

## Policy Brief No 5 of 2025

# Health Financing in Kenya. The Gaps, Implications and Policy Options

### Overview

Health financing is a foundational pillar of a well-functioning health system. In Kenya, however, the health system continues to face persistent challenges, including inadequate public budgetary allocations that fall below international and regional benchmarks, high levels of out-of-pocket spending, and fragmentation across financing arrangements despite ongoing reforms under the Social Insurance Act and strong commitments to Universal Health Coverage (UHC). Strengthening equitable, efficient, and sustainable health financing in line with the Fourth Medium Term Plan [MTP IV] and Vision 2020 is critical to improving health outcomes, protecting households from catastrophic health expenditures, and achieving national development goals, including Kenya Vision 2030 and UHC by 2030.

### Background:

Health financing reform is anchored in Kenya's Vision 2030, MTP IV and Universal Health Coverage (UHC) commitments. For instance, the **Kenya Vision 2030** identifies health as a core component of the social pillar, with the objective of providing equitable, affordable, and quality healthcare to all Kenyans. Vision 2030 emphasizes increased public investment in health, expansion of risk pooling mechanisms, reduction of household financial burden, and efficiency in service delivery.

### Key Findings:

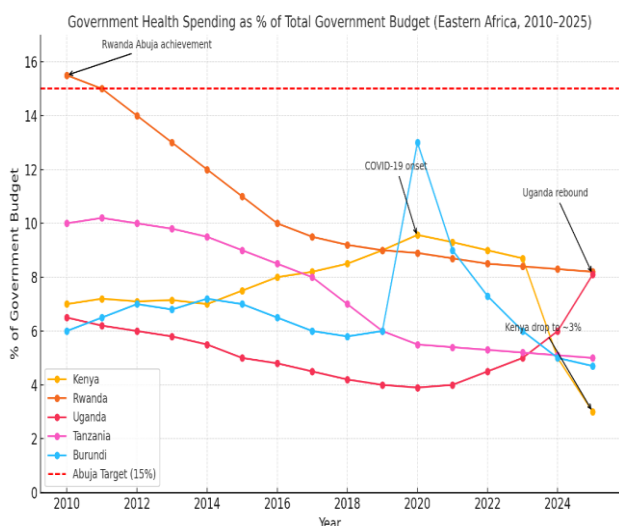
Health financing in Kenya relies on a mix of general taxation, social health insurance contributions, out-of-pocket payments, and declining donor support. The national and county governments provide funds through general taxation, with allocations meant for infrastructure, personnel, commodities, and subsidized services. However, government health expenditure has been lower than the Abuja target of allocating 15% of the national budget to health. As shown in the graph below, Kenya's national budget allocation to health remained at about 8–9 percent between 2016 and 2023, but declined sharply to 3 percent in FY 2025/26.

- The Social Health Insurance Act (2023) overhauled the National Hospital Insurance Fund (NHIF) and created multiple funds including the Social Health Insurance Fund (SHIF), Primary Healthcare Fund, and the Emergency, Chronic and Critical Illness Fund. SHIF contributions are mandatory for formal sector employees (2.75% of gross salary). The primary care and critical illness components are government financed.
- Out-of-pocket and private insurance spending remains significant. Currently, out of pocket expenditure accounts for 24.3 percent of total health expenditure.

Until recently, donor funding and external assistance played a significant role in financing Kenya's health sector. However, global donor priorities have shifted, leading to a declining trend in external health funding. For example, USAID significantly scaled back its health funding in early 2025, raising concerns about emerging financing gaps for essential health services

### Implications

- Persistent under-allocation of health resources at national and county levels constrains investment in services, infrastructure, and the health workforce, exacerbating inequities and slowing progress toward UHC and national development goals.
- High direct payments expose households to catastrophic health expenditure. In 2018, some 19.4 percent of households reported high costs as a primary reason for not accessing health services. In 2018, between 1 and 1.1 people was rendered poor by out-of-pocket health expenditure.
- Multiple financing schemes and weak coordination reduce pooling efficiency. Fragmentation leads to duplication, inefficiencies, and challenges in strategic purchasing.
- Devolution of health functions to counties has improved local responsiveness but also exposed capacity and resource mobilization challenges at the local level.



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## Recommendations:

1. National and county governments should progressively increase budgetary allocation to health toward the Abuja target (15% of budget) and public health expenditure levels around 5% of GDP.
2. Fully operationalize SHIF with simplified contribution mechanisms for all private sector and informal workers.
3. Ensure harmonization of benefit packages to avoid fragmentation.
4. Focus resources on primary care and preventive services to reduce expensive emergency and tertiary care burden.
5. Strengthen inter-county referral systems to optimize cost-effective care utilization.
6. Invest in county health planning and financial management capacity to ensure devolved funds are used effectively, and incentivize performance with accountability frameworks.



## Conclusion:

Kenya's health financing reforms present a critical opportunity to advance Universal Health Coverage (UHC) and improve service delivery. Realizing this potential will require sustained political commitment to increase public health investment, expand inclusive insurance coverage, strengthen governance, and prioritize primary healthcare. Effective implementation of these policy options can accelerate equitable and sustainable health gains for all Kenyans.

## References

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This Policy Brief is based on the Kenya Population Situational Analysis Report 2025.

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NCPD is a semi-autonomous government agency that formulates and promotes population policy and coordinates related activities for sustainable development in Kenya.

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