Conference Paper

Socioeconomics, Political Factors and Conditional Cash Transfer: Evidence from Indonesia

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Abstract

We examine the effects of socioeconomic and political factors on the distribution of conditional cash transfer (CCT) (Program Keluarga Harapan (PKH)) in Indonesia. The distribution of CCT is measured by budget allocation of PKH distributed to local government. The objects of this study are the local governments that received the budget allocation of PKH in 2013–2015 with a sample size of 1.005 local governments. Using panel data on 335 local government from 2013–2015, we find that vote shares and competitiveness are positively associated with the distribution of PKH, while the socioeconomic factors are insignificant. This indicates that the CCT program is used by the politicians to maintain their power in government.

Keywords: conditional cash transfer, program keluarga harapan, socioeconomics, politic

Received: 25 February 2018
Accepted: 26 May 2018
Published: 26 June 2018

Publishing services provided by Knowledge E

Selection and Peer-review under the responsibility of the ICIFEB Conference Committee.

1. Introduction

Conditional cash transfer (CCT) programs have been widely adopted as a protection of social policies to resolve the problem of poverty in many developing countries [13]. Having originated in Brazil and Mexico, over 30 countries now provide small stipends to poor families in exchange for their meetingspecific conditions, such as scheduling prenatal checkups or maintaining sufficient school attendance [12]. These reports pay little attention to the potential for political interference in how transfers are distributed. CCT programs that are actually social protection programs are often manipulated by political criteria [8, 19]. Boadway and Shah (2007) find that the political motivation underlying the government program will lead to a welfare loss, excessive government spending and inequalities.

Empirical evidence suggests that politicization of social assistance program occurs in countries like Mexico [8, 19], Brazil [13, 26, 27], Turkey [1] and Colombia [2]. Schady (2000) showed a significant increase in social assistance spending (FONCODES) before the national election year. Other empirical evidence suggest the effect of political criteria to CCT programs. The CCT programs will increase the incumbent's vote in the presidential election [8, 27]. Aytaç (2014) examined the distribution of CCT program in Turkey using socioeconomic and political factors. It showed that setting of multiparty competition presents incentives to the incumbent party to channel disproportionately more resources to the districts with an ideologically close challenger. In contrast to empirical evidence of political criteria in CCT, Corrêa (2015) shows that the investment in CCT programs is not associated with incumbents vote swing. Fried (2012) shows that the distribution of the Bolsa Familia program in Brazil is not influenced by political criteria.

Evidence about political budget cycles (PBCs) were also found in Indonesia. Sjahrir, Kis-Katos and Schulze (2013) find significant PBCs for Indonesian districts' direct elections and it was stronger if the incumbent runs for reelection. Politician may use discretionary spending such as social protection programs to favor their position. Member of the Audit Board of the Republic of Indonesia (BPK), Rizal Djalil stated that the allocation of social assistance spending in the state budget (APBN)/local government budget (APBD) is designed for the interests of the authorities, both in terms of political ambitions and personal interest, with a mode of social-assistance spending that increased significantly ahead of the election.

As social-protection program that have been popularly adopted in many countries, Indonesia also has CCT program called Program Keluarga Harapan (PKH). In this article, we want to examine whether the political criteria are affecting the distribution of CCT. We focus on PKH for the following reason. First, PKH is the social protection program with CCT mechanism that was created in 2007. Both beneficiaries and allocation of PKH have increasingly from this program is created until 2015. Especially in 2013, the distribution of CCT to local government had significant increase from the previous year.

Second, PKH is the national-level program that can be categorized as best-practice implementation of social protection [3]. Impact evaluation conducted by World Bank (2011) show that PKH is an effective program to improve the social welfare and has a positive effect to increase the use of health services for beneficiaries. However, in the education sector, PKH has a little effect to improve education for beneficiaries. This shows the effectiveness of CCT in Indonesia as a social protection program is not yet optimal. The impact and effectiveness of CCT can also be seen from the trend

of allocation as well as measures of socioeconomic achievement such as HDI and the percentage of poor peoples, that is shown in Figure 1. With this background and achievement, we want to examine whether socioeconomic and political criteria affect the distribution of CCT.

The article is organized as follows. Section 2 presents a brief review of the literature of the PBC, pork barrel spending and voting behavior. Section 3 describes CCT program in Indonesia. The data and the econometric model are described in Section 4. Section 5 presents the empirical results and, finally, Section 6 concludes the article.

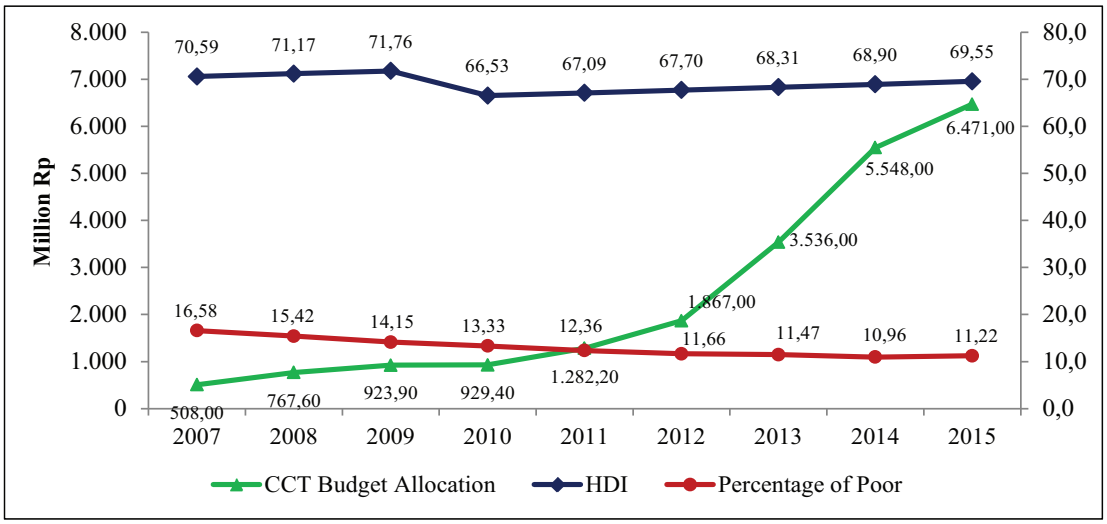

Figure 1: CCT Budget allocations, HDI and percentage of poor. Source: Ministry of Social (2015) and BPS (2015).

2. Literature Review

2.1. Political budget cycle (PBC) and pork barrel spending

Since 2004, national elections in Indonesia have been carried out directly, both the presidential and legislative elections. The implementation of the direct election will provide a greater tendency for candidates to conduct money politics to the public. Political parties that have power in the government will be attempted to maintain their power by manipulating government resources. The phenomenon of PBC arises from a perception that politicians will use their power to 'manipulate' the budget ahead of elections in terms of policy, spending or deficits to increase the chance of reelection or maintaining his power in government. Nordhaus (1975) calls this phenomenon a 'political business cycle' which means that a macroeconomic cycle was affected by the political cycle. The political economy literature is now more focused on policy

instruments than macroeconomic conditions to analyze their impact on election results [4]. Drazen and Eslava (2006) describe the PBC, as an incumbent candidate's effort to advance voters by providing public spending to certain groups, conducted before the election (opportunistic) or after the election (political promise).

A distributive policy is a political decision that concentrates benefits in a specific geographic constituency and finances expenditures through generalized taxation. Distributive policy program targeted to a geographic location and generating benefits in that geographic location unrelated projects in other locations [24]. Distributive policy programs are like infrastructure programs. In theoretical concept, social protection programs are non-distributive programs. But, empirical pieces of evidence suggest that social policy program especially CCT is a distributive program that was affected by political criteria. CCT programs that are actually social protection programs are often manipulated by political criteria [8, 19]. Government's massive CCT program, Bolsa Familia, represents an important change for the support base of incumbent candidate and furthermore presidential candidate from incumbent party in Brazil always performs better in the less-developed regions of the country [26].

Several empirical studies suggest that economic factors alone do not satisfactorily explain the variation in the geographic allocation of targetable goods or social program spending. Political factors play an important role as well, with primarily two views on how distributive programs, such as CCT, can optimize electoral performance. The swing district hypothesis posits that politician should channel disproportionately more resources to highly competitive districts, that is, swing districts [9, 14]. In contrast, the core district hypothesis holds that material benefits should be directed toward the strongholds of the politician [6]. Both models explain the politician's strategy to win the election competition by distributing public spending to specific groups aimed to influencing voters [6, 9, 14].

In voting-behavior model, Downs (1957) explains that in a democratic system, political parties will formulate policies for the interest in elections. Social programs such as CCT is interesting to analyze because of the possible linkages between poverty-alleviation programs and the political interests of certain groups. CCT politicization has been widely studied such as CCT in Peru/FONCODES [17], Brazil/Bolsa Familia [13, 27], Meksiko/Progresa [8], Colombia/Familias en Acción [2, 16] and Turki [1].

2.1.1. Conditional cash transfer (CCT) in Indonesia

CCT programs offer countries a new way to tackle poverty and prevent the transmission of poverty to future generations [25]. The CCT program provides regular cash payment to poor families, so that the beneficiaries can access basic needs such as education and health [1, 25]. Indonesia has implemented a CCT program called PKH. PKH is a CCT program that provides quarterly cash transfers to very poor households in Indonesia by requiring education and health provisions for recipients [25].

The beneficiary should meet at least one of the three required conditions, that is, (1) households with pregnant and/or lactating women, (2) households with children aged 0–15 years and (3) households with children aged 16–18 years who have not yet completed 9 years of basic education.

PKH was launched as a pilot social assistance program in 2007 that has short-term and long-term goals of poverty reduction. In the short-term, PKH aims to provide short-term assistance to the poor as well as in the long-term to reduce poverty and inequality by providing incentives for investment in human resources. Since 2007, PKH has always increased, both in terms of allocation and coverage. In 2007, PKH was implemented in 7 provinces, 48 districts/municipalities and served 387,928 beneficiaries with a budget of 508 million rupiah. Until 2015, PKH was implemented to serve 3.5 million beneficiaries with a budget of 6.5 billion rupiah [22]. In 2016, PKH coverage increased by 42 percent from the previous year to 6 million beneficiaries.

2.2. Socioeconomic or political factors?

A study about the impact evaluation of CCT as a social protection program has been widely used to determine the effectiveness of CCT programs in tackling poverty. Based on the results of the PKH impact evaluation study, overall PKH has a positive impact on a number of health and education indicators. Health indicators showed an increase of 3 percent points of Posyandu visits, 5 percent points rise in child-growth monitoring and 0.3 percent points increase in immunization activities. While the education indicator shows the increase in attendance of children in school by 0.2 percent points (BAPPENAS, 2009). The results of the World Bank (2011) evaluation show similar results to the Bappenas evaluation, that is, PKH is relatively effective in improving the welfare of beneficiary poor families and having a positive impact on improving the use of health services. However, in the field of education, PKH has a relatively small impact in changing behavior in education.

The massive increase in the number of countries adopting CCT as an effort to cope with poverty the research on CCT not only lets us know its effectiveness but also the impact of CCT on electoral performance. Poverty and politics have an interesting relationship to study. In this study, we try to show whether the distribution of CCT in Indonesia is influenced by socioeconomic or political factors.

As explained earlier, the main goal of CCT is to tackle poverty. Beneficiaries of PKH are very poor households with the welfare rank of 7 percent the lowest. Hence, we argue that the poverty rate is positively associated with the distribution of PKH. Aytaç (2014) shows that the infant mortality rate and the geographic location of the area which is the proxy of poverty measure of a region are positively associated with CCT allocation. Schady (2000) suggests a similar result, CCT allocations are directed to regions with large poverty rates. Both indicate that CCT has an important function as a redistribution program.

PKH is an effort to build social protection system to the poor in order to maintain and improve social welfare of the poor as well as efforts to combating the poverty. To achieve the goals, beneficiaries are expected to be able to access health and education sector. HDI explains how people can access the development outcomes in obtaining income, health, education and so on. Two-third component in HDI formula are generated through access of health and education. Hence, we argue that HDI is negatively associated with the distribution of PKH. This is because the higher HDI of a region indicates that the region has a high quality of human resources so that the government will provide smaller CCT allocation. Aytaç (2014) shows that HDI has a negative relationship with CCT allocation.

The last socioeconomic factor is the social expenditure. Local governments with larger social spending such as subsidies, social assistance and grants indicate that the region has a great capacity to maintain the welfare of its citizen through the implementation of local government social programs. Veiga and Veiga (2013) show the grant expenditure transfers in the previous year (t–1) negatively associated with the allocation of grant spending during the election year. Hence, the authors argue that social spending in the previous year (t–1) is negatively associated to the distribution of PKH.

In a government institution, political factors cannot be ruled out from the policy-making process because both the president and the legislature are both elected through a political process of election. The existence of moral hazard to maintain its power in the government, the interests of certain groups and lobbying in policy-making are the causes of politicians using government resources for their personal

interests, rather than for the welfare of the society [18]. Schady (2000) shows that the president-vote shares had a positive effect on the distribution of CCT in Peru, which can be interpreted as that the politicians will allocate larger CCT to region that consists the core voters. President-vote shares represent the extent of public support to the president candidate in the national election. We argue that president-vote share is positively associated with the distribution of PKH. The president elected from the previous election will attempt to maintain his authority or his political-party's position in the government. Politicians will influence voters by using social programs like CCT. It is because CCT beneficiaries will have a preference for choosing an incumbent candidate [2, 8, 26].

The second political factor is a political constellation showing the political relationship between central government and the local government. The ruling party in the legislation will have a preference for allocating resources (CCT) to the region with a strong political constellation aimed to maintaining the power of its political party in the region. Veiga and Veiga (2013) show that the similarity of political parties in the central and local governments has a positive effect on the allocation of grant expenditure.

The last political factor is competitiveness. In a region with high competitiveness, elected presidents in previous election will allocate greater CCT as an effort to maintain authority by influencing voters' behavior. Schady (2000) uses the marginality vote shares to measure the level of political competition. The study shows that CCT allocation is directed to the region with high marginal political effect. The higher political competition of a region, the more resources (CCT) will be provided to the region by the politicians, which is shown by an increase in political competition leading to an increase in CCT allocation of 13 percent [17].

3. Methodology

For the empirical analysis, we use the panel data on 335 local governments from 2013 to 2015. The objects of this study are the local governments that received the budget allocation of PKH in 2013–2015 with a sample size of 1.005 local governments. Data CCT allocations distributed to local government are obtained from the Ministry of Social. Human Development Index (HDI) and the percentage of the poor are obtained from the Central Bureau of Statistic (BPS). Data local government social expenditures are obtained from the Ministry of Finance. All data about political factor, that is, presidential and legislative election results, are obtained from General Election Commission (KPU). Table 1 reports the summary statistics for the variables used in the analysis.

Table 1: Descriptive statistics.

	N	Minimum	Maximum	Mean	Std. Deviation
CCT	1.005	17.839,62	1.363.475,00	172.570,80	105.289,20
HDI	985	51,55	82,22	68,89	5,53
Percent Poor	1.005	1,33	35,99	12,77	6,50
Social Exp.	982	0,00	0,17	0,04	0,03
Vote Share	977	8,37	96,14	57,47	16,44
Constellation	975	0,00	1,00	0,88	0,33
Competitiveness	977	−92,27	−0,16	−28,77	21,81
Elect	1.005	0,00	1,00	0,33	0,47
Pre-elect	1.005	0,00	1,00	0,33	0,47

Note: CCT = Per capita CCT; HDI = Human Development Index; Percent Poor = Percentage of Poor; Social Exp = Proportion of Social Expenditure (t–1); Vote Share = President vote share; Constellation = Political constellation; Competitiveness = Competitiveness; Elect = Election year; Pre-elect = Pre-election year

In the benchmark model, we use socioeconomic and political factors as independent variables. Socioeconomic factors are utilized as independent variables: HDI, percentage poor and social expenditure. To examine political criteria, we use three political variables: president vote share, political constellation and competitiveness. Based on the aforementioned discussion, we use the estimation model to identify the effects of socioeconomic and political factors to the distribution of CCT program as follow:

$$CCT_{it} = \alpha - \beta_1 IPM_{i,t-1} + \beta_2 Percent\_poor_{i,t-1} - \beta_3 Social\_Exp_{i,t-1} + \beta_4 Voteshare_{i,t-1} + \beta_5 Constellation_{i,t-1} + \beta_6 Competitiveness_{i,t-1} + \beta_7 Elect_t + \beta_8 Preelect_t + \varepsilon_{it},$$

where i = 1, 2, ..., 335 is the index for local government, t indicates time, α is constant, $\beta_1 - \beta_8$ are coefficients, and ε is an error term.

4. Findings

Table 2 presents the estimates of the effect of socioeconomic and political factors on CCT per capita. Column 1 presents the results of socioeconomic factor regression on CCT per capita. By using only socioeconomic factors, it shows that CCT program is a program that has an important role in the function of redistribution. This is indicated by negative association of HDI and social expenditure. These two socioeconomic variables support our argument that governments will distribute larger CCT to region with less

Table 2: Operational definition and measurement.

Variable	Measurement	Reference
CCT	The aggregate of CCT allocation distributed to local government in 2013–2015 divided by the number of poor people	Ministry of Social
HDI	Using BPS calculation	BPS (www.bps.go.id)
Percent Poor	The proportion of poor people with the population in a region, using BPS calculation	BPS (www.bps.go.id)
Social Exp	Total subsidy, social assistance and grants expenditure divided by total local government expenditure	Ministry of Finance (www.djpk.go.id)
Vote Share	Vote share of SBY-Boediono candidates in 2009 presidential elections and vote share of Jokowi-JK in 2014 presidential election	General Election Commission (KPU)
Constellation	Dummy variable, takes value of 1 if the top three in the local legislative elections (DPRD) is occupied by at least two political parties that become the top three in the 2009 and 2014 legislative elections of the House of Representatives (DPR); 0 otherwise Top three in the 2009 are Demokrat, Golkar, PDIP Top three in the 2014 are PDIP, Golkar, Gerindra	General Election Commission (KPU)
Competitiveness	Negative of the absolute value of the difference between the winner and the competitor in the 2009 and 2014 presidential elections	General Election Commission (KPU)
Elect	Dummy variable, takes value of 1 in election year; 0 otherwise	General Election Commission (KPU)
Pre-elect	Dummy variable, takes value of 1 in pre-election year; 0 otherwise	General Election Commission (KPU)

human-resource quality and to regions that have low capacity in local social protection. However, the result of the socioeconomic variables, namely, percentage poor shows the opposite direction to our argument in developing the hypothesis, although statistically significant.

In column 2, we add three variables to determine the influence of political factors on CCT per capita, namely, president vote share, political constellation and competitiveness. The socioeconomic variables show the same result with column 1 and political factor indicates that vote share and competitiveness are positively associated with CCT per capita. The results indicate that politicians will provide greater resources to

Table 3: The impact of socioeconomic and political factors on the distribution of CCT expenditures, 2013–2015.

Model	1	2	3
HDI	**−0.0352**	**−0.035**	−0.001
	0.000[a]	0.000[a]	0.743
Percent Poor	**−0.056**	**−0.058**	0.001
	0.000[a]	0.000[a]	0.929
Social Exp	**−0.986**	**−0.991**	−0.485
	0.015[b]	0.014[b]	0.139
Vote Share		**0.001**	**0.001**
		0.081[c]	0.014[b]
Constellation		0.021	0.026
		0.432	0.238
Competitiveness		**0.001**	**0.001**
		0.023[b]	0.060[b]
Pre-elect			**−0.333**
			0.000[a]
Elect			**−0.108**
			0.000[a]
F-value	144.18	70.84	123.72
sig	0.0000	0.0000	0.0000
R-within	0.4082	0.4175	0.6261
R-between	0.0015	0.0012	0.2156
R-overall	0.0089	0.0088	0.3353
Significance level a: 1%; b: 5%; c: 10%			

the region, both of which are the basis of supporters and whose level of political competition is high. While the other political variable, namely, political constellation is insignificant.

To test our hypothesis, we add two variables control: dummy variables that are election year and pre-election year. The model in column 3 shows different results on socioeconomic factors. Models 1 and 2 show consistently that HDI and social expenditures are statistically significant, but model 3 shows empirical evidence that HDI and social spending are insignificant. Interestingly, vote shares and competitiveness show

similar results both in models 2 and 3, which are significant and positively associated to CCT per capita. Control variable present significant results but have an opposite direction on coefficient regression.

In general, this indicates that CCT is used as a strategy to win the election. As we have expected that vote shares and competitiveness are positively associated to CCT per capita, the president from a political party will use the authority and government resources to conduct a vote-buying strategy. The government will allocate larger CCTs to areas that are the basis of its supporters or who provide more support in previous elections to maintain and improve electoral performance in the next election. This result supports Schady (2000); Dahlberg and Johansson (2002); Baez et al. (2012); Nupia (2011); Aytaç (2014) that shows that politicians are using CCT to improve their votes in elections.

Furthermore, the result showed by competitiveness indicates that politicians attempt to swing voter strategy. This result supports Schady (2000) that suggests an increase in CCT coverage to region with larger *marginal political effect. Marginal political effect* is the change in vote shares between two election. If vote shares decrease, it means that political competition in this region is more stringent than before.

In contrast with vote share and competitiveness, political constellation is insignificant. This may be due to the voter's view of the division of political parties' power to avoid the dominant political parties. Indonesia has experience related to the dominant political parties for about three decades. Based on these experiences, voters are more concerned with these views in shaping election behavior. In this study, we also found evidence that CCT programs cannot perform redistribution functions optimally. This is indicated by the fact that all socioeconomic variables are insignificant. It does not support Schady (2000) and Aytaç (2014) that shows that the CCT program is a program with a redistribution function.

To check the robustness of the results to a change in the estimation method, we also estimated the regressions with interaction term among variables (**see Appendix 1**). In general, result of robust check, only HDI and percentage poor show the consistent result as an explanatory variable. While the others are inconsistent, which indicates thus that variables are latent that can be improved.

5. Conclusion

Using the data of CCT allocations in Indonesia between 2013 and 2015, we found evidence that CCT budget distributions are more influenced by political factors than

socioeconomic factors. This indicates that the CCT program is used by politicians to maintain power in government. In addition, the absence of socioeconomic factor influencing the CCT distribution indicates that CCT, which is a social protection program, cannot perform redistribution functions optimally. A policy recommendation that can be extracted from our research is to provide additional consideration to the examiner and supervisory agency in conducting the monitoring of the CCT program implementation. For further research, additional socioeconomic variables can be added and other national social protection programs can be used, such as Direct Cash Assistance (BLT) and Program Nasional Pemberdayaan Masyarakat (PNPM).

Appendix 1

Table 4: Robust Check

Model	1	2	3	4	5	6
IPM	-0,037	-0,030	-0,037	-0,037	-0,037	-0,033
	0,000	0,000	0,000	0,000	0,000	0,000
Percent_Poor						
Financial						
Voteshare	0,000	0,007				
	0,260	0,174				
Constelation			0,014	0,032		
			0,612	0,921		
Competitiveness					0,001	-0,008
					0,022	0,060
IPM*voteshare		0,000				
		0,145				
IPM*constelation				0,000		
				0,955		
IPM*competitivenes						0,000
						0,035
Percent_Poor*votes						
Percent_Poor*conste						
Percent_Poor*compe						
Financial*voteshare						
Financial*constelatic						
Financial*competitiv						
F-value	174,280	117,110	181,640	120,900	177,400	120,400
sig	0,000	0,000	0,000	0,000	0,000	0,000
R-within	0,360	0,362	0,370	0,370	0,364	0,369

R-between	0,069	0,069	0,064	0,064	0,067	0,066
R-overall	0,111	0,111	0,108	0,108	0,112	0,114
Model	**7**	**8**	**9**	**10**	**11**	**12**
IPM						
Percent_Poor	-0,103	-0,096	-0,099	-0,106	-0,099	-0,095
	0,000	0,000	0,000	0,000	0,000	0,000
Financial						
Voteshare	0,001	0,002				
	0,295	0,156				
Constelation			0,027	-0,098		
			0,417	0,232		
Competitiveness					0,000	-0,002
					0,717	0,128
IPM*voteshare						
IPM*constelation						
IPM*competitivenes						
Percent_Poor*votes		0,000				
		0,281				
Percent_Poor*const				0,009		
				0,098		
Percent_Poor*comp						0,000
						0,072
Financial*voteshare						
Financial*constelatic						
Financial*competitiv						
F-value	40,810	27,600	39,230	27,140	40,260	28,020
sig	0,000	0,000	0,000	0,000	0,000	0,000
R-within	0,113	0,115	0,109	0,113	0,112	0,116
R-between	0,023	0,023	0,022	0,022	0,023	0,024
R-overall	0,005	0,005	0,006	0,005	0,005	0,005
Model	**21**	**22**	**23**	**24**	**25**	**26**
IPM						
Percent_Poor						
Financial	0,234	3,435	0,197	-0,184	0,265	0,391
	0,646	0,011	0,698	0,841	0,601	0,594
Voteshare	0,000	0,001				
	0,376	0,122				
Constelation			0,022	0,004		
			0,531	0,936		
Competitiveness					0,001	0,001

					0,102	0,392
IPM*voteshare						
IPM*constelation						
IPM*competitivenes						
Percent_Poor*votes						
Percent_Poor*const						
Percent_Poor*comp						
Financial*voteshare		-0,052				
		0,010				
Financial*constelatic				0,476		
				0,619		
Financial*competitiv						0,004
						0,812
F-value	0,460	2,520	0,270	0,260	1,420	0,960
sig	0,629	0,057	0,764	0,853	0,244	0,411
R-within	0,002	0,012	0,001	0,001	0,005	0,005
R-between	0,001	0,001	0,002	0,000	0,006	0,007
R-overall	0,000	0,002	0,002	0,001	0,000	0,000

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