



KAM POSITION PAPER ON THE SOCIAL HEALTH INSURANCE FUND (SHIF) MARCH 2025

I Introduction

Access to affordable, quality healthcare remains a critical challenge for millions of Kenyans. According to the Kenya Demographic and Health Survey (KDHS) 2022, only 25% of Kenyans are covered by medical insurance, leaving over 37 million people uninsured. For many, a single hospital visit can result in catastrophic financial distress. A 2021 World Bank report revealed that one million Kenyans fall into poverty annually due to out-of-pocket medical expenses (World Bank, 2022).

In response, the government introduced the Social Health Insurance Fund (SHIF) to replace the National Hospital Insurance Fund (NHIF) and drive universal health coverage (UHC) under the Bottom-Up Economic Transformation Agenda (BETA) in 2024. The new model mandates a 2.75% deduction from gross salaries for all Kenyans, with the government subsidizing vulnerable groups.

While the goal of universal healthcare is commendable, SHIF's implementation poses significant economic challenges. For the average Kenyan worker, it means reduced take-home pay. For businesses, it translates to higher labor costs, reduced profit margins, and a tougher operating environment. This paper explores SHIF's impact on the industry, its economic consequences, and proposes viable solutions to balance healthcare access with economic sustainability.

2 Position Statement

The Kenya Association of Manufacturers (KAM) acknowledges the government's efforts to replace NHIF with SHIF, marking a pivotal moment in Kenya's healthcare journey. However, the introduction of SHIF has raised serious concerns across the sector. While the initiative aims to ensure healthcare access for all Kenyans, its rollout has reduced income levels, increased labor costs, and added financial strain on businesses. This could lead to higher expenditures related to employee remuneration and potential job losses.

To strike a balance, KAM recommends a tiered approach that ensures flexibility, protects businesses, preserves jobs, and sustains economic growth.

3 Background Information

Kenya's healthcare financing system has evolved since the establishment of NHIF in 1966. Initially designed for formal sector employees, NHIF later expanded to include informal sector workers. However, uptake remained low due to affordability challenges and structural inefficiencies.

SHIF, introduced under the Kenya Kwanza government's Bottom-Up Economic Transformation Agenda (BETA), aims to consolidate health financing under one scheme. It requires salaried individuals to contribute 2.75% of their gross earnings, with the government subsidizing vulnerable groups. While this model seeks to enhance financial sustainability, it

places a heavier burden on middle- and high-income earners and increases cost pressures on employers.

4 Key Concerns Regarding SHIF

While SHIF's goal of universal healthcare is laudable, its implementation has raised several concerns:

1. **Financial Burden on Employees:** The mandatory 2.75% deduction reduces disposable income, weakening purchasing power and slowing economic activity in an already high-inflation environment.
2. **Increased Administrative Costs for Employers:** Managing SHIF contributions requires additional resources, reducing overall business income and potentially leading to reduced wages, benefits, or downsizing.
3. **Compliance Burden:** New deductions necessitate modifications to payroll systems, increasing compliance costs for businesses.
4. **Impact on Recruitment and Retention:** Higher labor costs may force employers to cut jobs, slow hiring, or opt for automation, reducing job opportunities.
5. **Challenges for SMEs:** Small and medium-sized enterprises (SMEs), which operate on thin margins, may struggle to absorb these costs, leading to closures and reduced entrepreneurial activity.

5 Why This Matters for Manufacturing

Manufacturing is a cornerstone of Kenya's economy, contributing 7.8% to GDP, contributes 18% of overall taxes to the government and employing over 362,000 people directly (KNBS 2023). Policies that increase labor costs, such as SHIF, could weaken the sector's ability to expand and create jobs. Key concerns include:

- (i) Increased labor costs and reduced business viability.
- (ii) Potential job losses and a shift toward automation.
- (iii) Disproportionate burden on SMEs and informal sector businesses.
- (iv) Reduced disposable income and lower demand for locally manufactured goods.

6 A Win-Win Approach: Making SHIF Work for All

To ensure a fair and effective healthcare financing system, KAM proposes the following adjustments:

- (i) **Introduce a Tiered Contribution System:** Allow employees and employers to opt for alternative private health insurance schemes, similar to the NSSF Tier 2 system.
- (ii) **Allow Opt-Out for Employers Providing Private Insurance:** Employers offering comprehensive medical coverage should be exempt from mandatory SHIF contributions.
- (iii) **Implement a Phased Rollout:** Gradual implementation would reduce sudden financial strain on businesses and employees.
- (iv) **Simplify Compliance Procedures:** A digital, automated system would ease the administrative burden on manufacturers and SMEs.
- (v) **Establish Public-Private Partnerships:** Collaborate with private insurers and healthcare providers to create a hybrid system offering diverse coverage options.
- (vi) **Support SMEs:** Provide lower contribution rates, subsidies, or tax incentives to mitigate financial risks for small businesses.

7 Conclusion

Universal healthcare is a noble goal, but its financing must not come at the expense of economic sustainability. The current SHIF model places excessive financial strain on employees and employers, threatening Kenya's industrial growth. A tiered, flexible approach that balances healthcare access with economic stability is essential.

KAM remains committed to advocating for policies that support a thriving, competitive, and sustainable business environment while ensuring all Kenyans can access affordable, quality healthcare without financial distress.

References

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