

The Unintended Effects of a Noncontributory Pension Program during the Covid-19 Pandemic



Results show that becoming eligible for an established, noncontributory pension program during the Covid-19 crisis in Bolivia increased the probability that households had a week's worth of food stocked by 25 percent and decreased the probability of going hungry by 40 percent.



The positive impacts are particularly large for households that experienced labor market shocks at the onset of the pandemic, and for low-income households for which the transfer represents a larger share of household income.



During a systemic crisis, such as the Covid-19 pandemic, a preexisting near-universal pension program quickly delivered positive impacts, in line with the primary goals of a social safety net.

CONTEXT

Households are particularly vulnerable to economic crises in developing countries, where high levels of informal work limit the coverage of unemployment insurance schemes. Cash assistance programs with broad coverage, such as near-universal non-contributory pension programs, are central to social safety nets. In Bolivia, the *Renta Dignidad* program provides a basic monthly income of US\$50 to the elderly (60 years or older), regardless of their income or contributions to social security. Before the implementation of new cash-transfer programs amid the Covid-19 pandemic, the program was already reaching one-third of Bolivian households and represented more than 1 percent of Bolivia's GDP.

THE PROJECT

This project uses near-real-time survey data collected online in April 2020, only a few days after the implementation of mobility-restriction policies in Bolivia. The authors exploit the discontinuity that arises from the fact that the sole eligibility criterion for receiving program benefits is age. Adults who turned 60 before or during March 2020 were eligible to receive transfers from the program in April, while marginally younger adults, who turn 60 in the months after March 2020, were ineligible to receive the transfers in April. To estimate the causal effect of the program, the authors compare outcomes of households whose oldest member just became eligible for the program during the onset of the pandemic to those of households whose oldest member of the household was only months away from becoming eligible.

Key Concept



INFORMAL WORK

A job without a formal contract, worker benefits or social protection.

Key Concept



NON-CONTRIBUTORY PENSION PROGRAMS

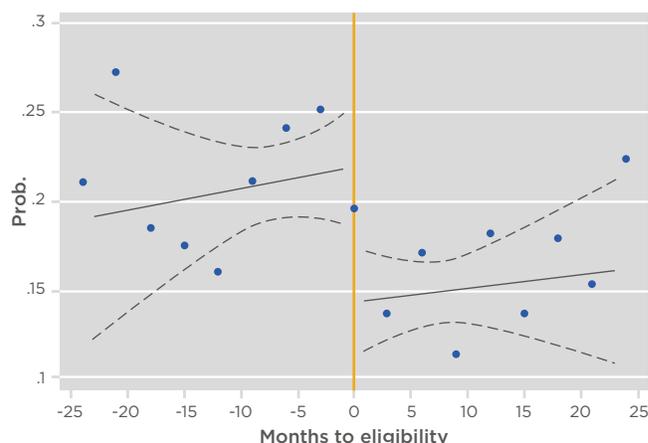
Pension programs for the elderly available to beneficiaries regardless of contributions to the government or social security.

RESULTS

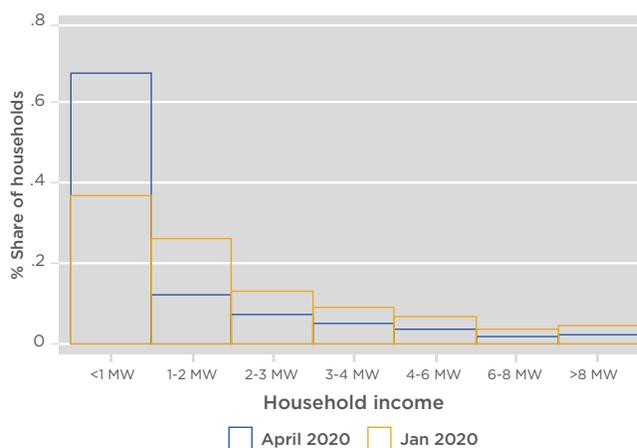
Becoming eligible for cash benefits during the onset of the pandemic increased household resilience, in particular for vulnerable middle-income households, which tend to be excluded from income-targeted programs, and for low-income households.

- Becoming eligible for the program during the crisis increased the probability that households had a week's worth of food stocked by 25 percent and decreased the probability of going hungry by 40 percent. Relative to the pre-pandemic years, the program's effect on hunger is magnified during the crisis.
- Eligibility for the program also protected households from reductions in the quality of their diet, reducing the probability of eating less healthily during the pandemic by almost 15 percent.
- The decline in the probability of experiencing hunger, the most dire outcome, was twice as large for households that experienced business closures. This consumption-smoothing effect was found in over 65 percent of households that reported business closures, which includes a large share of vulnerable middle-income households.
- The results suggest a small reduction in stress, which coincides with a decline in the probability of smoking.

Having a member eligible to the program decreases the probability that someone in the household experienced hunger in the prior week



During the Covid-19 pandemic some middle-income households transitioned into lower income categories



Note: Income categories are measured as multiples of the Bolivian monthly minimum wage.

POLICY IMPLICATIONS

1. In the context of a large unanticipated shock like the Covid-19 pandemic and given the potential delays in the implementation of new social programs, strengthening pre-existing programs may lead to timely delivery of financial relief to households.
2. During systemic crises, when within-household substitution of labor is limited, the pension benefits obtained by the elderly can provide important assistance during labor market shocks that are likely to affect prime-age household members.
3. Having access to cash aid early during crises may help prevent reductions in the stock of human capital. Declines in children's nutrition can lower worker productivity and affect educational outcomes in the long run.
4. Near-universal programs can have positive impacts on resilience during crisis. Programs that narrowly target cash transfers to the poor would miss the positive consumption-smoothing impacts for middle-income households that are vulnerable to falling into poverty.

THE IDB AND CASH TRANSFER PROGRAMS

The IDB is a leader in the analysis of cash transfer programs in developing countries. This study is part of a wider research agenda attempting to document unintended consequences of these programs in Latin America and the Caribbean with the aim of improving their design.



FULL STUDY

[Bottan N., B. Hoffmann, and D. Vera-Cossio. 2020. "Stepping Up During a Crisis: The Unintended Effects of a Non-contributory Pension Program during the Covid-19 Pandemic."](#)

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