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## Efek dari *Conditional Cash Transfer* pada Konsumsi dari *Temptation Goods*: Bukti dari Program Keluarga Harapan di Indonesia

### The Effect of Conditional Cash Transfer on Temptation Goods Consumption: Evidence from Program Keluarga Harapan in Indonesia

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#### *Abstract*

*Conditional Cash Transfer (CCT) has become a well-known policy utilized by governments in many countries to serve as a safety net for low income people. However, several previous studies found that the increase of income from CCT has a negative side effect, which is the increase of the total consumption of temptation goods. This study aims to examine the effect of the application of Program Keluarga Harapan, a specific CCT program which was devised in Indonesia, to the consumption of several kind of temptation goods. The data about the total value of CCT received by the poor and the total consumption of temptation goods were obtained from IFLS, a panel survey which is representative at the country level. This study utilizes the fixed effect model and finally are able to find that an increase of about 100,000 Indonesia rupiah will decrease the consumption of tobacco by 10.9 percent. This study contributes to the literature by estimating the rupiah value of CCT.*

**Keywords:** *Conditional Cash Transfer (CCT); temptation goods; Fixed Effect; Program Keluarga Harapan; Indonesia*

#### **Abstrak**

*Conditional Cash Transfer (CCT) telah menjadi kebijakan populer yang digunakan oleh pemerintah di berbagai negara untuk digunakan sebagai jaring pengaman bagi penduduk berpenghasilan rendah. Akan tetapi, beberapa artikel sebelumnya telah menemukan bahwa peningkatan pendapatan yang berasal dari CCT memiliki efek samping yang negatif, yaitu peningkatan total konsumsi dari *temptation goods*. Artikel ini memiliki tujuan untuk meneliti efek dari penerapan Program Keluarga Harapan, sebuah program kebijakan CCT yang dirancang secara khusus di Indonesia, terhadap konsumsi dari beberapa macam *temptation goods*. Data yang berisikan jumlah nilai CCT yang diperoleh oleh penduduk miskin dan jumlah konsumsi dari beberapa macam *temptation goods* diperoleh dari IFSL, sebuah data survey panel yang dapat mewakili level negara. Artikel ini menggunakan model *fixed effect* dan pada akhirnya artikel ini berhasil menemukan bahwa untuk sebuah peningkatan sekitar 100,000 rupiah akan mengurangi total konsumsi dari tembakau sebesar 10.9 persen. Artikel ini berkontribusi terhadap literatur yang ada dengan melakukan estimasi pengaruh setiap nilai rupiah dari kebijakan CCT.*

**Kata Kunci:** *Conditional Cash Transfer (CCT); temptation goods; Fixed Effect; Program Keluarga Harapan; Indonesia*

#### **Introduction**

Conditional Cash Transfer (CCT) has become a popular policy used by governments in many countries to serve as a safety net (Fiszbein 2009). CCT is a cash transfer from the government to poor households with

some conditions attached, usually in the form of future investment in human capital for the next generation, such as: the obligation to do medical check-ups for pregnant women and the requirement for children to obtain formal education in school. If the recipients of the CCT

are unable to meet the requirements, then the specific households will be deemed ineligible to accept the CCT from government.

CCT listed in many countries as an instrument to stop the poverty cycle. The extra fund transferred will lift their life standard above poverty line. In addition, the future investment in human capital, such as health, nutrition, and education would enable the next generation to elevate themselves from poverty.

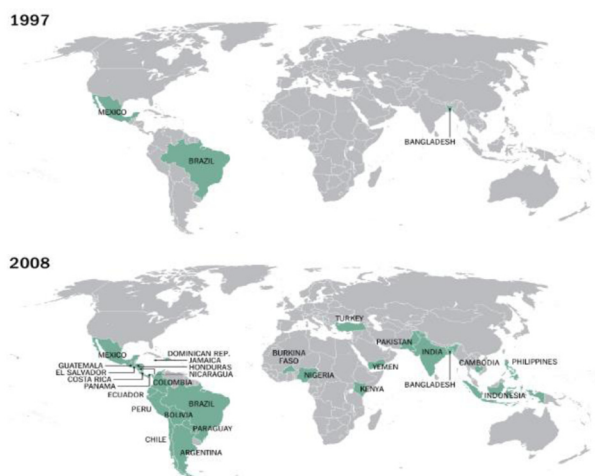


Figure 1.

The popularity of CCTs in the World throughout time, 1997 and 2008

Source : "Conditional Cash Transfers," by Fiszbein and Schady, *The World Bank*, pp. 667–671

Indonesia has launched its CCT program with the name *Program Keluarga Harapan* (PKH) in 2007 (Kementrian Sosial Republik Indonesia 2013). This program is continuously improved every year in terms of the amount of funds transferred and the number of households covered. This program is utilized to give financial aid to families who have pregnant mothers and school age children with the purpose of enabling pregnant mothers give birth to healthy babies and to give children a set of knowledge and skill from education attained.

Some said giving cash to families could cause them to spend it on other needs unrelated to the purpose of the CCT. For example, CCT is given to help households pay the cost of

education and medical check-up for expected women, but there is a possibility that the CCT received could be used to buy other essential needs that are not beneficial to children's education and pregnant mother's needs. This purchasing is categorized as "temptation goods" (Banerjee and Mullainathan as cited in White 2016). Thus, the aim of PKH which is to give positive benefits to future generations could be diminished or even negated by the consumption focuses on present satisfaction, ignoring the future benefits that could be achieved by spending PKH on more productive items.

Initially, temptation goods that is defined by Banerjee and Mullainathan (as cited in White 2016) only covered alcohol and tobacco. However, more recent studies have added other goods, such as soft drinks and Chinese food to the goods defined as temptation goods (Dasso and Fernandez as cited in White 2016). It is strengthen by survey in Hyderabad, India. This survey asked households the luggage would be removed from their expenditure to reduce the expenses. The result revealed that twenty eight percent of households listed at least one goods mentioned before and forty four percent of households put alcohol and tobacco at the top of the list (Banerjee and Duflo as cited in White 2016).

The hypotheses of this study is the rise of income from CCT will decrease the consumption of temptation goods. This result is supported by previous studies summarized by Evans and Popova (Evans 2014), that among forty four regression done in nineteen studies, eighty two percent of the results produce negative sign, meaning that this eighty two percent regression shows that the increase of income from CCT reduces the consumption of temptation goods.

Revealing the causal relationship between the introduction of the PKH and the consumption of temptation goods in households will show the effectiveness of the PKH. Quantitatively measuring the impact of the development of consumption in temptation goods from the

amount of PKH, this study gives the feedback to government about the effects arised from government policy. By measuring the impact policy, it need to be minimized the negative impact and resulting positive result from its application in the field.

### **Literature Review**

Previous literature has described temptation goods as contentment in the present utilization but do not give any benefit to future interests (Banerjee and Mullainathan as cited in White 2016). In other words, it is a result of a condition where an individual who Another is impatient enough choose to ignore the long-term expenditure plan that actually beneficial for future and prefer to consume temptation goods. This literature classifies alcohol, tobacco, sweets and sugary foods, and soft drinks as temptation goods.

There are several different opinions about how the PKH affects of temptation goods expenditure. First opinion is about effect of income to the consumption of goods. If luge categorized as temptation goods is considered as normal goods, then the consumption will increase as the income increase due to receiving cash transfer from the government. In contrast, the opposite will happen if the temptation good is considered as an inferior good where the consumption of it will decrease if the income increase. For example, Decker and Schwartz (as cited in Evans 2014) reveal that alcohol is actually a normal good, while tobacco is considered as an inferior good based on the their study in the United States.

Secondly, another opinion stated that CCT is actually generate an increase in relative value of education and health investment in comparison to other type of goods (Fiszbein, et al. as cited in Evans 2014). These increased value of education and health will shift the preference of households to consume more education and health of temptation goods. Another study which was done in Brazil and Mexico propose

education as normal good which experiences the rise of expenditure as income growth (Estevan 2013). This also indicates that the raise of income may go to education instead of temptation goods.

Thirdly, other literatures also reveal that CCT policy often accompanied by intense public service advertisement. Government usually match the CCT policy with frequent social advertisement supported with high budget. As a result, there is a possibility that households' attitude is affected by the social advertisement. Ecuador's government, for instance, has bundled its CCT policy with a social advertisement which the urge of households to invest more in human capital for their future generations (Schady and Rosero as cited in Evans 2014). Team leader of CCT program in Nicaragua has an additional task to relentlessly inform the households which receive CCT to spend the cash on many things that are beneficial to their health and education (Adato and Roopnaraine as cited in Evans 2014 a).

Finally, the recipient of the CCT is usually women as shown in South America (Fiszbein, et al. as cited in Evans 2014 a). This condition happens because of the traditional belief that women will always allocate more fund and effort to their children compare to men. A study shows that giving the cash to the hand of women will increase children's health to a better state based on the data from Brazil (Thomas as cited in Evans 2014 a). another research in Macedonia reveals that arranging the CCT to women has considerably raise expenditure allocated for children and at the same time it also enlarged children's enrolment and performance in secondary school, with the prerequisite that the parents view of education attained by their children as a very important thing (Armand as cited in Evans 2014). Nevertheless, two other studies have found that giving CCT to either women or men proceed into un-worthy results for their children.

Table 1.  
Evaluations of Several Conditional Cash Transfer Programs

Study	Program	Main findings	Issues covered
Behrmann and Hoddinot (2001)	Progresa (Mexico)	The distribution of nutritional supplements and other health care actions have alleviate the stunted problems and improve child growth.	Distribution of bargaining power and equality in a household.
Bourguignon and others (2002)	Bolsa Escola (Brazil)	Ex ante evaluation shows improvement in school attendance, with the poor become the most contributor, but generating no effect in the present level of poverty. In contrast, unconditional cash transfers yield no effect on child labor and school attendance.	Implementation, targeting, redistribution.
Cardoso and Souza (2003)	Bolsa Escola (Brazil)	No effect on child worker but positively affecting school attendance.	Targeting, equality, efficiency.
Schultz (2001)	Progresa (Mexico)	Positive effect on academic achievement. It affect household's wealth in Mexico's rural areas.	Implementation, equity-efficiency trade-off, equality.
Heriana Bangun, Matias Siagian, Humaizi Humaizi (2019)	Program Keluarga Harapan (Indonesia)	Effectively reaching the objective in general. Need more improvement in some aspects, such as: officers have subpar performance, program beneficiaries who absent from group meeting, damaged and lost program cards.	Targetting accuracy, implementation, objectives achieved, effectiveness of monitoring.

Source : multiple sources

### Methods

This study uses data from Indonesian Family Live Surveys (IFLS), which is a panel survey is representative at the country level. It is conducted by RAND corporation, a non-profit and non-partisan research organization. This survey carried out to collect the data needed to examine behaviour and output. This survey is filled with various data in individual and household level in which some of them will be used in this study, such as: expenditure per capita of households, the education level of head of households, the age of head of the households, the share of adult member in households, and whether the households live below the poverty line (measured by comparing expenditure per capita of the household to poor consumption limit set by *Badan Pusat Statistik*).

The IFLS data set used in this study is the results of the IFLS wave 3 (conducted in 2000), wave 4 (conducted in 2007), and wave

5 (conducted in 2014). Figure 2 shows the coverage of the sample in the survey encompass about 30,000 respondent live in 13 provinces in Indonesia. This survey represents 83 percent of the population in Indonesia. Along with several characteristics of individual, the survey also contains characteristics of households. Every individual in IFLS has been identified as a member of a certain household.



Figure 2.  
The Provinces Included in IFLS  
Source : RAND Corporation

In this study, there are adjustments that have to be created to enable the regression smoothly. Some negative data that is illogical will be treated as missing value observations. Vehicle tax paid last year, for instance, is impossible to have negative value. However, it happened in one observation, so in order to treat it logically, the value changed into missing quantity. In other variables, the answer of “do not know what the answer is” is changed into missing value too. The number of provinces in Indonesia changed; West Java province is divided in 2000 into West Java province and Banten province. To keep the consistency in the panel of dataset from 2000 to 2014, the information in 2000 from the level of regencies is recalculated again into into two provinces. Last but not the least, since the data in provinces located outside Java island is not equal compared to the Java island, then this study will use only provinces in Java island.

However, there are some statistical data which will be used for some regional characteristics in the regression which cannot be obtained from IFLS dataset. For example, this writing uses the share of poors and the total population in every province. In order to obtain the data in the respected year (2000, 2007, and 2014), official accumulation from *Badan Pusat Statistik* (BPS) is downloaded from its website. BPS has formally published statistical yearbook which can be downloaded freely. Publications from BPS, *Statistik Indonesia 2007* and *Statistik Indonesia 2014*, are used to fill the data needed to run the development for year 2007 and year 2014 respectively, while for completing the data of 2000, another publication of BPS, *Penduduk Indonesia Hasil Sensus Penduduk 2000 Seri RBL1.1*, is used.

### Variables

The dependent variables in this study are determined by following previous literature in consideration with the data available in IFLS survey. Thus, the main output of this study are several temptation goods; alcohol, tobacco, and carbonated soft drink.

Since the aim of this study is to observe the effect of the introduction of PKH to the consumption pattern of temptation goods, so the independent variable in this study would be the amount of PKH which is received by the households. IFLS survey already has the data of the total amount of PKH. It is held last year before the survey was conducted.

This study utilize control variables based on the previous studies conducted by Bazzi, Sumarto, and Suryahadi (2015a) and White and Basu (White2016). Several control which will be used; head of household’s degree level, head of household’s sectoral job, and others. Table 2 shows some variables which are used in this study.

Table 2.  
Variables and Descriptions

Variables	Description
Male	Whether the head of household is a male or not
Age	The age of head of household
HsSz	The floor size of the house in the square meter
OwnTV	Whether the household own television
OwnFreze	Whether household own freezer
Poor	whether household is categorized as poor HH
ExpeC	Total expenditure per capita
EducExpeC	Education expenditure per capita
FdExpeC	Food expenditure per capita
NFdExpeC	Non-food expenditure per capita
Elec	Whether the house has access to electricity
Urban	Whether the household is located in urban area or rural
MemHH19Mp	The proportion of male school age children in HH
MemHH19Fp	The proportion of female school age children in household
MemHHAMp	The proportion of male adult in household
MemHH	The total number of members of household
Households characteristics	yes

Source : RAND Corporation, calculation using Stata app

In this study, the characteristics of head of households and the households themselves are significantly affect the consumption of temptation goods. In general, the gender of the head of the households, would affect the consumption of temptation goods, since women are believed to consume less, (not consuming at all,) alcohol, soft drink, and tobacco than men. In addition, the characteristics of the region (province-based research) are also considered change of consumption. Factors such as culture and demography of the regions could control the amount of temptation goods consumed.

**Summary Statistics**

Table 3 describes the statistics summarized into variables. Overall, there are around 4378 - 4387 observations in this study. For the

consumption of the temptation goods, it can be seen that the standard deviation is larger than the mean. It is show that the data is spread wider. This study happened because most of the data for the consumption is filled with zero. The main interest, the total amount of PKH received by households in rupiah, is actually have a lot of zero value too. In addition, around eighty three percent of the head of households are male. The average age for heads of households is about forty nine years.

As it was stated before, this study uses many variables followed the combination of previous studies done by Bazzi, Sumarto, and Suryahadi (2015a) and White and Basu (2016). By combining their studies, it is expected that this study will produce a clear result.

Table 3.  
Summary Statistics

Variables	Obs	Mean	Std. Dev.	Min.	Max.
yearly alcohol consumption per capita	26,246	156.0104	4474.416	0	300000
yearly soft drink consumption per capita	26,241	557.1545	4505.721	0	399999.2
yearly tobacco consumption per capita	26,143	5729.27	13302.48	0	500000
the amount of PKH received by households	20,466	17310.78	204075.5	0	9300000
Male	27,527	.8353253	.3708934	0	1
Age	27,258	49.09843	13.97666	12	120
HsSz	27,513	100.4229	410.9586	0	9999
OwnTV	26,288	.7764379	.4263868	0	1
OwnFreze	26,288	.465878	.4988438	0	1
Poor	27,527	.4770589	.4994825	0	1
ExpeC	26,123	15.32011	1.609728	0	22.38763
EducExpeC	26,123	562544.9	2261904	0	1.75e+08
FdExpeC	26,258	49313.03	85115.26	0	6839237
NFdExpeC	26,255	1.75e+07	9.06e+07	0	5.10e+09
Elec	26,290	.9569798	.2095466	0	1
Urban	27,527	.5268282	.4992888	0	1
MemHH19Mp	27,527	14.38715	15.38076	0	100
MemHH19Fp	27,527	14.04223	15.11081	0	100
MemHHAMp	27,527	32.83307	16.85111	0	100
MemHH	27,527	6.032804	2.819495	1	38

Source : RAND Corporation, calculation using Stata app

**Empirical Strategy**

The purpose of this study is to find the causal relations between the amount of PKH received by household and the amount of consumption

of alcohol, soft drink, and tobacco. To achieve the goal, the fixed effect model below is used:

$$Y_{it} = \beta_0 + \beta_1 PKH_{it} + \beta_2 X'_{it} + \gamma_1 Year_t + \alpha_i + u_{it} \tag{Eq. 1}$$

- $Y_{it}$  : Consumption of temptation goods.
- $PKH_{it}$  : The amount of PKH households received.
- $X'_{it}$  : Control variables.
- $Year_t$  : Year effects.
- $\alpha_i$  : Household fixed effects.
- $u_{it}$  : Error terms.
- $i$  : denote household.
- $t$  : denote year.

Where  $Y_{it}$  (Outcome Variable) denotes the per capita consumption of temptation goods of households  $i$  at year  $t$ .  $PKH_{it}$  is the amount of PKH in Indonesia rupiah received by households.  $\beta$  is the coefficient of explanatory variables.  $X'$  is control variables which include head of households, households, and regions characteristics.  $u_{it}$  are error.

The household fixed effect  $\alpha_i$  is a factor that consists of characteristics of households which cannot be observed: habist of alcohol drink, smoking, and soft drink consumption. With the assumption that these unobservable characteristics are constant throughout time, this study utilizes fixed effect model to solve these endogeneity problem.

## Results and Discussion

### Results

Table 4 shows the results of this research. The results of the fixed effect model regression show that there is an effect from the introduction of PKH policy to the consumption of temptation goods. These regression results show that for 100,000 Indonesia rupiah, which is equivalent to approximately 6 US dollar according to selling price of exchange rate of Bank Indonesia at 24 March 2020 (BI 2020), transferred to the households there are 0.0 percent decrease in alcohol consumption, 1.1 percent decrease in soft drink consumption, and 10.9 percent decrease in tobacco consumption.

However, with the exception of the estimate from one of outcome variables, the consumption of tobacco, which has one percent significance level, the other two approximation of soda drinks and tobacco consumption are insignificant. The detail investigation to the value of the consumption of temptation goods reveal that the number of non zero observation of tobacco is larger than the number of non zero observation of alcohol and soft drink.

Table 4.  
Results

Variables	Logarithmic of alcohol consumption	Logarithmic of soft drink consumption	Logarithmic of tobacco consumption
The amount of PKH received by households	0 (0.00000002)	-0.00000011 (0.00000028)	-0.00000109*** (0.00000006)
Male	0.02068372*** (0.00130705)	-0.18815052 (0.08806964)	2.06820515*** (0.15702776)
Age	-0.00163824 (0.00071886)	-0.01020124** (0.00117164)	-0.01554921 (0.00786548)
Logarithmic of the size of the floor of the house	-0.01035272 (0.00588079)	0.06766232 (0.11361007)	0.07368717 (0.04762656)
Whether households own a TV	0.00333167 (0.00248719)	0.04956944 (0.06838555)	-0.09033288 (0.11334702)
Whether households own a freze	-0.00011785 (0.00856495)	0.20300575 (0.08206239)	-0.19857241 (0.19764238)
Whether household is categorized in poor household	-0.00823559 (0.03018259)	-0.22271443 (0.27184225)	0.17076442 (0.2331289)

Logarithmic per capita of household total expenditure	0.04238884 (0.02482848)	0.09216878 (0.25418888)	-0.60244089* (0.19610999)
Logarithmic per capita of household education expenditure	-0.00193434* (0.00060659)	0.01293431 (0.00987969)	0.00359515 (0.0269652)
Logarithmic per capita of household food expenditure	0.00575658 (0.00706732)	0.58059027** (0.10850805)	1.04430572*** (0.0651086)
Logarithmic per capita of household non-food expenditure	-0.03145692 (0.01302557)	0.17977851 (0.11787119)	0.53584918* (0.1703069)
Whether the household has access to electricity	-0.07688778** (0.01739753)	0.00103234 (0.11552531)	0.26326793 (0.10836323)
Whether the household located in urban	-0.00705437 (0.00762895)	-0.02708649 (0.15410397)	-0.25691871 (0.1379412)
The percentage of household male members who are in school age	-0.00019363 (0.00048378)	0.00244171 (0.00255998)	0.00303189 (0.00244628)
The percentage of household adult male members	0.00084332 (0.00087268)	0.00483389 (0.00173131)	0.02543795 (0.01143301)
The total number of household member	0.00152099 (0.00054372)	0.07546534*** (0.00682057)	0.14078746 (0.04963192)
Constant	-0.171 (0.424)	-11.54*** (2.879)	-8.832** (3.959)
Number of year	3	3	3
Fixed Effects	Household	Household	Household
R-squared	0.01208185	0.15235049	0.11256779
Observations	4,387	4,386	4,378

Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1  
Source : RAND Corporation, calculation using Stata app

## Discussion

In this study, the three wave IFLS surveys in three different years was used to investigate the relations between the amount of CCT transferred and the consumption of alcohol, soft drink, and tobacco. The dataset was taken in 2000 when PKH had not started, and in year 2007 and 2014 when PKH were run. By using this approach, this study tried to measure the effect of policy by taking the data prior to CCT applied.

The results of the regression clearly depict that for every growth of the amount of PKH transferred, there is an alteration of temptation goods consumed. It is contrast with some of previous literature; Decker and Schwartz (as cited in Evans 2014) stated that alcohol is a

normal, where it will experience an increase in consumption when households enjoy the rises of income.

Banerjee and Duflo (2007) explained that the poor have low self-control to resist in consuming the temptation goods. This is supported further by lack of access to reliable saving. The poors are unable to develop the habit to save money. However, in this study it seems there are other factors which cause the poor to reduce their temptation goods' consumption when they receive PKH.

Direct counter to Banerjee and Duflo (2007) is a study from Estevan (2013). Estevan stated that there is a possibility that poors see education as an important and is needed to consume in lifting their life from poverty state. It is justify



that when the poor receive an additional income they will pour it out to education so their children can increase their life in the future.

In addition, Estevan found that education is a normal growth as the income rise. It is evidenced by the findings of the effect of CCT to the educational expenditure in Brazil and Mexico. The study revealed the introduction of CCT policy in both countries increased the expenditure on education.

Secondly, Fiszbein, et al. (cited in Evans 2014) stated that there are several factors which change the relative value of education and health higher than the quantity of temptation goods. This will offset the education and health position to be higher than the temptation goods.

Since, there are two estimations show insignificant results, it might be the result of insufficient non zero observations data, it may caused by the fault in implementing the policy. This task become the government job to check why PKH policy is effective in reducing the consumption of tobacco but unfortunately the policy is not significant enough to reduce the consumption of alcohol and soft drinks. Thus, the government must devise a new approach to the households receive PKH to increase their relative value toward education and health. It hoped the income growth from CCT will expand to future investments instead of going to the consumption of temptation goods.

## **Conclusion**

Since all of the parameters of temptation goods show the negative sign, it means that the introduction of PKH to the society create negative effect. It means the PKH policy bundled by social advertisements intensively have able to increase the value of education and health significantly.

It is contrast with the opinion stated the temptation goods are normal. It is experiences an increase in expenditure. This result means that the temptation goods cannot be considered as an average things by viewing the beneficiaries

recipients in Indonesia. The program of government to promotes future investments has been able to overshadow the needs to increase the consumption of temptation goods.

## **Recommendation**

According to the news about official recruitment for team leader of PKH, the jobs of a team leader are mainly to take care of the administration about households who receive PKH (Tirto.id 2020). It is an important task that needed to ensure the recipients of PKH is recorded as it will enable them to receive benefit of PKH. However, the suggested extra job to guide the households to manage their financial and additional income allocation into the right expense post as equal as important to their main tasks. By taking place to the research of Adato and Roopnaraine (as cited in Evans and Popova 2014), these additional works would maximizing the usage of PKH transferred into the accumulation of human capital to their future generations.

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