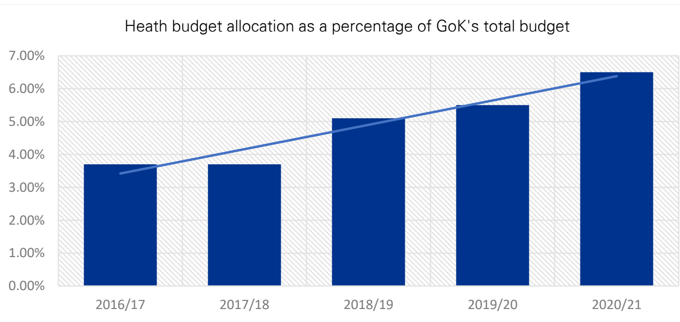
Exploring the fiscal space of the health sector in Kenya

The Government of Kenya (GoK) targets to have achieved Universal Healthcare Coverage (UHC) by 2022 as part of the 'Big Four' development agenda and in line with Kenya's Vision 2030. The targets are in terms of financial protection, health services utilisation, health services availability and health impact. In 2001, Kenya became a signatory to the Abuja Declaration, pledging to allocate at least 15% of its annual budget to improve healthcare in Kenya. The trend in Kenya's budget allocation for healthcare in the last five financial years is as illustrated below.



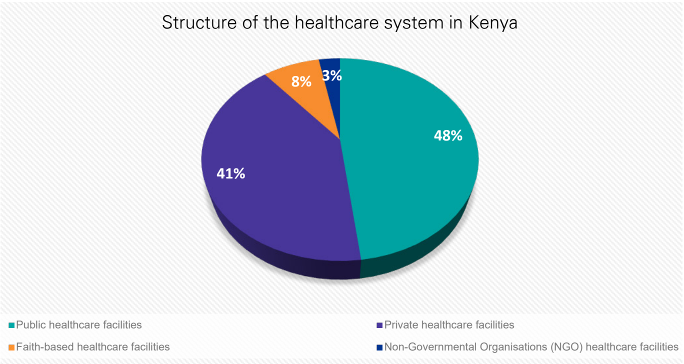
While the country's health budget allocation has been increasing, achievement of the 15% target set by the Abuja Declaration which is bound to accelerate Kenya's journey towards UHC still requires a significant amount of funds.

The support for UHC is increasingly gaining international support. As a result, there has been increased urgency around the debate on how to finance improved financial protection and access to needed healthcare services. There's growing recognition that low- and middle-income countries must find additional public resources to finance UHC. Most of these countries, including Kenya, continue to grapple with the challenge of how to finance UHC, given the relatively low levels of public funding. For instance, in March 2020, the GoK terminated the pilot UHC program that was being implemented in various counties in Kenya due to the budget strain the GoK is facing. In the context of the Sustainable Development Goals (SDGs), the GoK must focus on how to create the fiscal space for healthcare.

Fiscal space generally refers to the capacity of a government to budget for additional resources for health without putting its long-term budgetary provision and economic stability of the country in jeopardy. The concept of 'fiscal space' gained prominence in the 1990s following discussions between international financial institutions and governments across the world. The discussions aimed at balancing increased government spending and maintaining government solvency. Following the development of Millennium Development Goals at the turn of the new millennium, international pressure for addition budgetary allocation to public healthcare mounted.

Across all countries in the world, government budgets serve as definitive instruments that direct government spending and indicate government policy and programmes. In Kenya, the budget and budgetary process is provided for by the country's constitution and is elaborated in the Public Finance Management Act of 2012 (PFMA). Each government ministry, department and agency at the national and county level develop their budget annually following set guidelines. These budgets are then reviewed and approved by the respective bodies. Since the fiscal year 2015/16, both the national and county levels of government are required to adopt a programme-based budgeting approach. Based on the foregoing and Kenya's UHC target, the need to explore the fiscal space for healthcare in Kenya roots from the current status of the healthcare system in Kenya.

Kenya's healthcare system is structured into four major health care systems as depicted in the chart below.



The public health care system operates under the Ministry of Health (MoH). The primary shortcoming in the public healthcare system in Kenya is the mismatch between need and availability of medical care particularly specialist care. This mismatch is manifested in both economic and geographical dimensions. There is a disparity between the health care systems available in urban areas relative to the rural areas in Kenya. Rural areas have for a long time relied on community health volunteers and nurses in public dispensaries. Economically, the poor and low-income classes are unable to access medical care due to high medical costs and bills.

Following the implementation of devolution as envisaged in Kenya's Constitution 2010, MoH's expenditure has declined in absolute terms perhaps reflecting the ministry's reduction in retained health functions. The Covid-19 pandemic has, however, revealed the

underfunding of the health sector in Kenya in the past years. As such, there is no better time than now for the government to ensure that the health care system is adequately resourced, and that resources are used optimally.

It is estimated that less than 20% of Kenya's population has medical insurance. As such, there is a general saying that "Kenyans are only one sickness/illness away from poverty". Owing to the harsh economic conditions in the country, most Kenyans are unable to afford medical insurance. Should a disease befall a family it often ends up draining its savings, liquidating assets to cover medical bills, or even going into debt to pay the medical bills. The deficiency in government health care spending in Kenya has far reaching consequences when it comes to the social welfare of its citizens. It has resulted in an inequitable health care system in the country characterised by high out-of-pocket spending and a system that guarantees health services to only those who can pay.

The government is making efforts to implement pro-poor programmes to improve the status of health care in the country. Two policies have been central to this effort – Linda Mama which provides free maternal healthcare for mothers and children during the first year of life and abolishment of user fees for primary healthcare at public facilities. However, results from these two programmes have suggested absence of investment in the quality and availability of services still continue to haunt the status of health care in Kenya.

The key question that roots from the above is, does Kenya's macroeconomic space allow for the required spending in the health sector? Finance theory in public expenditure argues that legal rights exist only if they are supported by a budget line. The GoK's commitment to universal health care is only logical if there exists adequate resources to fund programmes aimed at enhancing the health care system in the country to realise the dream. The country's major focus should rest on refocusing the fiscal space for health towards domestic resource mobilisation. Increase in tax revenue collection will serve as the major driver for increased government spending in health. It is undeniable that a country's fiscal space is rooted in the country's ability to transform economic prosperity into increased public revenues.

The World Bank's framework for assessing fiscal space for heath outlines five alternatives– conducive macroeconomic conditions, reprioritisation of health within the government's budget, earmarked income and consumption taxes directed towards the health sector, improved efficiency of the existing health expenditure and external aid. Over 50 low and middle-income countries have implemented the World Bank's framework.

Raising the revenue share in GDP has remained Kenya's top revenue mobilisation objective. Given the challenges of increasing the tax rates, the KRA has been on a mission to boost the tax base primarily by enacting measures to encourage compliance as well as bring more taxpayers into the tax net. The KRA is currently executing its strategic initiatives as guided by its 7th Corporate Plan theme, *"Revenue Mobilisation through Transformation, Data-driven Decision-making and Tax Base Expansion."* The goal is to raise the revenue to GDP ratio to 19.2% in the current government fiscal year.

Following the introduction of Digital Tax and Minimum Tax, there are expectations that the government's capacity to mobilise resources will increase significantly.

The International Monetary Fund (IMF) opined that Kenya, like other Sub-Saharan Africa countries, could boost its revenue by 5% on average by capturing players in the informal sector in order to generate more revenues without increasing the tax rate. Kenya's tax burden remains unevenly distributed with the formal sector carrying most of the weight. The informal sector in Kenya presents great potential for the much-needed domestic revenue mobilization that will serve to reduce the tax gap. This has for a long time remained a dilemma for the KRA as echoed in their current theme. Over 70% of the Kenyan labour force is employed in the informal sector and accordingly generate income that is subject to income tax in Kenya. With the informal economy expected to grow exponentially in the near future, KRA needs to devise methods to net the players in the informal sector to the tax bracket. The World Bank observes that more than 30% of the developing countries GDP and 70% of the workers remain outside the formal economy. While the Kenyan shadow economy has remained grossly understudied, if the few studies that exist are anything to go by, Kenya loses an approximate of 19% in tax revenue owing to the existence of shadow economy. The GoK, has on front pursued various initiatives, with mixed results. The suspension of the turnover tax and re-introduction of the same, is evidence that the sector remains a key challenge to the GoK.

Recent tax measures have however not been kind to the healthcare sector. One of the key highlights was the enactment of the Tax Laws Amendment Act in April 2020. This resulted in a change in status of medicines from the coveted zero-rated status to exemption status. As tax theory postulates, this move is expected to result in an increase in the price of the already, costly medicines. While this was motivated by other motives, this is seen by many as a paradox since medicines are a critical component of the healthcare value chain. Any measures that would result in an increase in the cost of medicines is thus against the fight for quality and affordable healthcare in the country. We can only hope that the GoK might reconsider the move in the current budget cycle.

However, a key drawback to the enhanced revenue mobilisation in the country is the spiralling public debt which is approaching 60% of the country's GDP. This rising public debt will restrain growth in social sector spending particularly in the context of the current Covid-19 pandemic, the upcoming elections in 2022 and the security threats facing the country. In addition to distorting GoK's planned expenditure, Covid-19 crisis has evidently dealt a major blow to the economy on a global scale. With no clear end of the crisis in sight, the GoK's revenue mobilisation is likely to slow down owing to the slowdown in the economy growth rate. The global impact of the crisis has affected Kenya through decreased foreign investments and foreign grants/aids. Measures to revive the economy will play a pre-eminent role in augmenting GoK's revenue mobilisation efforts.

Even as the GoK seeks to enhance its revenue base, budget reprioritisation towards health remains one of the leading factors for enhancing the health system status in the country. Various empirical studies have provided evidence that budget reprioritisation results in increase in the GDP of a country. When DRC increased its health budget from 5% to 8% and 10%, it led to increase in relative GDP by 0.3% and 0.6% respectively. The GoK can also borrow from countries like Nigeria, Gabon and Ghana that have earmarked allocations to the health sector from government revenue. Ethiopia and Rwanda have achieved high levels of population coverage through social protection systems that guarantee access to healthcare services. In the recent years, Rwanda has made significant steps in advancing universal health care coverage through its community-based health insurance program. Under this program, the government allocates funds to subsidise health care for citizens. This allows citizens to access and pay for health care based on a tiered premium system that is structured according to the socioeconomic standing of each citizen.

Beyond actual increase in expenditure, the government should consider other innovative ways to enhance the fiscal space for health in Kenya. A leading program that the GoK should consider expanding is public-private partnership (PPP) in the health sector. The government has tried such programs before. For instance, 2015 ushered in a period which saw various multinationals such as GE Healthcare Africa, Philips and Siemens partner with GoK to provide medical equipment to county governments in Kenya under a 7-year Managed Equipment Services Partnership. This project has enabled the government to budget for healthcare expenditure in the country over 7 years without having to invest in a huge capital outlay upfront.

However, experts have warned that enhancing the GoK's revenue mobilisation effort which will allow for increased health care budgetary allocation may not guarantee predictable improvement in the health care system. If resources are not released on time and executed efficiently and effectively, the country will remain in the same dilemma as it currently is. Government policies targeted towards reducing corruption and wastefulness of public resources can play an indispensable role in boosting the fiscal space for health in Kenya. Within the concept of fiscal space lies the theory of fiscal sustainability. Fiscal sustainability focuses on a government's ability to finance its desired expenditure as well as meet its debts obligations as and when they fall due particularly those debts that arose in the process of expanding the fiscal space. As a country seeks to expand its fiscal space, it must ensure that the current and future revenues fully support the increased spending. Fiscal sustainability also considers the implication of the current spending on future spending. For instance, should the government expand its fiscal space for health in Kenya by building more hospitals, this will require increased expenditure in future to boost the current and development expenditure of the hospitals. As such, the current increased expenditure demands that the government embark on a journey to expand the fiscal space for health care in future. Experts opine that should the government feel that the fiscal space that allows for current increased expenditure will not be sustainable in future, it is most likely that the government will resort to either underfunding the current initiatives or cutting down on the program's future funding. From the foregoing, the fiscal space for health in Kenya should not be considered in isolation but within the context of the country's overall ability to raise revenue to support government spending. This argument is within the context of a comprehensive and forward-looking fiscal and budgetary framework as suggested by the World Bank.

The health sector inarguably serves as the country's power store that builds human capital, improves the welfare of the society, safeguards the country from health pandemics and improves the productivity of the people. As the GoK seeks to achieve the UHC target, two key measures lie at the centre of this vision. First and foremost, taxation measures aimed at enhancing the GoK's revenue mobilisation will play a key role in expanding the fiscal space for not only the public healthcare sector but also other sectors of the economy. As expounded above, increased spending in the healthcare sector should not be taken in isolation but in the context of the wider economy. The healthcare sector requires support systems that directly or indirectly support a vibrant health system, such as education and agriculture. Secondly, owing to the likely limitations on government expenditure in the healthcare sector, expanding public-private partnerships (PPPs) in the health sector offers an alternative route. These PPPs will ease the GoK's budget strain and will also play an indispensable role in reducing the risks the GoK is exposed to through sharing of responsibilities and risks with the private sector. This enables the GoK to benefit from the expertise of the private sector while allowing the GoK to focus more on policy, planning and regulations.

The above measures may however not achieve the expected improvement in our health care system, if resources are not availed when needed and utilised efficiently. The citizenly can only hope that as the government focus on expanding the fiscal space, resources will be utilised effectively and efficiently to enhance increased access to affordable healthcare and a better quality of life for all.

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