

The Nexus Between Healthcare Expenditure and Economic Growth in Kenya

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Abstract

A robust healthcare system is widely acknowledged as contributing to economic development. Ergo, the relationship between healthcare spending and economic growth is a critical factor in achieving sustainable economic development in Kenya. This study aims to investigate the intricate relationship between healthcare expenditure and economic growth in Kenya, providing empirical evidence specific to the Kenyan context. It focuses on the analysis of healthcare expenditure trends, the efficiency of healthcare spending, and their subsequent impact on economic indicators in Kenya. Consequently, the results of this study hold significant implications for policymakers and stakeholders involved in shaping Kenya's economic and healthcare policies. By examining the relationship between healthcare spending and economic growth in Kenya, this study seeks to provide insights into the potential impact of healthcare investment on the country's economic development.

Keywords

Kenya, Healthcare Expenditure, Economic Development.

1. Introduction

The relationship between healthcare spending and economic growth is a critical factor in achieving sustainable economic development in Kenya. This basis is founded on Nobel laureate, Amartya Sen's work "Development as Freedom" where he emphasizes the importance of investing in

human capabilities, including healthcare, to achieve sustainable development, and in turn, economic growth feeds back into improving general living standards, such as greater opportunities for people to become healthier, eat better and live longer¹.

Kenya faces significant challenges in balancing healthcare spending with economic growth². Its health

system is underfunded, with a population health expenditure of only 3% of the Gross Domestic Product (GDP), which is lower than the African average of 4.8%³. Previous studies on the impact of healthcare spending on economic growth in Kenya have shown mixed results, with some studies finding a positive relationship between healthcare spending and economic growth, while

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others reporting insignificant effects⁴. For instance, the positive relationship is noted by R. Kwak (2009) study, where he found healthcare expenditure results in positive economic growth⁵. K.O Kimanzi (2022) states, as government health expenditure plays a significant role in growth of economies by over 30% irrespective of level of income of each country⁶. The veracity of these findings are evident Kenya and Botswana in 1960, when both States had similar levels of per capita income and spent approximately 9% of their GDP on health and education over the next three decades, however, by 1990, Kenya had only grown 1.6% annually, while Botswana grew 6.5% annually – attributed to Botswana spending five times as much as Kenya on health and education⁷.

This research article aims to investigate the intricate relationship between healthcare spending and economic growth in Kenya, providing empirical evidence specific to the Kenyan context. The importance of a robust healthcare system in fostering economic development is widely acknowledged, and this study seeks to provide insights into the potential im-

pact of healthcare investment on the country's economic development.

This research article aims to contribute to the ongoing discourse on the importance of healthcare investment in driving economic growth in Kenya by providing a comprehensive analysis of the relationship between healthcare spending and economic growth in the country. The analysis will focus on healthcare expenditure trends, the efficiency of healthcare spending, and their subsequent impact on economic indicators. The findings of this study hold significant implications for policymakers and stakeholders involved in shaping Kenya's economic and healthcare policies.

By examining the relationship between healthcare spending and economic growth in Kenya, this research article seeks to provide insights into the potential impact of healthcare investment on the country's economic development. The study will contribute to the existing literature on this important topic, offering a deeper understanding of the dynamics of healthcare investment in the Kenyan context and offering recommendations for policymakers and stake-

holders to enhance the impact of healthcare spending on economic growth.

2. Trends and efficacy of healthcare spending

The trends and efficacy of healthcare spending are critical factors in understanding the relationship between healthcare spending and economic growth in Kenya.

The trend of healthcare expenditure in Kenya has been characterized by a gradual increase in recent years, reaching 346 billion Kenyan Shillings (KSh) in Financial Year (FY) 2015/16, a 27.7% increase from KSh 271 billion in FY 2012/13⁸. In addition, the per capita expenditure in the United States Dollar (USD) has increased from KSh 6,602 (USD 77.4) in FY 2012/13 to KSh 7,822 (USD 78.6) in FY 2015/16 due to the weakening of the Kenyan Shilling⁹. Healthcare spending in Kenya is expected to be 4.24% of GDP by 2023, with healthcare spending per capita projected to be €4.39 billion Euros by 2023¹⁰.

Despite the increase in healthcare spending, Kenya's health system remains underfunded, with a population health expenditure of only 3%

of the GDP, lower than the African average of 4.8%¹¹. This low level of healthcare spending has contributed to significant health indicators that hinder growth, such as:

1. A high maternal mortality rate¹² due to inadequate healthcare investment that leads to women's deaths, hence reducing productivity and negatively impacting the economy further¹³. Consequently, this high rate can lead to increased healthcare costs, as women may require additional medical care and support due to complications from pregnancy and childbirth¹⁴.
2. The burden of Non-Communicable Diseases (NCDs)¹⁵ like diabetes and cancer which are a common cause of death and disability in Kenya. NCDs can cause increased demand for health services, leading to high costs of treatment and pressure for increased public health spending¹⁶. These diseases can also lead to productivity losses via premature mortality, early labor force exits, absenteeism, and work at lowered capacity¹⁷. The economic impact of NCDs on healthcare bud-

gets and national income is substantial, with NCD-related health costs varying across countries, regions, and according to the type of NCD¹⁸. Households with NCDs in lower middle-income countries (LMICs) spend more on healthcare and are at greater risk of catastrophic expenditure and impoverishment¹⁹.

Previous studies have shown that healthcare spending can have a positive impact on economic growth in Kenya²⁰. However, the efficacy of healthcare spending in Kenya has been questioned, with concerns about the efficiency of healthcare spending and the allocation of resources²¹. The Kenyan government has made efforts to improve the efficiency of healthcare spending, such as implementing program-based budgeting (PBB) and increasing the use of technology in healthcare delivery²².

3. Impact on economic indicators

The impact of healthcare spending on economic growth in Kenya is complex and multifaceted, with various economic indicators affected by healthcare investment. Recall

the aforementioned studies have shown that healthcare spending can have a positive impact on economic growth in Kenya²³. However, the efficacy of healthcare spending in Kenya has been questioned, with concerns about the efficiency of healthcare spending and the allocation of resources²⁴.

The impact of healthcare spending on economic indicators in Kenya is critical for policymakers and stakeholders involved in shaping the country's economic and healthcare policies.

Below are some examples of the impact health expenditure on economic indicators in Kenya:

1. The K.O Kimanzi (2022) study on the relationship between government health expenditure and economic growth in Kenya found that government health expenditure partly explains changes in economic growth²⁵. The study estimated the impact of government health spending on economic growth and found a positive and significant relationship between the two²⁶.
2. The M. Nyamwange (2012) study recommends that the government should effi-

ciently allocate a substantial amount of budget funds to the health sector, given that health expenditure necessitates a substantial amount of economic growth²⁷.

4. Policy implications

From the above sections, inadequate health care expenditure in Kenya contributes to the slow economic growth rate, causing the need for measures to improve health care expenditure²⁸. Policy plays a crucial role in health-care expenditure for economic growth in Kenya. Policies aim to increase budgetary allocation to the health sector, enhance service delivery, and improve health outcomes, which are essential for economic growth and development in Kenya.

The challenges and opportunities for future spending on health in Kenya, as highlighted in the 2022 World Bank Kenya Public Expenditure Review, underscore the need for efficient allocation of budget funds to the health sector, given that health expenditure necessitates a substantial amount of economic growth – a feat which can only be achieved by effective policies²⁹. The improvement of the health

sector in Kenya is crucial for addressing the country's major socio-economic and health challenges. The government's high priority on the improvement of the health sector, as evidenced since the country's independence, reflects the ongoing efforts to enhance the health system and its impact on the economy³⁰.

The 2022 World Bank Kenya Public Expenditure Review further provides the following key policy recommendations for improving healthcare spending, in line with the findings of this study:

Continue protecting spending on social sectors, including healthcare, within the context of tight fiscal circumstances and increased resources over the medium and long term as the economy grows³¹.

Tackle inefficiencies within the health sector and increase the value for money of public spending by prioritizing quality primary health care services over highly specialized health services at the hospital level, and reducing inputs-related inefficiencies, such as human resource competencies, medical equipment, and medical supplies³².

Strengthen health resource management systems, address

challenges related to health resource human motivation and retention and increase health resource skills and capabilities through competency-based training models, professional development, and adequate medical supplies and equipment³³.

Continue prioritizing investments in disadvantaged geographic areas and population groups to narrow socio-economic inequalities. Collect and monitor data disaggregated by socio-economic characteristics to better tackle inequities in access to and use of quality healthcare and health outcomes³⁴.

Implement strategies to improve budget execution, absorption of development budget, and disbursement of funds³⁵.

5. Conclusion

The healthcare spending trends in Kenya have shown a gradual increase in recent years, but the health system remains underfunded, with a population health expenditure lower than the African average. This has led to significant health challenges, such as high maternal mortality rates and the burden of Non-Communicable Diseases (NCDs), im-

pacting both the health of the population and the country's economic productivity. While previous studies have shown a positive relationship between healthcare spending and economic growth in Kenya, concerns about the efficiency of spending and resource allocation persist.

In essence, the nexus be-

tween healthcare expenditure and economic growth in Kenya is multifaceted and requires a holistic approach. The findings of this research hold significant implications for policymakers and stakeholders involved in shaping Kenya's economic and healthcare policies. As Kenya strives for sustainable economic development, a concerted effort

to optimize healthcare spending, address inefficiencies, and prioritize health outcomes is imperative. The path forward involves implementing evidence-based policies that align healthcare investment with broader economic development goals, thereby creating a healthier, more productive, and economically vibrant Kenya³⁶.

Notes

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