Health Shocks and Household Welfare in Nigeria

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Abstract

Households experiencing health shocks (HS) are at the risk of incurring substantial health expenditure as they seek treatment and experience loss of earnings and declines in consumption. Coping with the economic consequences of HS and maintaining consumption in the absence of formal insurance, households respond with their own coping strategy (CS). However, not much is known either about the impact of HS on the variation of households’ consumption (HC) or the existing risk sharing arrangements employed by households in smoothing consumption against HS in Nigeria. This study was therefore, designed to investigate the effect of HS on the HC and identify the strategies adopted by households to deal with HS.

The Full-Insurance theory provided the theoretical framework for the study. Data were obtained from two waves of the General Household Survey (GHS) panel, 2011 and 2013, produced by the National Bureau of Statistics. The GHS covered 5,000 households across the six geopolitical zones. Two measures of HS: death of a household member and severe illness were used. The HC was divided into food and non-food. A fixed effect model was estimated to examine the impact of HS on change in HC. Multinomial logit model was used to determine the CS used by households in the face of HS. The CSs were categorized into three groups: sales of assets; borrowings; and other-strategies. Estimates were validated at $p \leq 0.05$.

Death had a significant negative effect on food consumption. Severe illness of household member had significant positive impact on non-food consumption. Borrowing significantly affected the ability of households to maintain consumption.

Health shocks reduced household consumption in Nigeria. Borrowing was the most prominent coping strategies. Emphasis on measures geared towards providing financial protection against health shocks such as payment of illness and assistance to households that report death should be intensified by the government.

Keywords: Health shocks, Consumption Smoothing, Coping Strategies, Fixed Effect, Nigerian Households

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