



Budget Brief No. 14

Healthy Ambitions?

Kenya's National Hospital Insurance Fund (NHIF) Must Become More Transparent if it is to Anchor Universal Health Coverage

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Executive Summary

Over the last decade, it has become clear that Kenya's National Hospital Insurance Fund (NHIF) is the vehicle through which the government hopes to eventually offer health insurance to all Kenyans. Since 2006, the fund has increased its membership of formal and informal sectors alike, and the share of national health resources that are under its direct management. The recent controversial attempt to expand outpatient coverage is also intended to position NHIF for a larger role in the health system.

However, if NHIF is going to anchor universal health coverage in Kenya, then it must be capable of managing its finances in an effective manner. Moreover, the Fund, like all state corporations, collects and spends public money and must report on its use of funds to permit effective oversight by Parliament and the public. State corporations in Kenya manage massive sums: approximately 610 billion KSh (US\$7 billion) in FY 2011/2012, of which 139 billion KSh constituted government funds from the budget.² Put into perspective, that is roughly 13 percent of budgeted expenditure for FY 2011/2012. Given their public role, state corporations like NHIF must be held accountable for the money they use, and this requires timely and transparent financial reporting.

This brief asks whether NHIF communicates financial and policy information to the public in a clear, consistent, and transparent form, as befits a major state corporation with ambitions to provide universal health coverage. **Our answer is no.**

In order to answer this question, we sought information from NHIF offices and the NHIF website between March and May of 2012. We looked for information that would answer five questions:

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² Republic of Kenya, 2011/2012 *Annex of Estimates of Revenue and Expenditure of State Corporations of the Kenya Government For the Year Ending 30th June 2012*, June 2011, p. 1.

1. **How much money does the Fund take in each year from its main activities, and how much does it spend on benefits?**
2. **Does NHIF receive subsidies from the government beyond the contributions employees make and if so, what is the amount received and how is it used?**
3. **How does the Fund manage its investments or expenditures other than member benefits?**
4. **Is the Fund accountable for the money that it raises and spends?**
5. **What are official NHIF policies (Who contributes? How much? What benefits do they have access to?) and how are these changing over time in line with the Fund's expanding role in the health sector?**

The NHIF website contains no financial information about the Fund. And not one of these five types of information is available from the NHIF offices. After repeated requests over nearly two months, we were told we could have it only if we signed a strict confidentiality agreement! We did obtain information from other sources — difficult but not impossible to get — including the Kenya National Audit Office (KENAO). What we found reinforced the value of these five types of information for oversight.

For example, consider our third question on investments and other spending. Between 2004 and 2010, KENAO has raised concerns about the construction of NHIF's multi-storey car park. The car park was originally contracted for about 900 million KSh in 2002. It was completed in 2008, but at a total cost of over 3.3 billion KSh. Then, an additional 626 million KSh was spent on the car park, resulting in a total expenditure of *more than four times* the original contract. As the auditor observes, "the escalation of costs... has not been justified, [and] the final completion certificate for the project had not been issued" two years after completion. This raises serious concerns about financial management and accountability at NHIF. NHIF also spends a very high share of revenues on personnel and administration: 45 percent in 2010.

Our brief argues that the lack of transparency at NHIF is representative of a broader problem of inadequate public reporting on the financial activities of Kenyan state corporations. For the last two years, the government has tabled an annex to the budget including estimates of revenue and expenditure for state corporations. However, this document is of limited utility, as it lacks critical information that would facilitate public oversight, and it is not available online.

In light of the foregoing, we make a number of recommendations in this brief, including:

1. **NHIF should immediately post on its website its audited financial statements for the past 10 years.** This degree of transparency is not extraordinary for public corporations, even in Kenya. For example, the National Social Security Fund has posted audited financial statements from 2007 on its website.³ The annex to this brief contains other global good practice examples of health fund transparency. NHIF should also post online narrative information about its policies.
2. **The Treasury should immediately post the annex on state corporations to its website, but should also revise it to include additional information.** This would include much greater disaggregation of the income and expenditure of state corporations, a short narrative explaining each corporation's business model, definitions of terms used, and an explanation of when blank spaces and dashes refer to zero income, and when they refer to unreported income.

³ <http://www.nssf.or.ke/nssf-downloads#nssfreports>. Accessed on 23 April 2012.

Introduction

Over the last decade, it has become clear that Kenya's National Hospital Insurance Fund (NHIF) is the vehicle through which the government hopes to eventually offer health insurance to all Kenyans. NHIF is a social health insurance fund. Around the world, funds like these collect contributions from a combination of employees, employers and government and then use them to provide health insurance to some or all citizens. In Kenya, NHIF is financed primarily from employee contributions paid for by formal sector workers who also constitute the main beneficiary population. Over time, however, NHIF has expanded its contributions from and coverage of informal sector workers. Since at least 2004, there have been plans to make NHIF a universal supplier of insurance to Kenyans by further augmenting the ranks of both those who pay into the Fund and those who receive benefits from it.

The process of expanding NHIF to achieve universal coverage has been slow and halting, but the trajectory is clear: NHIF is taking on an increasing share of health spending in Kenya and it is expanding the types of services it provides. Most recently, it has been authorized to raise the contributions that it collects from members in order to offer an ambitious and controversial new scheme that will cover more government employees, and utilize new types of contracts with both public and private hospitals.⁴

This brief asks whether NHIF communicates financial and policy information to the public in a clear, consistent and transparent manner, as befits a major state corporation with the ambition to provide universal health coverage. **Our answer is no.** In this brief, we consider five kinds of information that a state corporation like NHIF should make available to the public. We explain why this kind of information is important in general, and why it is specifically important in the case of NHIF. We then look at the challenges ordinary citizens face in receiving this information, and discuss ways that NHIF could increase transparency. We conclude with implications not only for NHIF, but for government reporting on the finances of state corporations more generally.

Kenya has over 150 such institutions, and few of them meet the standards we lay out here. But this is not a uniquely Kenyan problem. Around the world, governments make public very little information about state-run companies. For example, the International Budget Partnership's 2010 Open Budget Survey found that the global average score (based on 94 countries) for the transparency of information on financial transfers to public corporations was only 42 out of 100, and the figure for extra-budgetary funds (those that do not pass through the treasury, such as NHIF contributions) was 38 out of 100.⁵ This brief, therefore, also represents an attempt to try to set some minimal global standards for the kind of information that public corporations should make available to the public. Because state companies use public resources, they must render accounts to the public on how they use this information. In so doing, they allow the legislature and the public both to provide effective oversight, and to debate and influence the type and quality of services they provide.

4 "NHIF wins court approval to impose higher levies," *Business Daily Africa*, 28 March 2012. However, the increase in contributions was frozen by government on 9 May 2012, pending investigations of contract irregularities.

5 http://internationalbudget.org/wp-content/uploads/2010_Data_Tables.pdf.

Background: NHIF becomes key to government's plans for increased access to health insurance

Evidence of NHIF's increasing prominence in Kenya's health system comes from both explicit policy decisions, and financial data that reflect an enhanced financial role for the organization. At the policy level, in 2004 the Government of Kenya proposed a universal health insurance system based on an NHIF-style social health insurance model (contributions from employers and employees would form a principal financing pillar). This led to the drafting of the National Social Health Insurance Fund Bill, which would have put a reformed NHIF at the heart of an expanded national insurance system. However, although the proposed reform passed Parliament, the President declined to sign it, and the bill died.⁶ Conversations have nevertheless continued about how to expand health insurance in Kenya, and it is clear that NHIF is seen to be at the core of this process.⁷

For this reason, the government contracted Deloitte Consulting to conduct a review of NHIF's capabilities in 2011. The resulting report states quite clearly that the review was undertaken in order to "position the Fund for the enhanced role" it would play under a universal coverage scheme. Moreover, in early 2012, NHIF began to implement a new scheme to provide outpatient coverage to civil servants, in addition to the inpatient hospital cover it has long provided.⁸ Public discussions of this scheme and coverage in the media have strongly suggested that this is the first step in a wider effort to enhance the coverage by the Fund, the share of the population covered, and the state corporation's role in financing both public and private facilities.⁹

At the same time, available data from the National Health Accounts in Kenya show that NHIF has rapidly increased both its total outlays and its share of financing in specific categories of health spending. Between FY 2005 and 2010, the absolute value of resources managed by NHIF increased by 53 percent, from about 3.8 billion KSh to about 5.8 billion.¹⁰ In relative terms, NHIF increased its share of total health resource financing from 3.7 to 4.7 percent over the same period. When we turn to specific priority sectors within health, NHIF growth is even more spectacular. For example, between FY 2005 and 2010, HIV financing managed by NHIF increased by a *multiple of 16*.¹¹ Likewise, NHIF financing for reproductive health nearly doubled, from 800 million to 1.5 billion KSh, over the same period.¹²

In terms of membership, NHIF dominates health insurance in Kenya: In June 2010 there were 2.8 million members of NHIF compared to 700,000 individuals with private health insurance, and an additional 470,000 in community schemes.¹³ Membership grew by nearly 14 percent between 2006 and 2010. Moreover, during the same period, growth of coverage among the informal sector grew by 38 percent per year. By 2010, the informal sector constituted nearly a fifth of the total contributors. Thus NHIF has been expanding among a population that has not traditionally been a core part of its membership.¹⁴

In sum, various government plans indicate that NHIF is slated to play a larger role in Kenya's health system, and the data show that it has slowly been augmenting its role in financing health services, while broadening

6 Guy Carrin, et al, "Health financing reform in Kenya—assessing the social health insurance proposal," *South African Medical Journal*, February 2007. Available at http://www.who.int/health_financing/documents/cov-kenya_samj/en/index.html. Accessed on 25 April 2012.

7 Fund officials indicated as much in September 2005 when they wrote "The Government...is in the process of transforming the Fund further into a National Social Health Insurance Scheme in order to cover all the Kenyan residents as well as improving the benefit package." See NHIF, "Audited Report & Financial Statements For The Year Ended 30 June 2005," 15 September 2005.

8 Ministry of Public Service, "Introduction of a medical insurance cover for civil servants and disciplined services," 21 December 2011 Ref No. MSPS. 2/7/2A. Vol III/ (18). Available at http://www.dpm.go.ke/index.php?option=com_docman&task=doc_details&gid=417&Itemid=76. Accessed on 27 April 2012.

9 See, for example, Edward Omete, "NHIF Reforms May Slow Private Insurer's Growth," *Business Daily Africa*, February 7, 2012; Jasper Mbiuki, "Six reasons why the NHIF is unfit to manage new insurance scheme," *Daily Nation*, 17 April 2012.

10 Ministry of Medical Services and Ministry of Public Health, *Kenya National Health Accounts 2009/2010*, page 16.

11 *Ibid.*, p. 25.

12 *Ibid.*, p. 35.

13 Deloitte Consulting, "Strategic Review of the National Hospital Insurance Fund- Kenya," 2011, page 21. These 2.8 million members also had dependents who were covered by the Fund, so coverage actually reached 6.6 million Kenyans in 2010. (The page numbers in hard and soft copy differ. For soft copy, see page 19 of <https://www.wbginvestmentclimate.org/advisory-services/health/launch-of-insurance-reports-in-kenya.cfm>, Accessed 24 April 2012)

14 *Ibid.*, p. 23 (soft copy).

its membership. If NHIF is to ultimately manage a much greater share of public resources for health care, it is imperative that the corporation manage its finances effectively and transparently. We assess the Fund's degree of transparency in the next two sections of this brief.

What do citizens need to know about the finances of a state corporation like NHIF?

At its core, a state insurance fund like NHIF has a fairly simple business model: it takes in contributions from employees, and it pays out benefits.¹⁵ Of course, in order to manage the intake and outflow of these funds, it employs personnel, and so there are some administrative costs that must be covered from revenues. These personnel manage claims, but also help to accredit facilities that can be reimbursed. Finally, prudent financial management suggests that an insurance fund might want to run a surplus to cushion itself against high costs in some years, and to pay for some capital expenditures, such as office expansion. If the Fund does run a surplus in some years, it may invest this money in short- or longer-term investments (such as bank deposits, government bonds, equities, etc.), which would earn a return and constitute another part of the business model.



This brief overview of the functioning of a public insurance fund leads us to the key questions that citizens might have about whether NHIF is operating in the public interest. These questions in turn define the type of information that a state corporation like NHIF should make available to the public.

¹⁵ Under the new scheme that is being implemented by NHIF in 2012, the model has become slightly more complex, because the Fund no longer simply reimburses claims, but now also uses prepaid contracts based on a per capita payment to health facilities per covered beneficiary. These contracts have been at the heart of the public scandal that has enveloped NHIF since May 2012. See "New twist as Rails sacks NHIF board," *Daily Nation*, 8 May 2012.

- 1. How much money does the Fund take in each year from its main activities, and how much does it spend on benefits?** This is important because a Fund like NHIF is not designed to earn a profit. Therefore, it should spend a high share of what it takes in as revenues on the benefits it provides. Remember that the Fund does have administrative costs, and it may need to finance some capital investment, so benefits will never equal revenues. But these other costs should form a relatively small share of the overall expenses of the Fund. If most of the revenues do not go to finance benefits for members of the Fund, this indicates either that the contribution rate, which is a tax, is too high, or that funds are not being managed effectively in the interests of contributors. It could also be the case that the insurer rejects a high proportion of the claims it receives, which may indicate a failure to provide effective coverage.
- 2. Although some insurance funds operate exclusively on the basis of contributions, many receive additional subsidies from the budget. Does NHIF receive such subsidies and if so, what is the amount received and how is it used?** Many social health insurance funds around the world operate in what is known as a “tri-partite” fashion, meaning that they are financed from three sources: employer contributions, employee contributions, and an additional contribution from government. This last component is basically a subsidy from the government’s general revenues that is paid to the health insurance scheme. Because this subsidy comes from general revenues, it is paid for by all taxpayers, not just those who benefit directly from the insurance fund’s services. Thus, the fund’s activities become a matter of concern to all citizens.
- 3. How does the Fund manage its investments or other money that is not paid out in benefits?** If a state organization like the NHIF runs a surplus and invests some of its money in short- or long-term instruments, or fixed assets like land or office space, the public has a right to know which instruments are held, and how effective the Fund is as an investor. Remember that this is public money that the Fund is investing. Even though it never passes through the Ministry of Finance, the public still has a right to know how it is used.
- 4. Is the Fund accountable for the money that it raises and spends?** Like any other public body, a state corporation receives and spends public money. This money must be used in a way that is consistent with the public interest rather than to serve private interests. The public has a right to know that the Fund’s resources have been spent appropriately, and that this has been certified by an independent audit. If money has been misused, the public has a right to know whether sanctions have been introduced and enforced.
- 5. What are official NHIF policies (Who contributes? How much? What benefits do they have access to?) and how are these changing over time in line with the Fund’s broader role in the health sector?** This is the basic information that any contributor might want to know about how the Fund works, but also about ongoing reforms and future plans. This kind of information, both narrative and quantitative, allows citizens to understand why and how the Fund is spending money, raising contributions, altering benefits, and so on. It is essential to have this information in order to understand the meaning of some of the raw financial data mentioned above.

This type of information is not only of theoretical interest. Below, we explain why it is particularly important in the specific case of NHIF, given the state corporation’s history and trajectory.

1. Like many insurance funds, NHIF has a history of taking in a high level of contributions relative to the amount that it pays out in benefits. This has been due in part to very high levels of spending on administrative costs and failure to provide sufficient coverage.¹⁶ In 2005, for example, the Fund spent 22 percent of its revenues on benefits, and over 50 percent on administration and personnel. These numbers appear to have improved over time: in 2010, the Fund paid out nearly 52 percent of its revenues on claims to beneficiaries,¹⁷ but they still compare poorly with other funds around the world.¹⁸ Clearly, taxpayers have an interest in monitoring how the Fund behaves to ensure a high ratio of benefits to revenues. Moreover, under the new scheme introduced in 2012, NHIF is employing prepaid contracts based on a per capita (“capitation”) payment to health facilities. Such contracts must be negotiated carefully to ensure that the payments are fair: they should not pay providers too much for the services they provide, or too little. To assess this, information is needed about how the per capita rates are set, and whether beneficiaries receive the intended benefits over time.

2. Traditionally, NHIF was based exclusively on contributions. However, as the Fund expands beyond the formal sector and those with relatively high incomes, and offers outpatient cover in addition to inpatient, it is unlikely to be able to rely exclusively on member contributions to finance its activities. Media coverage of the reforms introduced recently to permit outpatient coverage suggests that the Fund will require a subsidy from the government to cover these new costs for coverage available only to government workers. For example, it was reported on 31 December 2011 that the government would top up contributions by a 25 percent subsidy.¹⁹ An April 10 media report indicated that the government had already made a contribution to the scheme, for the first half of 2012, on the order of KSh 2.16 billion.²⁰ A circular from the Ministry of Public Services also indicates that the government will provide a top-up subsidy, though no specific numbers are given.²¹ If subsidies are required for this expansion, even more will be needed to expand to universal coverage. Subsidies of this size are of concern to all taxpayers in Kenya, and should be easily identifiable in budget documents.

3. We have already seen that in the past a high proportion of the money that was not used to pay benefits was used for administrative costs. However, NHIF also has invested in equities, real estate and construction. Since at least 2004, Kenya’s auditor has raised serious concerns about the construction of NHIF’s multi-storey car park. The construction of this car park was originally contracted for about 900 million KSh in 2002. The project was completed in 2008, but at a total cost of over 3.3 billion KSh. Then, at some point after this, an additional 626 million KSh was spent on the car park, resulting in a total expenditure that was more than four times that specified in the original contract. As the auditor observes, “the escalation of costs...has not been justified, while at the same time, the final completion certificate for the project had not been issued to the Fund as of 30 June 2010,” two years after it was completed. Obviously, citizens have an interest in knowing when and why NHIF spent nearly 4 billion KSh, more than it spent on all beneficiary claims in 2010, on a car park that was supposed to cost less than 1 billion KSh.

4. KENAO, Kenya’s supreme audit institution, has raised the issue of the car park in every annual audit report since 2004, yet the problem continues to escalate each year, which begs the question

16 A 2003 study found that the Fund did little to reduce catastrophic expenditures by covered households, possibly due to its failure to provide sufficient financial coverage. See http://cerdi.org/uploads/sfCmsContent/html/201/Carrin_ppt.pdf. Accessed on 25 April 2012.

17 NHIF, “Audited Report & Financial Statements,” 2005; NHIF, “Audited Report & Financial Statements,” 2010.

18 See the annex to this report. Medicare Part A in the United States spends less than two percent of revenues on administration; the Estonia Health Insurance Fund spends less than one percent of revenues on administration.

19 See “Civil Servants’ Cover Now A Reality,” *The Standard*, 31 December 2011. <http://www.mwakilishi.com/content/articles/2011/12/30/kenya-civil-servants-medical-cover-now-a-reality.html>. Accessed on 20 April 2012.

20 Allan Odhiambo, “NHIF’s medical scheme for civil servants turns profit,” *Business Daily Africa*, 10 April 2012.

21 Ministry of Public Service, “Introduction of a medical insurance cover for civil servants and disciplined services,” 21 December 2011 Ref No. MSPS. 2/7/2A. Vol III/ (18)

of whether the NHIF holds its officers to account for spending decisions.²² The audit report from 2010 also suggests that the Fund does not value its equity investments appropriately in line with International Accounting Standards. Again, this information is important so that the public can track whether officials are sanctioned for failure to comply with regulations and recommendations of the auditor.

5. Finally, the NHIF reform to provide new services to members has been covered widely by the media since the end of 2011. This reform involves increases in contribution rates for members, as well as the option to choose a private hospital as one's principal provider, but at a different rate of reimbursement from public hospitals. Contributors need to understand exactly how this new policy will work, how it is being phased in over time, and what it means for their care. It has become clear that some information must also be made available about the novel use of prepaid contracts, such as the formula used to set rates and, crucially, how the providers have been selected. The latter issue has taken on increased importance as it has become clear that the providers selected in the first phase of expansion did not have the infrastructure to provide the services when the contracts were awarded.²³ The broader public also has an interest in understanding the details of these reforms, because they are intended to set the stage for the Fund's expansion to cover more Kenyans with more services in more places.

Is this information easily available to the public?

This brief contains some information about NHIF, but none of it was actually received from the National Hospital Insurance Fund. **In fact, an average citizen attempting to access information from NHIF would find it impossible.** The Fund's website contains only one of the five types of information described above: information on policy. However, the policy detail is minimal: a small tab under "Benefits" describes proposed benefits under the new out-patient scheme. No comparable information is available on changes in contributions, nor any more detail about how the policy will work. And there is no financial information about NHIF of any kind.²⁴

Phone calls and visits by one of the co-authors of this brief—a Kenyan citizen and a taxpayer, armed with a letter explaining the research—over the course of 7 weeks to the NHIF offices yielded no additional information of any kind. In addition to sending us from one office to the next in search of financial data, promised phone calls were not returned, people who had agreed to meet with us were consistently unavailable at the time of scheduled meetings, and conflicting information was provided about the "right channel" to use in obtaining the information we sought. We were finally told, after nearly two months, that we could have the information, but only if we promised to keep it strictly confidential. Of course, we could not agree to this.

²² There is currently a debate about whether KENAO will be known as the Office of the Auditor General, in line with the 2010 Constitution. However, it remains KENAO on the Auditor General's official website.

²³ For some coverage of the fallout from the selection of providers, see Caroline Wafula and Alphonse Shiundu, "Inside NHIF battle to control billions," *Daily Nation*, 5 May 2012.

²⁴ <http://www.nhif.or.ke/healthinsurance/>. Accessed on 20 April 2012. A brochure explaining the new policy is available through the Ministry of State for Public Services, not NHIF. See http://www.dpm.go.ke/index.php?option=com_docman&Itemid=88. Accessed 27 April 2012.

Public Availability of 5 Key Types of Information at NHIF, 2012					
Type of Information					
	Benefit/Revenues	Subsidy	Investment	Accountability	Policy Detail
Website	None	None	None	None	Minimal
Office	None	None	None	None	None

Source: Author visits to website and office in March-May, 2012

Notes: The five types of information are: information on the ratio of benefits paid out to revenues collected; whether the corporation receives a public subsidy and how big it is; types and value of investments made by the corporation; oversight information about proper use of funds; and narrative information about policies and policy changes

The information we have reported on NHIF funds comes from three main sources: audit reports supplied by KENAO, very basic information available in the government’s *Annex of Estimates of Revenue and Expenditure of State Corporations, 2011-2012*, and information that has been gleaned from other related reports, both government and non-government (primarily National Health Accounts and a Deloitte review of NHIF). The first thing to note about these information sources is that they are not easy to find online. Neither the full audit reports nor the *Annex of Estimates* are available online. Both the NHA reports and the Deloitte review are available online, but on websites based outside of Kenya that most Kenyans would not know about.²⁵ Although the first two sources are public documents reporting on public funds, they must be obtained either directly from government agencies or the Government Printing Office.

In the case of KENAO, we were able to attain these documents after writing letters explaining the research we were conducting and several visits and phone calls. However, we were only able to obtain audit reports from 2005-2007, and 2009-2010. We are still waiting for 2008. **Government audit reports of public corporations should be readily accessible to anyone who wants them, with or without an official letter.** And while it may make sense that one has to visit KENAO or a KENAO website to get an audit report, there is no justification for requiring a citizen to go to KENAO to obtain NHIF’s annual report and financial statement.

In the case of the *Annex of Estimates*, this is available exclusively at the Government Printing Office, for a fee (roughly US \$3.50). This makes it difficult for citizens who are not based in Nairobi, or who do not have the time or money, to readily access this basic information. Moreover, the information contained in this report is minimal: it contains only the total revenues and expenditures without any breakdown of how this is spent (for 2011/12, there is a division between recurrent and capital expenditure, but no further details). In fact, more disaggregated information is available only in the audit reports. Even the Parliamentary Budget Office could not avail us with this information. This is bad practice for so-called “extra-budgetary funds,” those that do not pass through the Ministry of Finance but are otherwise raised and used just like other public funds.²⁶ It is particularly problematic for NHIF, if the corporation is soon to start receiving a subsidy from the budget to expand coverage.

25 The NHA data is on a USAID website, <http://www.healthsystems2020.org/content/resource/detail/82488/>. Accessed April 20, 2012; the Deloitte review is on a World Bank website, https://www.wbginvestmentclimate.org/advisory-services/health/upload/Kenya-Strategic-review-of-the-NHIF-final_cv.pdf. Accessed 20 April 2012.

26 For more on good practices in this area, see International Budget Partnership, *Guide to Transparency in Public Finances: Looking Beyond the Core Budget, Extra-budgetary Funds*, 2011. Available at <http://internationalbudget.org/publications/a-guide-to-transparency-in-public-finances-looking-beyond-the-budget/>. Accessed 8 May 2012.

What should NHIF do to improve transparency?

Some implications of our assessment are obvious. For example, NHIF could and should immediately post on its website its audited financial statements for the past 10 years. This would allow citizens to readily assess the first three types of information we have discussed: benefits/revenues ratio, the extent of any public subsidies from the budget, and the types of investments the Fund is making with monies it does not pay out in benefits. This degree of transparency is not extraordinary for public corporations, even in Kenya. For example, the National Social Security Fund has posted audited financial statements from 2007 on its website.²⁷ The 2007 NSSF statement readily permits an assessment of the benefits paid versus contributions received, and provides information on NSSF investments and investment income. Although it lacks some important information, it represents a minimal standard by a similar type of public corporation that NHIF could easily meet. Further examples of international good practice for health funds similar to NHIF are available in the annex to this brief.

Exclusive posting of reports on the Internet can limit their distribution to those who have Internet access. These reports, therefore, should also be made available in libraries and other public offices. However, while many Kenyans lack reliable access to computer-based Internet, there is a mass audience for data that can be accessed through mobile phone-based Internet. Few Kenyans have access to the kind of devices that allow for easy reading of .pdf documents. Therefore, when agencies place reports online, they should make them available in html and other formats that are easily utilized by mobile phone users with basic browser capability. Information can also be provided by text message upon request, through radio, or through continuous re-printing in local newspapers.

Finally, all of the information that is available online should be available at NHIF offices, and any citizen should be able to request this information at any time, no questions asked. The information can be made available for free, or at a cost not to exceed that of printing. As NHIF has already expanded its network of branch offices, and will continue to do so, this will also increase the physical reach of printed material.

What are the wider implications for transparency of state corporations in Kenya and beyond?

State corporations like NHIF in Kenya manage funds outside of the budget process, and these funds are therefore not subject to the same scrutiny as other public resources. State corporations managed approximately 610 billion KSh (US\$7 billion) in FY 2011/2012, of which 139 billion KSh constituted government funds from the budget.²⁸ Put into perspective, that is roughly 13 percent of budgeted expenditure for FY 2011/2012.

For the last two years, the government has tabled an annex to the budget including estimates of revenue and expenditure for state corporations. This is a useful first step toward greater transparency, as it summarizes all state corporations by the parent ministry that regulates them. However, this document could be improved in several ways that would enhance transparency:

²⁷ <http://www.nssf.or.ke/nssf-downloads#nssfreports>. Accessed on 23 April 2012.

²⁸ Republic of Kenya, 2011/2012 *Annex of Estimates of Revenue and Expenditure of State Corporations of the Kenya Government For the Year Ending 30th June 2012*, June 2011, p. 1.

1. The document should be made available online as soon as it is tabled in Parliament.

Currently, this document is only available for purchase at the Government Printing Office. Many citizens will be unaware of its existence at the GPO, and there is no reason that the information cannot be shared online to facilitate its use. In fact, the Mars Group, an independent civil society organization in Kenya, has made this information available online in the past in an easy-to-use format.²⁹ Government could and should do the same.

2. The document should contain narrative information describing the function of each state corporation and a concise explanation of its business model, similar to what we provided earlier for NHIF.

The annex currently provides no narrative information of any kind, making it difficult to know what the many state corporations actually do, but also what is meant by certain terms. For example, each state corporation has three kinds of income: Internally Generated, Government Resources, and Others Incomes. Presumably, “Others Incomes” is derived from grants or loans from sources other than government, such as donors, but we do not know. An explanation of this would be important for fiscal transparency. Information should also be made available about the types of investments state corporations make so that citizens can assess whether these are consistent with the public interest. This section could also provide a broad rationale for each corporation’s investment strategy.

3. The document should contain a higher degree of disaggregation of both income and expenditure.

“Internally Generated Income” should be disaggregated into fees, contributions and other types of income. Expenditure is currently only disaggregated into recurrent and capital expenditures. Both of these categories should be disaggregated further to allow citizens to understand how funds are being used. For example, in the case of NHIF, the information presented does not permit a citizen to know how much is being spent on benefits, administration, construction, or other investments. As we have seen, these are critical pieces of information.

4. The document should clarify whether blank spaces are actually zeros, or missing information.

For example, many of the corporations listed in the annex have blank spaces under “Government Resources” and “Others Incomes”. Does this mean that they did not report income from these sources, or that they reported zero income from these sources? Some summary tables show dashes in these categories, but other tables do not. Is a dash a zero, while a blank is unreported? We do not know. It is possible that all blank columns are zeros, but it is hard to believe there is no unreported income in the annex, especially since the Ministry of Finance has suggested that line ministries and others raising their own funds often under-report their income sources.³⁰

In addition to improving this document, each state corporation should make information available on its own website and in its own offices that allows citizens to assess its performance. The type of information each corporation makes available will depend on its business model, and will not correspond exactly to the five types of information we described for NHIF. However, with the exception of the first type of information—that on the ratio of benefits to revenues—all state corporations should probably make information available that corresponds to the other four types of information: government subsidies, investment and other spending, information on accountability, and narrative policy information. Even the first type of information has a generic counterpart in most public corporations, because they are not generally designed to be profit-making entities: the share of revenues used for core business activities, the share used for other types of income-generating investment, and the share spent on administration are all relevant categories of information for purposes of understanding and monitoring.

²⁹ See <http://www.marsgroupkenya.org/budget/?parastatals> for the 2010/2011 data.

³⁰ Ministry of Finance, *Budget Policy Statement 2012/2013*, April 2012.

Websites of public corporations should also contain a mechanism for citizens to report on any direct experiences of misuse of funds or irregularities, and this information could also be passed directly to KENAO.

Conclusion

The purpose of this brief is to assess the transparency of the National Hospital Insurance Fund in light of its critical and expanding role in the health sector in Kenya. We also use NHIF as an example to make a larger argument about the transparency of state corporations in Kenya, as well as in other countries.

We find that NHIF is not even minimally transparent. If the corporation is going to continue to increase its management share of public health resources, and to eventually act as the principal financier in a universal health insurance scheme in Kenya, it must improve its transparency and financial management practices. It could easily do so immediately by making key types of information available online and in its offices to any Kenyan taxpayer.

The government has taken important steps in recent years to increase public access to budget information on state corporations. More must be done, however, to make certain that this information is easily available, written in a user-friendly style, and disaggregated adequately for purposes of citizen understanding and monitoring.

Annex

Examples of Global Good Practice for Health Insurance Fund Transparency: Estonia and the United States

This annex assesses the transparency of two health insurance funds against the five types of information we discuss in this brief. Both Estonia and the United States, while imperfect, provide good models for disclosure by state-run health insurance funds.

Estonia

Estonia has a social health insurance model, in which workers pay a “social” payroll tax that is used to subsidize the cost of insurance cover for those with low or no incomes. The funds are managed by the Estonian Health Insurance Fund (EHIF), which, like NHIF in Kenya, operates primarily as a manager of funds and payer for services but does not manage health facilities. Payroll tax revenue accounted for approximately two-thirds of all health financing in Estonia in 2008.¹

EHIF represents a type of end point for what NHIF could become: it covers 95 percent of the population for both inpatient and outpatient services, and it uses contributions from wealthier employees to subsidize those who are deemed too poor to contribute. EHIF uses capitation payments (as NHIF is attempting to do), along with traditional fee-for-service and something known as DRG (Diagnosis-Related-Group) payment for inpatient hospital care. DRG is a hybrid form of payment used by many advanced health systems.

The Estonian Health Insurance Fund makes an annual report easily available online going back 10 years at <http://www.haigekassa.ee/eng/ehif/annual>. We offer an assessment of these reports against the five types of information we have discussed in this brief, using the 2011 report as the benchmark.

1. The report contains the EHIF Annual Financial Statement, which in turn allows for a comparison of revenues with expenditure on insurance claims, as well as administration expenses. In 2011 EHIF spent less than one percent of revenues on administration (including personnel), compared to 45 percent of revenues for NHIF.
2. Over 98 percent of EHIF revenues come from payroll tax. Nevertheless, the financial statements do report on income from other sources and provide a narrative explanation. For example, in Estonia the subsidies provided to EHIF from the government’s budget are referred to as “targeted financing,” and this small amount of funding (less than one half of one percent of revenues) is explained under “Other Revenues” in the chapter on “Budget Execution” in the 2011 report.

¹ Koppel A., Kahur K., Habicht T., Saar P., Habicht J., and van Ginneken E., *Estonia: Health System Review. Health Systems in Transition*. 2008; 10(1): xix.

3. EHIF also earns income from its investments. This income is described in the chapter on “Budget Execution” under “Financial Income” and in the chapter containing financial statements. The chapter on “Budget Execution” describes interest income earned and income earned from sale of assets. The financial statements report on overall assets and liabilities held. EHIF has a modest investment portfolio, but it reports on equities and bonds held at the beginning and end of the year in its chapter on financial statements. It also describes fixed assets and debt in detail.
4. EHIF’s annual report does not contain information on mismanagement of funds or sanctions for abuse. However, it does contain an independent auditor’s assessment of the EHIF annual financial statement indicating an unqualified opinion in 2012 (no problems identified). EHIF appears to be audited externally not by Estonia’s National Audit Office, but by a private, third party auditor. Although the printing of the opinion in the Annual Report is laudable, it does not provide any further detail on potential areas of concern within the Fund. This is the only one of the five types of information that seems to be inadequate in Estonia.
5. The annual report contains extensive narrative information on policy developments at EHIF (such as adjustments to the capitation contracts used to pay family physicians), as well as quantitative data on performance (for example, Scorecard 2011, which compares 2011 scores on a number of indicators with 2010 performance and 2011 targets). The report also openly discusses ongoing challenges where little progress has been made, such as long waiting lists to access services.

United States

The United States has a complex health insurance landscape, but there is a public program that functions effectively as hospital insurance, similar to NHIF. This is the Medicare Part A program. Unlike NHIF, Medicare is available only to the aged and the disabled, but it covers a larger population because the size of the formal sector covered by state insurance is much higher in the United States than in Kenya.

Medicare is overseen by a Board of Trustees, which in turn reports to the U.S. Congress each year on the finances of Medicare Part A (as well as other parts of the program that do not concern us here). The Trustees produce an extensive annual report, which is available at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2012.pdf>.

We offer an assessment of this report against the five types of information we have discussed in this brief.

1. The report provides easy to understand information about Medicare Part A’s revenues and the benefits paid out, as well as the share spent on administration. Medicare spent only 1.7 percent of total income on administration (including personnel) in 2011.
2. Medicare is paid for from a combination of payroll tax contributions (like NHIF) and additional subsidies from government. When the share of the government subsidy rises above a certain level, the Trustees are required by law to issue a “funding warning” in their annual report to signal what the law considers to be an unhealthy financial situation. The report provides an estimate of the size of the government subsidy as a share of GDP (1.5 percent in 2012).

3. The report includes information on assets held by Medicare, changes in the value of those assets since the last annual report, and interest earned on assets held (Medicare Part A is essentially constrained to invest in public debt). Information on expenditures not related to health, such as funds expended on construction (for office space, etc.), is also included. The report does not contain information on the value of fixed assets, however, because under U.S. law these assets do not belong to Medicare, but to the general government account.
4. The only one of the five types of information that the Trustee report does NOT contain is that related to improper use of funds and sanctions. However, there are two sources of information that are readily accessible related to oversight of Medicare, which has struggled with issues of fraud over many years. The first is the Office of the Inspector General of the U.S. Department of Health and Human Services, which conducts regular audits of Medicare. This would be analogous to an internal audit unit within Kenya's Ministry of Medical Services that produced regular reports on financial management of NHIF. These reports are available online and look at such issues as whether Medicare follows proper procedures for reimbursement. For example, one recent report found that Medicare had overpaid for inpatient rehabilitation services in FY 2008 and 2009.² Medicare is also evaluated by an independent (external) government auditor, the U.S. Government Accountability Office (GAO), which also produces reports on Medicare operations. The GAO has identified Medicare as a "high-risk program" because of its susceptibility to fraud. In an April 2012 report, the GAO investigated progress Medicare had made on implementing procedures designed to reduce fraud.³ GAO reports are submitted to the U.S. Congress for action, and the GAO provided testimony to the Senate Committee on Finance based on the report. GAO reports are available online and free of charge, as well.
5. The report contains an assessment of Medicare's projected financial health for several decades into the future. These projections consider the financial impact of potential changes in how claims are paid, analogous to the shift from negotiated fee-for-service payments to capitation under Kenya's NHIF. This is important policy-related information that can affect overall costs for the insurance fund. The report also contains narrative information about contribution rates and changes in contributions policy.

² Report available at <http://oig.hhs.gov/oas/reports/region4/41100078.pdf>.

³ Report is available at <http://www.gao.gov/assets/600/590326.pdf>.