nations with substantial microfinance sectors (Guermond et al., 2023).

Socioeconomic condition of the IDPoor cash transfer recipients
A majority of the IDPoor beneficiaries reside in rural areas, given that only 25% of Cambodia’s 16.09 million population inhabits major cities and townships (Shi, 2023). Despite numerous studies on the socioeconomic status of rural Cambodians and poverty, few have focused on rural households and cash transfers. Besides traditional farming practices – family size, education
background, skills training, employment status, income sources, assets and land ownership, health status, and debt – all determine the economic condition of a household.

Among the 40 IDPoor participants – ten were illiterate, 24 (3 men) only had a primary school education, and six received secondary school education. None of the participants completed high school or had formal employment. Among the IDPoor participants, 40% were unemployed at the time of the interview, and 15% without farmland ownership. In contrast, those with farmland only owned small plots of rice fields, which did not produce enough rice to feed the household annually. These IDPoor participants’ households rely on the husband or adult children’s income from jobs in construction, factory, driving, or domestic work, which average 400,000 riels (US$ 100) to 1,000,000 riels (US$ 250) a month for basic needs. Another 60% of the IDPoor participants who said they were employed work in the informal sector such as construction, weaving, factory, selling street food, and driving a motor taxi – only earn from 200,000 riels (US$ 50) to 400,000 riels (US$ 100) per month.

Notwithstanding their minimal income, 63% of the IDPoor participants support families of three to seven members. They usually purchase one to two bags of rice monthly, priced between 110,000 riels (US$ 27.50) and 130,000 riels (US$ 32.50), taking away 30% to 60% of their monthly income. The remaining 40% to 70% of income covers other basic needs such as food, utilities, medicines, phone cards, transportation, children’s schooling, debt payments, and social obligations such as weddings and funerals. Beneficiaries who own land turn to subsistence agriculture after harvesting rice and raising livestock to supplement their food supply, while those without land seek day labor jobs or borrow from MFIs or private lenders to cover their household’s basic needs.

Debt situation among IDPoor cash transfer recipients

The findings of this case study attest to previous findings on the rising debt among rural households by LICADHO and Sahmakum Teang Tnaut (2019), Reid (2022), and Guermond et al. (2023). Of the 40 IDPoor recipients in this study’s sample, 63% (25 out of 40) reported being indebted to microlenders. Among the indebted IDPoor participants, 93% said they borrowed from the microfinance in amounts ranging from US$ 250 to US$ 14,000. Of those who owed more than US$ 500 to microfinance, 88% reported taking loans for consumption or other basic needs, including building or fixing a house, buying land, buying a motorbike, repaying old debt, and farming purposes (see also LICADHO & Equitable Cambodia, 2023). As a 38-year-old indebted IDPoor participant, Bopha (pseudonym) shares:

‘We borrowed from microcredits and private lenders before COVID-19 and before we had an IDPoor card to dig a well and for our household consumption when we were short of money. In total, we borrowed US$ 8,000.’
Soksamphoas Im

Bopha initially did not qualify for an IDPoor card because she owned a rice field and was employed at the garment factory, earning around US$ 200 monthly. However, these were not enough to provide for her family of six. The income and food shortage forced her to take loans from two different MFIs, Sahak Krin and LOLC, to cover her household needs. Bopha used her rice field and residential land titles as loan collaterals. Bopha pays up to US$ 150 monthly, which forces her to borrow from other private sources to cope with her family’s needs after repaying the loan. Bopha ended up severely indebted and risked losing her property to the MFIs, especially when the factory cut her work hours by half during COVID-19, and she could not keep repaying the loan. Bopha’s dire economic situation prompted the village chief to give her family a Level 2 IDPoor card in 2021 that qualified for 177,000 riels monthly (US$ 44). At the time of the interview in May 2023, Bopha had only paid off about US$ 1,000 of the total debt because she had been paying only the loan interest during COVID-19.

Some other IDPoor interviewees took loans to buy land, build a house, or buy a rice field because they lost their lands due to confiscation by the MFIs or they were forced to sell their lands to repay the old loans with other private lenders, as one IDPoor participant recounts,

‘I borrowed from an MFI again to buy land to build a small house because all the lands, including the rice fields that I used to own, were taken by a microcredit named Deum Tnoat Sedkech (Palm Tree Economy) when I borrowed from them and could not pay back my loan on time.’

![Figure 1. Causes of debt among IDPoor households](image)
Another participant mentioned,

‘We borrowed from microcredit for US$5,000 to pay off our old debt and reclaim our land title.’

According to Green and Bylander (2021), taking out new loans to service prior debts has become a widespread phenomenon in Cambodia, as many are afraid to lose their lands. At least 68% of the indebted IDPoor recipients reported using their farmland or primary residence land title as loan collateral. Other 32% of indebted IDPoor recipients said they did not provide any collaterals because they only borrowed a small amount, US$ 1,000 or less, through a digital\(^3\) or group loan\(^4\) – and it was short-term loans of less than a year. These loans required a monthly repayment between US$ 50 to US$ 100. However, those who used their property title as collateral for a larger loan ran the risk of losing their lands.

Evidently, these villagers did not have any other assets or stable income sources to put as loan collateral, given their minimal earnings from informal or vulnerable employment. What this study found striking was almost half of these borrowers were unsure of the interest rate their microlenders charged them. Only 52% of indebted IDPoor participants reported that their monthly interest rate was between 1.2% and 4%. The other 48% did not know or remember the interest rate of their loan and were only aware of the total amount they had to pay back to the lender monthly, which ranged from US$ 50 to US$ 500 per month, taking half or greatly exceeding their household’s income of only US$ 50 to US$ 250 per month (Equitable Cambodia & LICADHO, 2021).

Beneficiaries who took smaller, shorter-term loans may experience lower risks than those with bigger loans. The loans offered by the MFIs via digital platforms or without collateral requirements encouraged the villagers to keep borrowing. For example, AMK, one of the largest MFIs in Cambodia, offers very easy-to-access loan options, digital or group, where the borrower can simply apply for a loan from their mobile phone by chatting with the MFI agent and get approval within one day (AMK Cambodia, n.d.). While no collateral requirement for small and short-term loans, many of these borrowers have relied on the government’s monthly cash transfers for their credit security. Evidently, 26% of indebted IDPoor participants who took a small short-term loan reported borrowing from either an MFI multiple times or from multiple MFIs simultaneously.

As one IDPoor villager commented, ‘I have taken small loans from microcredit five times already since I have an IDPoor card. Now I owe a total amount of US$ 3,500.’ These findings

\(^3\) Digital loans, accessible through an MFI’s online platform, offer fast, easy, and secure borrowing of up to US$5,000. Applicants provide necessary information and documents, such as a National ID card, income verification, and collateral details, through chat (AMK Cambodia, n.d.).

\(^4\) A Group loan is a small loan, usually US$1,000 or less, in which a group of 2-6 members borrows the money together by submitting only one application form along with their National ID cards (AMK Cambodia, n.d.).
support Torkelson’s (2020) findings among South Africa’s social grantees who have transformed their social grant payments for present needs through advancing credit, diminishing the value of their grant in the coming months and causing further consumption crises (p. 9).

**Servicing Debt**

IDPoor participants reported struggling to repay their loans since the COVID-19 pandemic. As one IDPoor participant said, ‘Nowadays, I have to pay the microcredit of around US$ 250 per month for my loan. Sometimes, I cannot pay the total amount, especially since COVID-19.’ To cope with economic hardships, some borrowers took advantage of the government’s debt repayment moratorium during COVID-19 (Blomberg & Dara, 2020) – by asking their lenders to freeze debt collection temporarily. However, the moratorium was merely a band-aid for these borrowers, as most MFIs did not follow the government’s instruction, and only a few partially implemented the loan repayment moratorium. In fact, the Cambodian government’s loan-restructuring policy during COVID-19 helped prevent the MFI sector from entering into a financial crisis, buying some time for borrowers to seek alternative income options to repay their loans (Res, 2021). Moreover, under the loan repayment moratorium, lenders are only required to pause principal payments but not the interest, which ultimately increases the total costs of the loan for the borrowers when the moratorium policy ends (Res, 2021). As one borrower commented,

> ‘I only paid off about US$ 1,000 out of US$ 8,000 debt, then COVID-19 came. I asked the microlenders to pause repayment for us, and they let us pay only the interest for six months but not the principal.’

As a result, IDPoor recipients had no choice but to continue repaying their loans, either in full or only the interest – despite the impacts of COVID-19 on their household income. To repay their loans, they reduced their food consumption, took out new loans to service prior debt, migrated, or sold any other remaining properties in distress (Green & Bylander, 2021).

However, IDPoor families who were indebted but did not have anything to sell or could not migrate turned to their monthly cash assistance to service their debt during the pandemic. At least 44% of indebted IDPoor recipients reported that they have either occasionally used all or regularly split some of their cash assistance to repay their loans:

> ‘During COVID-19, I have used my IDPoor cash payment to repay my loan often because I receive it regularly every month.’

Another IDPoor recipient also said,

> ‘Occasionally, I used my IDPoor cash to help repay my loan. I spared up to 100,000 riels (US$ 25) from my IDPoor cash monthly to service my loan.’
The use of IDPoor cash transfer among the recipients to service debts is not at all surprising. Many of these low-income borrowers never had formal employment that provided a stable income or payment through banking services. While the disbursement of IDPoor cash transfers through government-to-person (G2P) payments via Wing Bank Plc may be classified as a form of ‘digital financial inclusion’ at the cash provider’s end because it is paid through a bank transfer\(^5\) – recipients still need to physically go to a Wing Bank agent to withdraw their cash payments with their national ID card after receiving an SMS notification of the transfer (Khmer Times, 2023). Many use it to directly repay monthly loans by depositing cash collected from Wing agents to microlenders. Although recipients in this study only receive between 96,000 riels (US$ 24) and 272,000 riels (US$ 68)\(^6\) monthly, IDPoor borrowers face a minimum loan repayment of US$ 50, leading them to allocate most or all of their cash assistance to the entire amount of their monthly loan repayment. For instance, one IDPoor recipient who owes US$ 8,000 to an MFI and must repay their loan of 600,000 riels (US$ 150) each month,

‘I always save my 160,000 riels (US$ 40) IDPoor cash every month to supplement my Loan repayment. My son does not earn enough from his day labor job to cover the full amount that we have to pay.’

In prioritizing IDPoor cash transfers for debt repayment, some IDPoor recipients also revealed that their household economic conditions did not improve at all. As one level 1 recipient who is indebted to multiple MFIs and private lenders simultaneously – and received cash assistance of 177,000 riels (US$ 44) monthly stated, ‘The IDPoor cash assistance didn’t help improve our lives very much. Our family is still poor and living in a difficult situation. The IDPoor cash only complements our needs once in a while.’

---

\(^5\) Note that the IDPoor cash transfer does not go directly to the recipient’s bank account, but it is routed through Wing Bank cash transfer agent for withdrawal.

\(^6\) Cash assistance disbursed to IDPoor households varies based on their poverty level (IDPoor 1 or 2) and household size, with smaller households receiving less than larger ones or those with elderly or disabled members.
Meanwhile, the remaining 56% of indebted IDPoor recipients prioritized their cash assistance solely for stocking up on rice and food to feed their households. Many expressed gratitude to the government because it ensured their families had food on the table while all their income went toward debt repayment. One indebted IDPoor recipient remarked, ‘I am immensely grateful to the government for helping my family. Without the IDPoor cash assistance, there would be days my family would go hungry.’ On the contrary, while being thankful for the cash assistance, 57% of the IDPoor recipients felt that it is the government’s responsibility to help poor and vulnerable citizens like themselves, as one recipient remarked,

‘I think the government should have the responsibility to help poor citizens like us.’

The significant numbers of IDPoor recipients who think the state has a role in taking care of its citizens resonate with how a majority of South Africans agreed with the statement that “people are like children, the government should take care of them like a parent” (Ferguson, 2015, p. 161). Such sentiments show not only how they prefer to be involved in relationships of dependency but also a strong assertion of the population’s dependency on the state in a sense that allows powerful political claims based on obligation so fundamental that it precedes any right (Ferguson, 2015).

UNDERSTANDING THE IMPLICATIONS OF POVERTY, DEBT, AND IDPOOR CASH TRANSFER

This study provides evidence that attests to previous studies (e.g., Barchiesi, 2011; Borjas, 2016; Niño-Zarazúa, 2020; Taylor, 2002; Wang et al., 2019) which suggested how social assistance
programs could encourage dependency and poverty. Dependency, in this case, does not mean discouragement for IDPoor recipients from seeking employment and other income; rather, it is due to over-indebtedness caused by other socioeconomic and environmental factors. Of all the IDPoor recipients in this study, 95% rely on their cash assistance as the primary income source to complement their basic needs, servicing debt, and make them feel included. As a 56-year-old IDPoor recipient commented, ‘I now fully rely on this IDPoor cash assistance. It is the first time I have a monthly income.’ This sentiment corresponded to how being dependent on welfare can provide the recipients with a sense of personhood and social belonging (Ferguson 2013, 2015).

The IDPoor Program’s ineffectiveness in addressing long-term poverty affirms Niño-Zarazúa’s (2020) suggestion regarding the scale and scope of coverage. Due to the strict eligibility criteria and the limited coverage, the IDPoor program covers only 3 million (41%) of Cambodia’s total 7.3 million poor population (OECD, 2017). Even though the government expanded the program in recent years, most notably during COVID-19, a large number of poor Cambodians are without any assistance or only receive temporary assistance. The monthly cash assistance of US$ 24 to US$ 75 per household is inconsequential in making any difference for a household, especially if they do not have other income or if they are severely indebted. The limited scale and scope of coverage, in turn, provide little protection to the impoverished population.

The limited impact of the IDPoor program in poverty alleviation highlights the absence of effective countercyclical policy instruments to address macroeconomic crises (Ocampo, 2001; Stiglitz, 1999). Inadequate measures to counter inflation and unethical microloan practices render temporary cash assistance programs like IDPoor insufficient in lifting poor Cambodians out of poverty. For example, if a family of four only receives US$ 24 to US$ 40 of IDPoor cash assistance monthly, it is only enough for a bag of rice; they have nothing left to cover other basic needs. Consequently, families resort to loans to meet basic needs, exacerbating their financial strain. The government’s failure to implement effective countercyclical policies during the COVID-19 pandemic, such as debt repayment moratoriums, further underscores this deficiency, contradicting the IDPoor program’s objective to prevent extreme poverty. To address these challenges, the government must address systemic issues like predatory lending, unemployment, and financial literacy while re-evaluating and strengthening policies to shield Cambodian families from falling deeper into poverty.

CONCLUSION
This study underscores the intertwined nature of poverty and debt in developing countries like Cambodia. In rural Cambodia, poverty stems from limited access to education and skills training, fewer high-paying job opportunities, and reliance on traditional farming practices or insufficient land ownership for adequate crop yield and income. Without a formal education and skills, Cambodians often resort to informal or precarious employment sectors like domestic work, construction, or garment factories, providing inconsistent earnings that fail to meet basic needs.
Consequently, many families turn to MFIs and private lenders for consumption loans, perpetuating a cycle of poverty as they struggle to repay loans and interest charges.

Despite qualifying for IDPoor monthly cash assistance due to extreme poverty, many rural households faced difficulties in repaying their loans, given their existing high-interest debts. Even with IDPoor assistance, these households struggled financially, resorting to various sacrifices such as reducing consumption, selling assets, or taking out new loans to service their old loans. This study revealed that indebted IDPoor recipients also had to consider sacrificing their monthly cash assistance, highlighting the program’s limited effectiveness in lifting beneficiaries out of poverty.

While these findings cannot be extrapolated to other geographical areas, they offer two key insights for future research investigating the intricate interplay of poverty, debt, and the targeted welfare practices alongside MFIs in developing countries. First, it suggests that future studies on social development policies delve closer into the daily life of the targeted population, as it can uncover evidence contradicting the intended outcomes of these policies. Second, this study added nuance to the prior research (Lavinas, 2018; Torkelson, 2020) on the clash between neoliberal capitalism and social policy development, highlighting conflicting priorities such as individuality, market efficiency, and limited government intervention versus societal needs such as social welfare and public services. This conflict can lead to underfunded social policies that merely complement market mechanisms instead of addressing structural inequalities, exemplified by programs like the IDPoor.

References


Habitat for Humanity (2023). *Cambodia Country Profile*. [https://www.habitat.org/where-we-build/cambodia](https://www.habitat.org/where-we-build/cambodia)


Kaba, M. W., Baesel, K., Poch, B., Bun, S., Cerceau, S., Bury, L., ... & Rasanathan, K. (2018). IDPoor: A poverty identification programme that enables collaboration across sectors for maternal and child health in Cambodia. *BMJ*, 363. [https://doi.org/10.1136/bmj.k4698](https://doi.org/10.1136/bmj.k4698)


Kang, S. & Khmer Times (2023, July 3). Is NSSF a boon or bane for informal sector?. *Khmer Times*. [https://www.khmertimeskh.com/501317828/is-nsss-a-boon-or-bane-for-informal-sector/](https://www.khmertimeskh.com/501317828/is-nsss-a-boon-or-bane-for-informal-sector/)


The rate is the lowest, the bank said.


Wheatley, J. (2022, January 17). Poorest countries face $11bn surge in debt repayments. *Financial Times*. [https://www.ft.com/content/4b5f4b54-2f80-4bda-9df7-9e74a3c8a66a](https://www.ft.com/content/4b5f4b54-2f80-4bda-9df7-9e74a3c8a66a)


