Is Kenya Allocating Enough Funds for Healthcare?

Findings and Recommendations from National and County Budget Analyses

HP+ POLICY *Brief*

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Introduction

Despite gradual increases in health budget allocations since devolution, Kenya still faces significant challenges in mobilizing and using available national resources to meet its development goals and improve its population's well-being. The findings of this analysis are presented against the backdrop of a decelerating economy with projected gross domestic product (GDP) growth rate dropping from an average of 5.7 percent in the last three years to 1.5 percent due to the COVID-19 pandemic (World Bank, 2020), declining donor financing, and increasing external debt servicing-to-GDP ratio peaking at 3.6 percent in 2019 (Kenya National Bureau of Statistics, 2020). In the short- to medium-term, it is imperative that the government of Kenya put increased emphasis on mobilizing additional domestic resources for the health sector as well as increase efficient and effective allocation and use of health budgets to safeguard the health system and maximize health outcomes.

To better understand resource allocation patterns at the national and county levels and to analyze alignment between health budgets and government of Kenya commitments to the health sector, the Ministry of Health (MOH) and the Health Policy Plus (HP+) project, funded by the U.S. Agency for International Development (USAID), conducted an analysis of the national and county budgets for fiscal years (FYs) 2017/18, 2018/19, and 2019/20. Budget data for the MOH were obtained from the annual budget estimates issued by the National Treasury for every fiscal year, while county data were obtained from the Commission for Revenue Allocation, the Office of the Controller of Budget, and, in some instances, county treasuries. This brief reviews the key findings of this analysis and their implications, and concludes with specific recommendations for both national and county governments. It is hoped that these findings will guide policy and decisionmakers in ensuring that budgets are better aligned with government of Kenya commitments and that the health sector receives enough funds to deliver quality healthcare services.

Key Findings

1. Overall allocations are inadequate to meet health sector needs and commitments despite significant increases to the health budget since devolution.

In absolute terms, combined budget allocations to health by national and county governments grew nearly three times between FY 2013/14 and FY 2019/20, from Kenya shilling (Ksh) 78 billion to Ksh 217 billion. Notably, county governments allocated Ksh 124 billion in FY 2019/20, a large increase from Ksh 42 billion in FY 2013/14, while allocation by the MOH increased from Ksh 36 billion to Ksh 93 billion in the same period (Figure 1).

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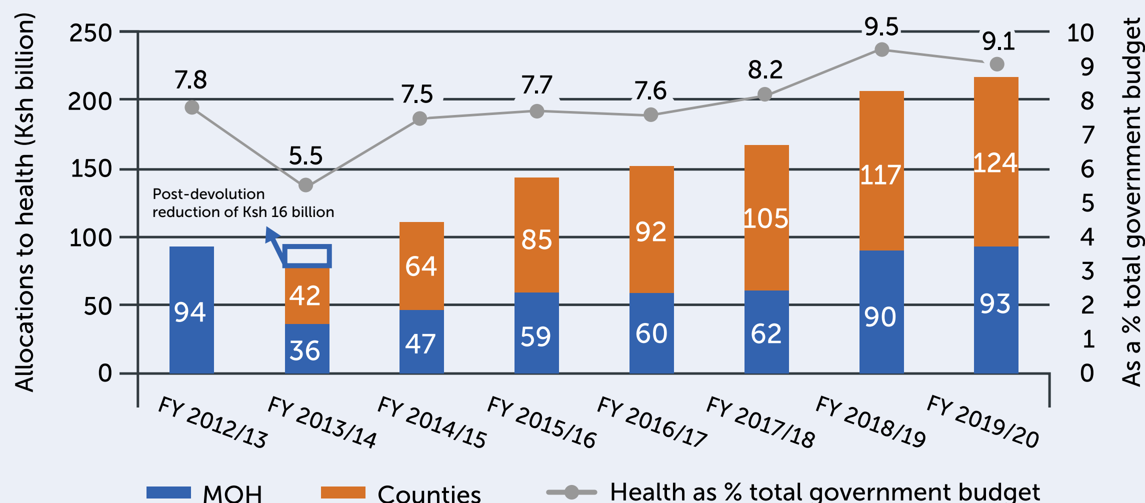
Figure 1. National and County Governments' Budget Allocations to Health



Sources: Republic of Kenya, 2012/13–2019/20, Republic of Kenya, 2013/14–2019/20

As a proportion of total government budget, allocations to the health sector increased from 7.8 percent pre-devolution in FY 2012/13, to 9.1 percent in FY 2019/20. As a share of GDP, government health allocations increased marginally, from 1.9 percent to 2.2 percent over the same period. As county budgets increased gradually over the period so did the MOH budget, growing by almost 50 percent between FY 2017/18 and FY 2018/19, resulting in total government allocations to health peaking at 9.5 percent of the total government budget. New allocations for conditional grants to level 5 hospitals and additional funding for universal health coverage-related programs contributed to the increases.

Despite the significant increases in health sector budget allocations, current allocation trends still fall short of the government's pledged target of 15 percent of the total national budget to health as articulated in the 2001 Abuja Declaration (African Union, 2001). They also fall short of the government's own commitment to health as laid out in the ruling Jubilee Party's Manifesto with a target of 12 percent by FY 2018/19 (Jubilee Party, 2017). For the MOH and counties to efficiently carry out their health sector functions, the government of Kenya needed to mobilize an additional allocation of 5.9 percent of total government budget in FY 2019/20.

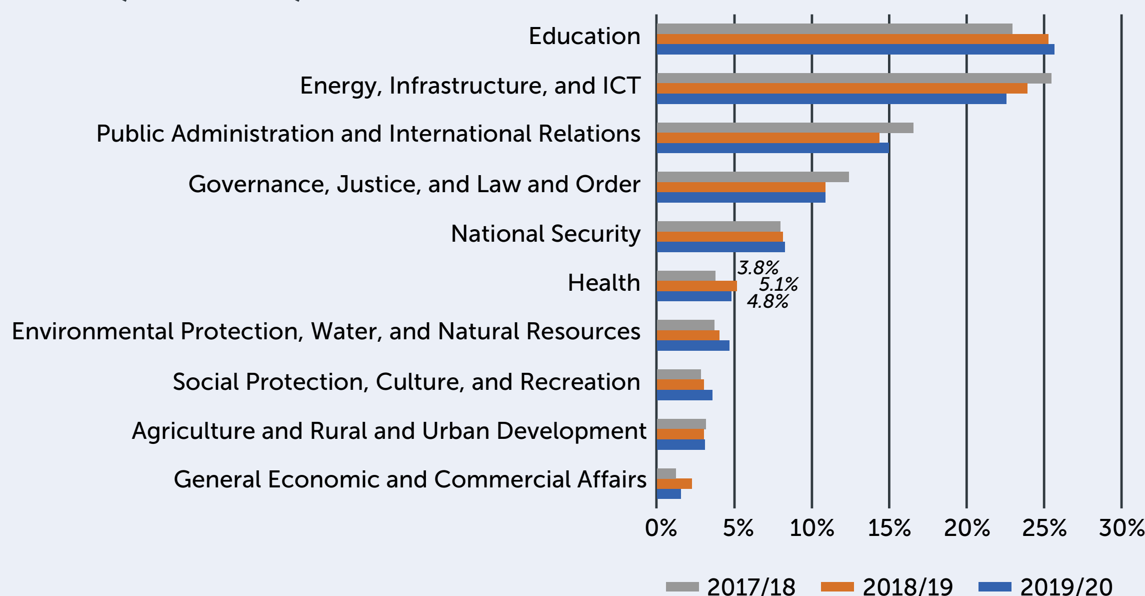
2. Compared to allocations to other ministries, the proportional allocation to the MOH by the national government remains very low, despite plans to roll out universal health coverage.

While government allocations to the health sector and the MOH have increased in absolute terms over the last three fiscal years, the overall share of the health ministry's budget at the central level as a proportion of total government budget remains small and fluctuating (Figure 2). The MOH's proportional allocation increased from 3.8 percent in FY 2017/18 to 5.1 percent in FY 2018/19 as the ministry assumed the responsibility of supporting the piloting of universal health coverage. However, the increase in the MOH's proportional budget allocation was short-lived, dropping to 4.8 percent in FY 2019/20. The reduction in the MOH's proportional allocation impedes the ministry's ability to perform its constitutionally assigned functions, including advancing the piloting and scale-up of universal health coverage.

3. The government of Kenya increased its absolute allocation to the MOH budget, but still not sufficiently to offset declining donor support.

While the trend in government allocations to the health budget shows a renewed commitment to increase health resources, these contributions are not adequate and not allocated strategically to offset declining donor funding. As Figure 3 shows, donor contributions (loans and grants)

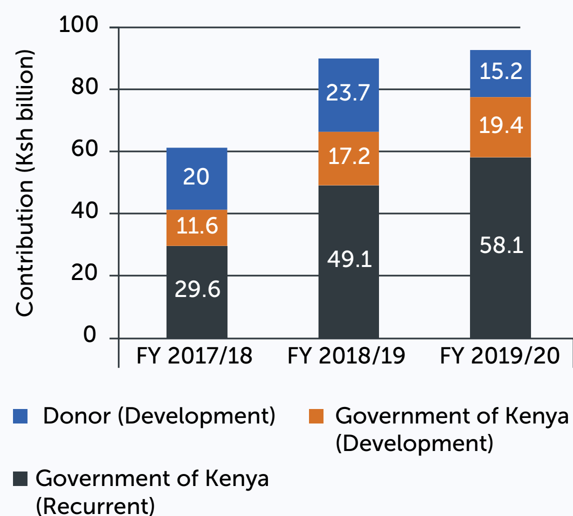
Figure 2. Proportion of National Government Budget Allocations by Sector, FY 2017/19—2019/20



Note: ICT=Information and communications technology

Source: Republic of Kenya, 2017/18—2019/20a

Figure 3. Contributions to the MOH Budget, FY 2017/18—2019/20



Source: Republic of Kenya, 2017/18–2019/20b

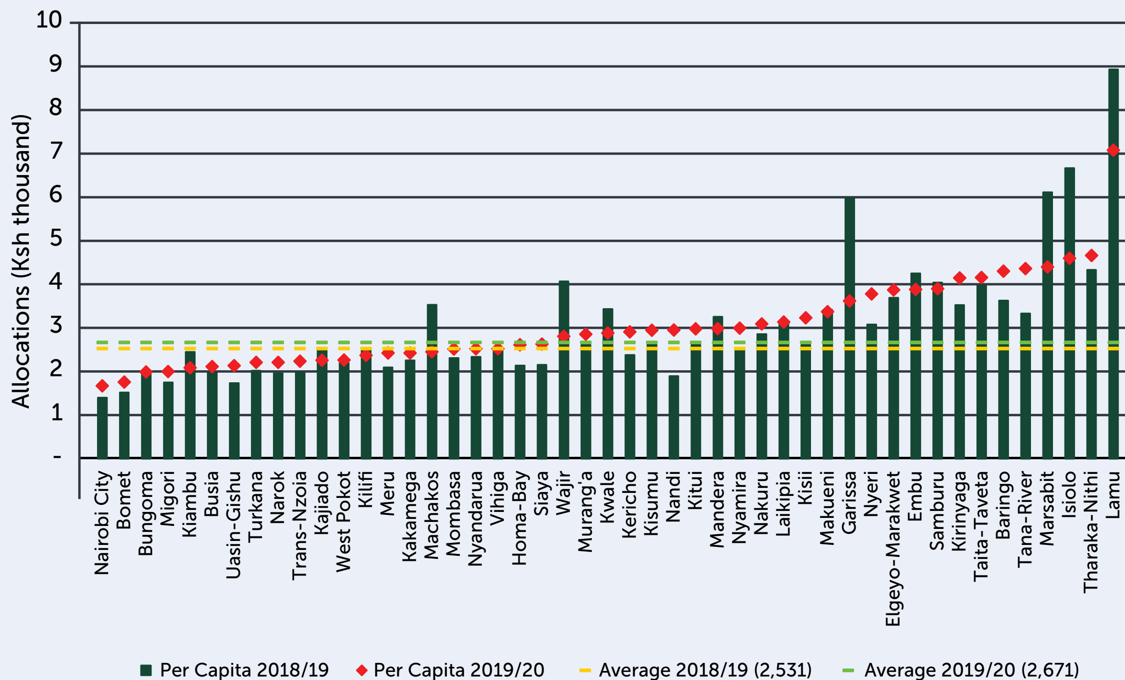
allocated to the development budget, under which funding for national strategic programs for HIV, tuberculosis, malaria, medical commodities/drugs, and vaccines is provided, declined from Ksh 20 billion in FY 2017/18 to Ksh 15.2 billion in FY 2019/20.[1] While the government of Kenya has increased its allocation to the development budget for the last three fiscal years, such allocation is still not adequate to offset the decline in donor funding, leaving a financing gap for key health inputs.

4. Counties have increased their per capita budget for health but still largely depend on national-level fiscal transfers to fund health services.

Counties increased their average per capita budget allocations to health by 5.5 percent between FY 2018/19 and FY 2019/20, from Ksh 2,531 to Ksh 2,671. Per capita allocations varied across counties, ranging from Ksh 1,676 in Nairobi County to Ksh 7,080 in Lamu County in FY 2019/20 (Figure 4). However, county governments depend heavily on national shareable revenue to fund their health services. Their own county-generated revenue contributes only a small proportion to the health budget. For

[1] Collectively, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the World Food Programme, and the U.S. government contributed the largest share of funds to the national HIV, tuberculosis, and malaria programs over the three years, while immunization and related health systems support was funded by Gavi, the Vaccine Alliance. An exception is an increase in government of Kenya contributions for the immunization program in FY 2019/20, in which the government allocated Ksh 748 million, an increase from Ksh 703 million in the preceding two fiscal years.

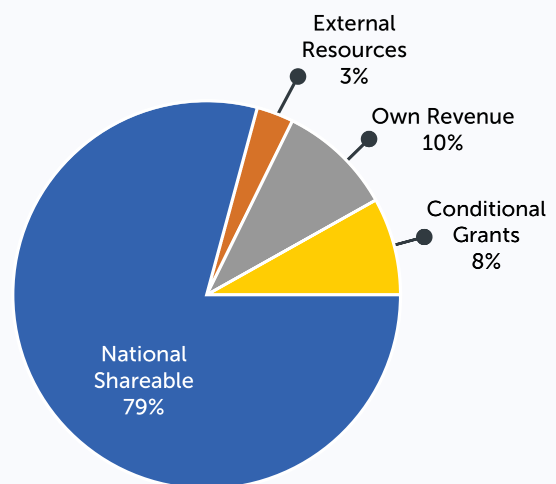
Figure 4. County Per Capita Health Budget Allocations, FY 2018/19—FY 2019/20



Sources: Republic of Kenya, 2018/19—2019/20; Kenya National Bureau of Statistics, 2020

instance, in seven counties supported by the HP+ project,[2] 79 percent of the budget allocation to health in FY 2019/20 was from national shareable revenue (Figure 5). Conditional grants and external/donor sources contributed 8 percent and 3 percent, respectively, while counties' own revenues contributed 10 percent.

Figure 5. Source of Health Funds for Seven Focus Counties, FY 2019/20



Note: The seven counties are Kilifi, Kisumu, Kitui, Migori, Mombasa, Nakuru, and Turkana.

Source: Republic of Kenya, 2019/20

5. A majority of the resources allocated to county health budgets is for recurrent expenditures and primarily for personnel expenses.

Across the three fiscal years, recurrent expenditures received about 80 percent of the combined county governments' budget for health. Funding for recurrent activities made up 81.9 percent of the total county health budgets in FY 2017/18, 78.7 percent in FY 2018/19, and 82.3 percent in FY 2019/20. Allocations to development budgets dropped in FY 2019/20 after an increase the previous year (Table 1). Spending this level of resources on recurrent expenditures leaves fewer resources for investing in expansion and consolidation of services. The Public Finance Management Act of 2012 recommends that about 30 percent of county expenditures be earmarked for development in the medium-term.

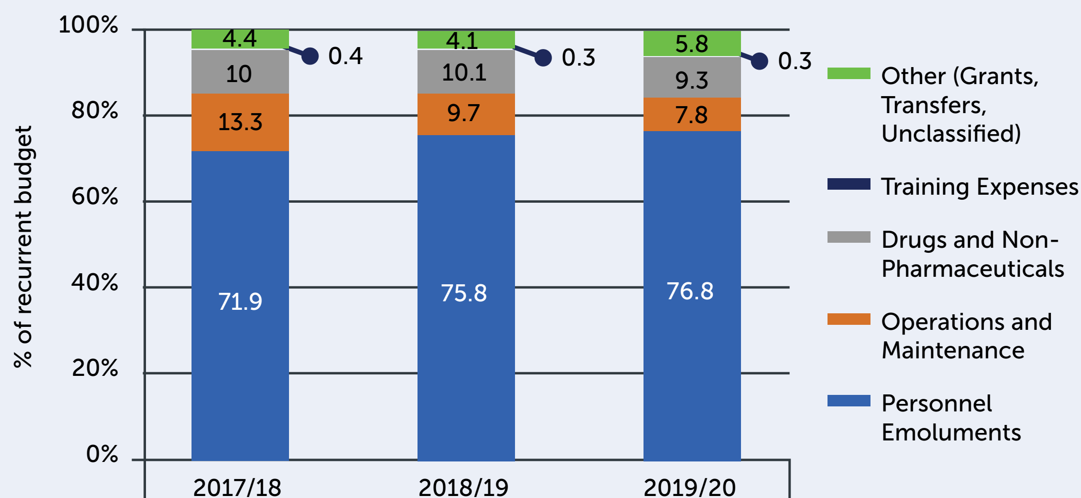
[2] Kilifi, Kisumu, Kitui, Migori, Mombasa, Nakuru, and Turkana

Table 1. Recurrent and Development County Government Allocations for Health, FY 2017/18—FY 2019/20, Ksh Billion

Budget Category	FY 2017/18	FY 2018/19	FY 2019/20
Recurrent	85.8 (81.9%)	95.3 (78.7%)	104.5 (82.3%)
Development	19.0 (18.1%)	25.8 (21.3%)	22.5 (17.7%)
TOTAL	104.8 (100%)	121.1 (100%)	127.1 (100%)

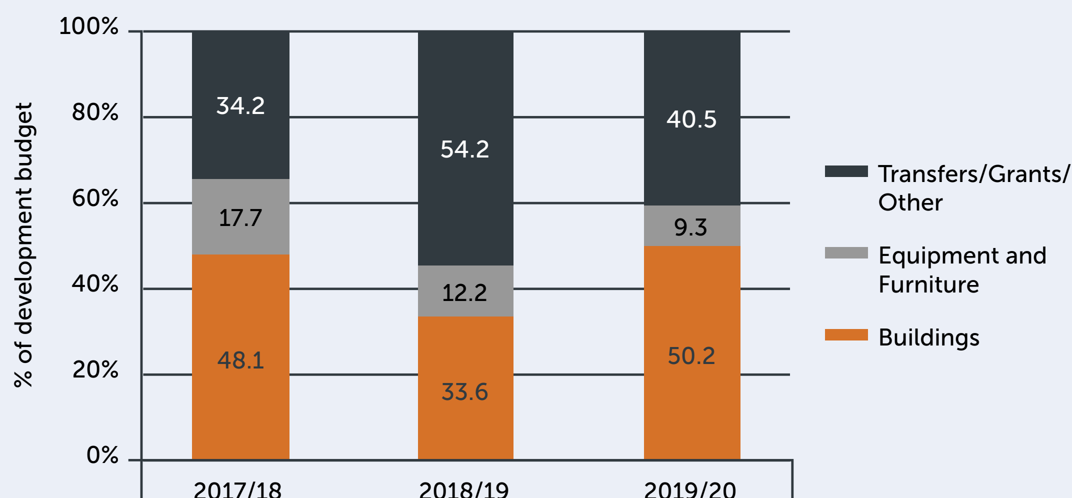
Note: Totals may not equal the sum due to rounding. Source: Republic of Kenya, 2017/18—2019/20b

Figure 6. County Recurrent Budget Allocations (%), FY 2017/18—FY 2019/20



Source: Republic of Kenya, 2017/18—2019/20b

Figure 7. Allocation of County Health Development Budgets by Financial Category (%)



Source: Republic of Kenya, 2017/18—2019/20b

Analysis at a granular level shows that personnel emoluments consumed the largest proportion of the combined county governments' recurrent budget (76.8 percent in FY 2019/20), while allocations to drugs and non-pharmaceutical supplies decreased, dropping from 10.0 percent in FY 2017/18 (Ksh 8.5 billion) to 9.3 percent in FY 2019/20 (Ksh 9.8 billion) (Figure 6). This level

of allocation indicates a mismatch in inputs where resources to enable personnel to function optimally are constrained, while spending on personnel itself is slightly increasing.

County governments allocated about half of their development funds to the construction of buildings in FY 2019/20, a sharp increase compared to FY 2018/19 (Figure 7). Equipment and furniture collectively received 17.7 percent of the total development budget in FY 2017/18, decreasing to 12.2 percent in FY 2018/19 and to 9.3 percent in FY 2019/20. Transfers, grants, and other allocations not covered under building and equipment and furniture increased from 34.2 percent in FY 2017/18 to 54.2 percent in FY 2018/19 before decreasing to 40.5 percent in FY 2019/20. Transfers and grants go to county health facilities; these funds are intended for development activities and are provided in the budget as block grants to be shared and used at the discretion of the receiving facilities.

Conclusions and Recommendations

The results of this study show that both the national and county governments are increasing their budget allocations to health. However, the proportion of the total government budget (national and county) allocated to health is still below national commitments and key national strategic programs, such as for HIV and malaria, still heavily rely on donor support. In the context of declining donor resources and in pursuit of self-reliance, this study makes the following recommendations for national and county governments as they seek to mobilize more domestic resources for healthcare.

Recommendations for the National Government

- Despite significant progress over the past several years, the government of Kenya's budget allocation to the health sector is still not achieving the government's own commitment of 15 percent. For the health sector to be a priority, the share of the national budget to the MOH should be significantly increased from the current 4.8 percent. The MOH and Ministry of Finance need to work together to enhance and explore additional sources of domestic funding for the health sector. In the meantime, the MOH must do more to align resource allocation to policy priorities, especially in funding key national priority programs. Furthermore, the MOH needs to enhance its technical and advocacy efforts to enable effective budget negotiations during the planning and budgeting process.
- The MOH should increase the proportional allocation of its funds to key programs that are highly donor-dependent, including those for HIV, tuberculosis, and malaria, to reduce over-reliance on external resources, to enhance self-reliance, and to avoid disruptions to service delivery as donor support declines. This can be done by making specific commitments to gradually increasing funding and procurement for antiretrovirals as well as other commodities. Public domestic financing is a more predictable and sustainable source of financing for the provision of healthcare than donor funding.
- The COVID-19 pandemic has strained the economy and public finances of Kenya, adversely affecting the ability of the national and county governments to raise revenue and maintain or increase health resources. According to a recent World Bank report on Kenya's economic outlook, the country's GDP growth is projected to decelerate substantially in 2020, dropping to 1.5 percent in the baseline scenario, with a potential downside scenario of contraction to 1.0 percent, if COVID-19-related disruptions in economic activity last long (World Bank, 2020). While additional resources have been allocated toward strengthening healthcare systems to handle the shock caused by the pandemic (expansion of hospital infrastructure and hiring of additional medical personnel), the government of Kenya, county governments, and development partners need to coordinate and ensure that:
    - The spillover effects of COVID-19 to other diseases, conditions, and general well-being of Kenyans is controlled. Immediate and appropriate mechanisms need to be developed

to ensure service delivery and funding of essential healthcare and national strategic programs are not disrupted.

- Resources allocated for primary care and free services need to be ring-fenced and used to increase access to services at primary care facilities.
- Resources currently locked or stalled in low-priority projects are repurposed strategically to high-impact and priority health areas, given the increased fiscal pressure due to the pandemic.
- In the short- to medium-term, the government of Kenya mobilizes additional net domestic financing to safeguard essential health services against current and any future adverse fiscal pressures, with an increased emphasis on efficient and effective use of resources to maximize health outcomes.

Recommendations for County Governments

- To reduce over-reliance on the national government's shareable revenue, county governments should maintain budget increases to health and expand contributions of their own revenues allocated to health. Counties can enhance collection of revenue from local taxes such as business permits and property rates to raise the additional funds required. Increases in the health budget can be realized by reallocating back health sector revenues to health, streamlining revenue collection, expanding the population covered by insurance to increase insurance payments, and focusing on promoting primary care as a more cost-effective means of delivering care. Additional evidence is needed to facilitate advocacy efforts in support of increased funding to the sector.
- To enhance the coverage and sustainability of key strategic programs (especially for HIV, tuberculosis, and malaria), which are currently heavily donor-dependent, county governments should progressively make or increase provisions for these programs in their budgets, in addition to an increased commitment at the national level.
- To maximize health outcomes as well as health impact, counties not only need to spend more but also spend better. To that end, counties should invest additional efforts to efficiently allocate their resources to key health areas that are in line with health sector strategic priorities as well as enforce efficiency in spending by increasing budget absorption, strengthening procurement tendering and competition practices, and limiting growth in recurrent expenditure line items that fall outside of sectoral priorities.
- Allocations for personnel emoluments take up the largest share of the county governments' recurrent budget for health, crowding out much-needed resources for key and priority health inputs. Existing guidelines by the Senate recommend that counties allocate 50 to 60 percent of the total health budget to personnel expenses, while the Public Finance Management Act recommends that counties allocate a maximum of 35 percent of their total county budget for personnel. Counties may not achieve the 35 percent threshold for overall personnel expenses if the health sector continues spending considerably above 70 percent in this category. Additional evidence through technical and operational efficiency analyses is needed for counties to make effective decisions that will be more aligned with the Public Financial Management Act but at the same time do not reduce the health systems' ability to deliver quality and affordable healthcare services. Anecdotal evidence suggests that interventions such as implementing payroll cleansing to retain only staff who actually work in the health sector, rationalizing staff needs to services provided, and employing innovative methods of contracting can be effective in containing health department personnel expenses.
- There is a need to ensure that over the medium-term, a minimum of 30 percent of county governments' budgets is allocated to development expenditures, as recommended in the Public Finance Management Act of 2012. However, unless counties receive sufficient

allocations for health, it will remain difficult for them to allocate to their development budgets before meeting the needs of their recurrent budgets.

- Counties should invest in building the capacity of their staff in planning and budgeting, especially in program-based budgeting, to link resources to priorities and outputs.

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