Policy Brief

Investing in Ethiopia's Future: Transforming Health Expenditure into Strategic Economic Investment

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MINISTRY OF HEALTH, ETHIOPIA

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Vision

The EEA is envisioned to become a premier economics association in Africa by 2030.

Mission

The mission of EEA is to provide a platform for networking, access to information and learning; to contribute to a better understanding of the global, national and local economic issues; to inform and influence economic policymaking and investment decision; to offer training and foster the advancement of the discipline of economics.

Values

Professionalism, integrity, independence, quality, efficiency, inclusiveness, teamwork, accountability and transparency.

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1. Executive Summary

Ethiopia has achieved remarkable progress in improving population health over the past two decades, contributing to gains in life expectancy, reductions in child and maternal mortality, and expansion of primary healthcare access. However, these gains remain fragile due to persistent underinvestment, high out-of-pocket (OOP) spending, and declining external financing. Government health expenditure remains approximately USD 36.4 per capita, far below the recommended minimum of USD 86 required to ensure essential health services, while household OOP spending accounts for approximately 30% of total health expenditure. As a result, millions of Ethiopians remain vulnerable to catastrophic health expenditures and financial hardship.

At the same time, Ethiopia is undergoing a historic demographic and fiscal transition. With over 70% of the population under the age of 30 and ambitious reforms under the National Medium-Term Revenue Strategy (NMTRS) aiming to double the tax-to-GDP ratio (13.7%), Ethiopia has a unique opportunity to reposition health investment at the center of its economic development strategy. Evidence shows that health investment generates exceptionally high economic returns, with every USD 1 invested in priority health interventions yielding up to USD 19 in economic and social benefits.

This policy brief synthesizes evidence from national policy dialogue, expert consultation, and empirical literature to demonstrate that increasing health investment is both economically sound and fiscally feasible. Strategic health investment will accelerate economic growth, strengthen human capital, protect households from poverty, and support Ethiopia's long-term fiscal sustainability. Realizing this opportunity requires coordinated action across federal and regional governments, development partners, and communities to expand fiscal space, strengthen health financing systems, and prioritize health as a national investment.

2. Introduction

Health is a fundamental driver of economic growth, human capital development, and social stability. Healthy populations are more productive, more educated, and more capable of contributing to economic transformation. Investments in health improve labor productivity, enhance educational attainment, reduce poverty, and strengthen economic resilience. For developing economies, health investment is particularly critical because preventable illness and premature mortality significantly constrain workforce productivity and long-term growth potential.

Ethiopia stands at a pivotal moment in its development trajectory. The country is entering a demographic transition characterized by a rapidly expanding working-age population, creating a window of opportunity to accelerate economic growth through human capital development. At the same time, Ethiopia is implementing ambitious fiscal reforms to increase domestic revenue mobilization and reduce dependence on external financing. However, without adequate investment in health, the country risks undermining its economic potential, increasing household vulnerability, and weakening long-term fiscal sustainability. Transforming health expenditure into strategic investment is therefore essential to achieving universal health coverage, strengthening economic growth, and securing Ethiopia's future prosperity.

3. Results and Implications

1. Health Financing Remains Structurally Constrained

Although nominal government health spending has increased, Ethiopia's health financing remains insufficient to meet growing needs. Furthermore, inflation and currency depreciation have eroded real purchasing power. For instance, Health's share of total government expenditure has declined from 8.3% in 2019/2020to 7.2% in 2024/2025, diverging from the 15% Abuja target.

At the same time, households continue to bear a significant share of healthcare costs, with out-of-pocket payments accounting 31%, exposing households to financial hardship and pushing many into poverty each year.

Declining external financing further exacerbates these challenges. As Ethiopia transitions economically, donor support is decreasing, increasing the urgency of strengthening domestic health financing systems. Without adequate public investment, health system capacity will remain constrained, limiting progress toward universal health coverage. This signals that without ensuring a stronger Health financing structure, public financing, Public pooling, and evidence-based resource allocation/strategic health purchasing, progress towards Universal health coverage/ UHC will stall.

2. Health Investment Generates High Economic Returns

Empirical evidence shows that each additional year of life expectancy increases GDP per capita by approximately 4% in the long run. In Ethiopia, every USD 1 invested in priority disease control programs generates roughly USD 19 in economic and social returns. Interventions such as immunization and reproductive, maternal, newborn, and child health yield especially high multipliers. This attests that Health spending should be treated as a capital investment in human development rather than consumption expenditure.

3. Demographic Dividend Requires Strategic Health Investment

Ethiopia's youthful population provides a time-limited opportunity for accelerated growth. However, adolescent and youth health accounts for less than 5% of total health expenditure despite significant burdens of malnutrition, reproductive health risks, and emerging non-communicable diseases. This implies that without sustained investment in youth health and human capital formation, Ethiopia risks missing its demographic dividend.

4. Domestic Resource Mobilization Creates Fiscal Opportunity

Ethiopia's tax-to-GDP ratio remains low but is rising under NMTRS reforms. Tax revenue increased significantly 8.3% in FY2024/25, and revenue targets were achieved for the first time in history. The aims to increase the tax-to-GDP ratio to 13.7% within the coming decade. Fiscal gains must be strategically allocated to health through explicit political commitment, medium-term expenditure frameworks, and sectoral advocacy. **Revenue expansion alone is insufficient without prioritization.**

4. Conclusion

Ethiopia has a historic opportunity to transform its health financing system and position health investment as a central pillar of national development. The country's demographic transition, fiscal reform momentum, and growing economic potential create favorable conditions for strengthening health financing and achieving universal health coverage.

Health investment is not merely a social priority but an economic necessity. Strategic investments in health will improve productivity, strengthen human capital, reduce poverty, and support sustainable economic growth. **Failure to invest adequately in health risks undermines economic progress and increases long-term fiscal burdens.**

By prioritizing health investment and strengthening health financing systems, Ethiopia can build a healthier, more productive population and secure long-term economic prosperity.

Call to Action

1. Federal Government

i. Strengthen Domestic Resource Mobilization for Health

- Increase the share of public expenditure allocated to health in line with national targets and international benchmarks.
- Expand and optimize earmarked revenue streams (e.g., sin taxes, solidarity levies, and efficiency gains from tax administration).
- Learn from Rwanda and Ghana, where earmarked taxes and pooled funding significantly increased predictable health financing.
- Improve tax compliance and reduce leakage through digital systems and fiscal governance reforms.

ii. Expand Risk Pooling and Financial Protection Mechanisms

- Scale up Community-Based Health Insurance (CBHI) and accelerate the design and rollout of Social Health Insurance (SHI) for the formal sector.
- Ensure integration, cross-subsidization, and financial sustainability of insurance schemes through higher level pooling/HLP.
- Prioritize coverage for vulnerable populations, including women, children, persons with disabilities, and displaced communities.

iii. Improve Efficiency, Value for Money, and Public Financial Management

- Strengthen strategic purchasing, results-based financing, and program budgeting.
- Institutionalize routine public expenditure reviews, health technology assessments, and cost-effectiveness analysis.
- Enhance procurement, supply chain systems, and financial reporting to minimize waste and corruption.

iv. Prioritize Primary Health Care and Preventive Services

- Allocate increased and sustained funding to primary health care, nutrition, maternal and child health, and disease prevention.
- Invest in community health systems, frontline workers, and outreach programs.
- Leverage the experiences of Brazil and Rwanda, where PHC-centered financing produced strong health outcomes and cost containment.

v. Mobilize and Align Development Partner Support

- Align external financing with national priorities, budget systems, and medium-term expenditure frameworks.
- Transition from fragmented project-based funding to harmonized sector-wide and pooled financing modalities.
- Strengthen mutual accountability, transparency, and results monitoring frameworks.

vi. Catalyze Private Sector Engagement and Innovative Financing

- Develop blended financing models, public-private partnerships, and health impact investments.
- Support private providers in expanding affordable service delivery, especially in underserved areas.
- Learn from India and South Africa, where structured PPP models expanded service coverage and infrastructure.

vii. Strengthen Governance, Accountability, and Citizen Engagement

- Institutionalize participatory budgeting, social accountability tools, and transparent reporting.
- Empower civil society, professional associations, and community groups to monitor health spending and service delivery.
- Leverage digital platforms to enhance real-time transparency and citizen

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2. Regional Governments

- Strengthen health financing structures at the regional and down to the facility level by enhancing institutional capacity and promoting multisectoral collaboration to effectively implement key health financing functions.
- Improve budget allocation, execution efficiency, and accountability in health spending.
- Expand CBHI enrollment and strengthen regional pooling mechanisms.
- Prioritize adolescent and youth health services within regional health plans.
- Strengthen primary healthcare infrastructure and essential medicine financing.

3. Development Partners

- Align financial and technical assistance with domestic health financing reforms.
- Support institutional capacity building in tax policy, insurance reform, and strategic purchasing.
- Facilitate innovative financing mechanisms and blended finance models.
- Invest in evidence generation and policy dialogue to sustain reform momentum.

4. Communities and Civil Society

- Participate actively in health insurance enrollment and accountability mechanisms.
- Advocate for equitable and transparent health financing.
- Promote preventive health behaviors and community engagement in primary healthcare.
- Strengthen social accountability platforms to monitor service delivery and financial protection.

Final Message

Ethiopia stands at a defining moment. Strategic investment in health can unlock economic growth, strengthen human capital, and secure a healthier and more prosperous future. The time to act is now!