

# **Equity Analysis of Direct Health Payments in a Developing Country Empirical Evidence from Nigeria**

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Judgment about the fairness of a health system financing method may be understood to be about the distributional ‘symmetry’ in the treatment of agents and sensitivity to the socioeconomic circumstances of the users and potential users of health services. In many developing countries health financing still relies heavily on private out-of-pocket (oop) healthcare purchases by households. If healthcare consumers have wide range of choices of methods for paying for their healthcare consumption, cross elasticities of demand are likely to be significant. Again, substantial subsidies through general taxation or third party intermediation<sup>1</sup> are likely to influence consumer behavior otherwise than if they were to purchase healthcare directly from the suppliers (at least most of the time).

This study attempts to analyze the fairness of direct health financing in a deregulated healthcare market with minimal public sector health provision and near absence of third-party intermediaries. It uses Nigerian data to decompose the total effects of direct health financing into vertical equity and reranking effects using the Lerman-Yitzhaki decomposition framework. The study goes beyond the mean national estimates of the decomposition parameters to reveal the internal spatial within and between regional and sectoral differences in inequality parameters.

The data set used for the study is the first national base-line survey – the Living Standard Survey (LSS) of 2004. The study reveals that contrary to other findings, out-of-pocket health payments can be progressive and the extent of progressivity and reranking depends on the social decision-maker’s aversion to inequality. It also shows significant differences in the vertical equity and reranking effects of oop among the six regions of Nigerian and between rural and urban areas depending also on the extent of social aversion to hurting the disadvantaged groups. The result suggests the need for the extension of fiscal federalism in health financing. It also suggests different policy approaches to health financing between urban and rural areas in the country.

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<sup>1</sup> Forms of third party intermediation include social and private health insurances, and community health insurance schemes. They arise in response to market failure in healthcare markets, particularly those due to information asymmetries between healthcare providers and consumers