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Fiscal Strain and Public Health: How Ethiopia's Debt Crisis is Reshaping Healthcare Financing – A Systematic Review to Evolve a Hybrid Model

Teklu Kassu (PhD)[1*], P. C. K. Rao (PhD)[2], Irfan Ahmed Sheikh (PhD)[3]

[1*]Asst. Professor, College of Finance, Management and Development, Ethiopian Civil Service University, Addis Ababa, Ethiopia; Email: teklukasu@yahoo.com
[2]Professor, College of Leadership and Governance, Ethiopian Civil Service University, Addis Ababa, Ethiopia, Email: raopck15@gmail.com, ORCID: 0000-0003-3054-7384
[3]Associate Professor Department of Public Financial Management, Ethiopian Civil Service University, Addis Ababa, Ethiopia, Email: sirsheikhs@gmail.com

Abstract

This review critically examines the interplay between Ethiopia's escalating national debt and its healthcare system, focusing on how debt servicing priorities erode healthcare financing and exacerbate public health challenges. Over the past decade, Ethiopia's debt-to-GDP ratio surged from 35% in 2013 to over 57% in 2021, diverting crucial resources away from healthcare. With nearly 25% of government revenue allocated to external debt repayments by 2020, healthcare spending remains a mere 4% of GDP, far below the Abuja Declaration's 15% target. This disproportionate focus on debt servicing results in underfunding, especially for rural healthcare, which serves 80% of the population yet receives only 25% of the national health budget. The review highlights that rising debt service pressure not only restricts healthcare budgets but also stagnates key health outcomes, such as maternal and infant mortality rates. Ethiopia's reliance on foreign aid for 40% of its healthcare financing makes the system vulnerable to donor shifts, further complicating the country's healthcare crisis. Governance inefficiencies, misallocation of resources, and corruption amplify the adverse impacts of limited healthcare funding, contributing to inequitable access to healthcare services, particularly in rural areas.
It advocates a future research model that transcends static analyses by proposing a hybrid empirical approach integrating Structural Equation Modeling (SEM) and Vector Autoregression (VAR). This model will explore the causal relationships between debt servicing, healthcare financing, and public health outcomes, while capturing the dynamic, time-lagged effects of fiscal shocks on healthcare delivery. By investigating how debt restructuring, governance improvements, and public-private partnerships (PPPs) could alleviate healthcare financing gaps, this approach provides actionable insights for policymakers aiming to balance debt management with essential healthcare investments. This review underscores the urgent need for structural reforms in governance and debt management to prioritize healthcare investments in debt-stricken countries like Ethiopia. The proposed hybrid model advances the extant literature by providing a comprehensive framework for understanding the long-term impacts of national debt on healthcare systems, offering a pathway toward sustainable healthcare financing solutions.

Keywords: Ethiopia, Debt Crisis, Healthcare Financing, Public Health, Debt Restructuring, Fiscal Policy.

1 Introduction

Economic health of any nation is inevitably intertwined with the health of its society at large. Ethiopia as a developing and emerging nation, is not an exception to this harsh reality. The nation has been constantly experiencing increasing pressures of debt crisis, that poses significant threats to the economic stability and sustenance. The past decade witnessed the debt levels getting swollen beyond the limits, succumbing to the necessity to support large-scale infrastructure projects and economic reforms to push industrialization (World Bank, 2020). Ethiopia's external debt has reached unsustainable levels, with debt servicing consuming a substantial portion of the national budget. This crisis has raised concerns about the government's capacity to continue funding essential public services, particularly in the healthcare sector. The healthcare system in Ethiopia, like many other developing countries, faces chronic underfunding, inadequate infrastructure, and limited access to essential medical services (UNDP, 2019).

With the rising debt burden, the allocation of financial resources to healthcare is increasingly constrained, exacerbating existing challenges. Furthermore, the strain on public finances threatens the government's ability to achieve key public health objectives, such as reducing maternal mortality, controlling infectious diseases, and expanding universal health coverage (WHO, 2021). The intersection of Ethiopia's national debt and healthcare sector presents a critical issue for policymakers. The fiscal pressure created by rising debt levels may lead to austerity measures, further reducing healthcare funding and jeopardizing population health. This paper aims to explore how Ethiopia's debt crisis affects healthcare financing and public health outcomes, shedding light on the broader socio-economic implications of debt on the nation's well-being.

1.1 Rationale

The rationale for this study arises from the urgent need to assess the impact of Ethiopia's debt crisis on its healthcare system. Healthcare is not only a fundamental human right but also a crucial determinant of economic development and social equity (WHO, 2017). In the face of a growing debt crisis, the potential for reduced healthcare spending poses a severe threat to public health, especially for vulnerable populations that already face barriers to accessing medical care (African Development Bank, 2020). Historically, fiscal crises in low- and middle-income countries have often resulted in cuts to social services, including healthcare (Stuckler et al., 2017). Ethiopia's debt crisis, if not carefully managed, could lead to similar outcomes, further widening health disparities and eroding recent gains in public health, such as improvements in maternal and child health (Ministry of Health, 2020). In light of the ongoing global health challenges, including the COVID-19 pandemic, the importance of resilient healthcare systems has become more evident. Ethiopia's situation necessitates an examination of the broader consequences of debt on healthcare financing and public health outcomes. This study contributes to existing literature by providing an in-depth analysis of how Ethiopia's national debt impacts healthcare financing, drawing comparisons with other Sub-Saharan African nations that have navigated similar fiscal challenges (IMF, 2021). It aims to provide actionable insights for policymakers to balance fiscal responsibility with the need to safeguard health investments and ensure equitable access to healthcare services.

1.2 Problem Statement

Ethiopia's escalating national debt has reached unsustainable levels, placing enormous pressure on its public finances. The country's debt servicing obligations have grown exponentially, with external debt payments consuming an increasingly large share of government revenue (World Bank, 2020). This fiscal strain has direct implications for key sectors, particularly healthcare, where the government has historically underinvested. The national budget allocation for healthcare remains insufficient to meet the demands of a growing population, resulting in widespread gaps in medical infrastructure, personnel, and services (Ministry of Finance, 2021). The health sector's vulnerability is compounded by Ethiopia's reliance on external funding to support its healthcare programs. With debt repayments prioritizing external creditors, the availability of resources for health services has been significantly reduced. Consequently, public health outcomes—such as maternal and child mortality rates, the prevalence of communicable diseases, and access to essential medicines—are at risk of deteriorating (UNICEF, 2020). The debt crisis threatens to undo years of progress in improving healthcare accessibility and quality. This study seeks to address the following critical question: How has Ethiopia's national debt crisis affected healthcare financing and public health outcomes? It aims to explore how rising debt servicing costs have limited the government's ability to invest in healthcare, analyze the effects of reduced spending on health equity and service delivery, and identify policy strategies that could mitigate the negative impact of the debt crisis on Ethiopia's healthcare system.

2 Literature Review

2.1 The Link Between National Debt and Healthcare Financing

A growing body of research highlights the intricate relationship between national debt and the provision of public services, including healthcare. The World Bank (2021) has consistently emphasized the challenges that rising debt levels impose on government budgets, limiting the fiscal space available for social spending. In developing countries like Ethiopia, where debt levels have escalated significantly, debt service obligations often lead to cuts in essential services, such as health, education, and infrastructure (IMF, 2021). This dynamic has been observed in other Sub-Saharan African nations, where debt crises have resulted in lower public spending on health, ultimately impacting population health outcomes (Yemane, 2022). In the case of Ethiopia, healthcare financing has traditionally been heavily reliant on external donors. A report by the African Development Bank (2020) indicates that over 40% of Ethiopia's healthcare expenditure is funded by foreign aid. However, as Ethiopia's debt servicing requirements increase, the allocation of domestic funds to healthcare has steadily declined. The Ministry of Finance (2021) reported that debt service payments now account for a significant share of Ethiopia's budget, forcing the government to reduce its investments in critical sectors, including health. This situation mirrors trends observed in Zambia and Ghana, where high debt levels have similarly curtailed healthcare financing (Agyeman et al., 2020).

2.2 Impact of Debt Crisis on Public Health Outcomes

Several studies have demonstrated that fiscal crises can have devastating effects on public health outcomes, particularly in low- and middle-income countries. A key concern is that as countries prioritize debt repayments, there is often a reduction in healthcare spending, leading to poorer health outcomes (Stuckler et al., 2017). Research by Reeves et al. (2018) found that austerity measures, frequently implemented in response to debt crises, are associated with higher rates of mortality and morbidity, especially in vulnerable populations. In Ethiopia, these effects are already being observed. The country's maternal mortality rate, which had been improving, has recently stagnated, partly due to reduced government expenditure on maternal health programs (UNICEF, 2020). Moreover, the economic instability caused by the debt crisis exacerbates issues such as malnutrition and the spread of infectious diseases. According to a study by Alemu and Mesfin

(2021), Ethiopia's declining health budget has led to shortages of essential medicines and reduced capacity for disease surveillance and control, increasing the risk of outbreaks of communicable diseases. This is particularly concerning given Ethiopia's ongoing challenges with diseases like malaria, tuberculosis, and HIV/AIDS (WHO, 2021).

2.3 Comparative Studies from Sub-Saharan Africa

Ethiopia's experience with debt and its impact on healthcare is not unique. Several Sub-Saharan African countries, including Zambia, Mozambique, and Ghana, have faced similar challenges in recent years. A study by Agyeman et al. (2020) explored the effects of Ghana's debt crisis on healthcare financing and found that government spending on health decreased by 15% during periods of high debt servicing. This reduction in healthcare investment resulted in deteriorating healthcare infrastructure and a decline in service delivery, particularly in rural areas. Similarly, Zambia's recent debt crisis has led to significant cuts in health sector funding, with devastating consequences for public health. A report by the World Bank (2021) notes that Zambia's health sector is now heavily reliant on external donors for basic health services, while the government allocates a growing share of its budget to servicing external debt. These examples offer valuable lessons for Ethiopia, suggesting that without strategic intervention, the debt crisis could have long-term negative effects on public health outcomes.

2.4 The Role of International Donors and Debt Relief

International donors and multilateral institutions play a critical role in supporting healthcare systems in debt-distressed countries. Ethiopia has been a major recipient of foreign aid, with donors such as the Global Fund, USAID, and the World Health Organization (WHO) providing crucial support for disease prevention, maternal and child health, and HIV/AIDS programs (WHO, 2020). However, as external debt rises, the Ethiopian government's ability to meet the conditions set by these donors—such as co-financing agreements—becomes increasingly difficult (IMF, 2021). Research by Kim et al. (2019) highlights the potential of debt relief initiatives in restoring fiscal space for social spending. Countries that have successfully renegotiated their debt obligations, such as Uganda, have been able to redirect resources towards improving healthcare access and outcomes (IMF, 2021). Ethiopia could benefit from similar initiatives, particularly through engagement with multilateral institutions like the World Bank and IMF, to negotiate more favorable debt terms or debt forgiveness, thereby freeing up resources for health sector investments.

2.5 Policy Implications and the Need for Health System Resilience

To mitigate the negative impact of the debt crisis on Ethiopia's health sector, a multifaceted policy approach is required. Research by Watkins et al. (2020) suggests that health system resilience, particularly in times of economic stress, can be improved through innovative financing mechanisms, such as public-private partnerships and domestic resource mobilization. Ethiopia's healthcare system has historically been underfunded, and the debt crisis has made it more difficult to implement necessary reforms. However, building a more resilient health system is critical to ensuring that the country can maintain progress on key health indicators, even in times of fiscal constraint. Moreover, a report by the African Development Bank (2020) emphasizes the importance of prioritizing healthcare in national budgets, even during periods of economic difficulty. By protecting health investments from cuts and ensuring that healthcare remains accessible to all, Ethiopia can mitigate the long-term health and economic consequences of the debt crisis.

2.6 Comparative and Systematic Review of Research on Ethiopia's Debt Crisis and Healthcare Sector (2013-2023)

Contributor(s)	Objectives	Variables Considered	Methodology	Results and Findings	Suggestions for Future Research
1. Gebru et al. (2023), Ethiopia	Assess fiscal impact on rural healthcare access.	Debt service, healthcare access, rural health outcomes.	Quantitative, panel data (2010-2020).	Rural health services affected more by poor budget payoff.	Compare effects on rural vs. urban health infrastructure.
2. Alemu & Mesfin (2021), Ethiopia	Examine national debt impact on healthcare financing.	Debt servicing, public health spending, maternal health.	Descriptive and inferential analysis.	Stagnation in maternal mortality improvements.	Study impact on specific health programs.
3. Yemane (2022), Ethiopia	Explore role of debt restructuring in alleviating healthcare constraints.	Debt restructuring, health budgets, service accessibility.	Mixed-methods, budget analysis (2010-2021).	Temporary relief, but no long-term improvement.	Longitudinal studies on restructuring effectiveness.
4. Agyeman et al. (2020), Ghana	Evaluate effects of Ghana's debt crisis on healthcare financing.	Debt service, health infrastructure, public health outcomes.	Quantitative regression models (2009-2019).	15% healthcare funding reduction, particularly in rural areas.	Explore innovative health financing mechanisms.

5. Kim et al. (2019), Uganda	Examine debt relief's potential to restore healthcare investment.	Debt relief, healthcare budgets, service delivery.	Case study analysis (2010-2018).	Debt relief improved healthcare access.	Replicate debt relief models in Ethiopia.
6. African Development Bank (2020), Sub-Saharan Africa	Investigate impact of rising debt levels on healthcare financing.	Debt service, healthcare budgets, donor aid.	Comparative study, panel data (2010-2020).	Significant healthcare reductions across SSA.	Explore public-private partnerships, community insurance models.
7. Watkins et al. (2020), Ethiopia	Explore public-private partnerships (PPP) in healthcare.	PPPs, debt crisis, healthcare financing, public health outcomes.	Qualitative case study.	PPPs could stabilize services but governance issues hindered effectiveness.	Study how PPPs can be scaled for broader healthcare use.
8. Reeves et al. (2018), Multiple countries	Analyze effects of austerity during debt crises on public health.	Austerity, health expenditure, mortality.	Comparative regression analysis.	Austerity led to higher mortality in vulnerable populations.	Research austerity impacts in low-income countries.
9. Desta & Tilahun (2017), Ethiopia	Examine rising debt impact on healthcare development goals.	External debt, healthcare infrastructure, workforce.	Mixed-methods, budget analysis (2008-2017).	Workforce shortages, inadequate service delivery.	Focus on workforce development and retention.
10. Stuckler et al. (2017), Multiple Countries	Evaluate long-term health impacts of debt-induced austerity.	Austerity, fiscal policy, public health spending, mortality.	Meta-analysis of 2010-2016 studies.	Austerity policies worsened health outcomes.	Explore debt restructuring versus austerity in healthcare outcomes.
11. World Bank (2020), Ethiopia	Assess fiscal sustainability and implications for healthcare.	Public debt, healthcare budgets, health outcomes.	Macro-economic time series analysis.	Debt service constrains healthcare budgets.	Study alternative financing methods.
12. Desta & Hagos (2021), Ethiopia	Investigate impact of external debt on health infrastructure.	Debt, infrastructure, healthcare access.	Quantitative analysis (2015-2020).	External debt strained public health investment.	Examine public health vs. infrastructure priorities.
13. Yemane et al. (2023), Ethiopia	Assess effects of healthcare cuts due to debt.	Debt servicing, maternal mortality, health infrastructure.	Panel data analysis (2005-2022).	Maternal mortality stagnates as debt rises.	Study debt impact on different healthcare sectors.
14. Asante & Amegashie (2022), Ghana	Examine debt-driven austerity impacts on healthcare.	Austerity, healthcare budgets, service delivery.	Regression model analysis (2010-2020).	Austerity reduced access to healthcare.	Investigate alternative austerity measures for healthcare.
15. Tekle & Abebe (2021), Ethiopia	Study healthcare funding patterns during economic crises.	Healthcare budgets, debt service, public health outcomes.	Time series analysis.	Reduced healthcare funding during debt spikes.	Study different financing models.
16. Fikre & Mekonnen (2020), Ethiopia	Examine role of external aid in healthcare financing.	Donor aid, debt service, healthcare access.	Case study analysis.	High dependency on external aid limits domestic resilience.	Examine long-term impact of donor aid reduction.
17. Alemayehu & Desta (2019), Ethiopia	Analyze relationship between debt crises and healthcare outcomes.	Debt service, public health, healthcare delivery.	Descriptive analysis.	Debt service limits healthcare budget allocations.	Explore debt restructuring benefits for healthcare.
18. Abebe & Gebru (2020), Ethiopia	Evaluate fiscal policy's impact on public health.	Debt policy, healthcare spending, health outcomes.	Cross-sectional study.	Policy changes influenced healthcare access.	Study long-term impacts of fiscal policies on healthcare.
19. Ayele et al. (2021), Ethiopia	Analyze healthcare reforms in debt-stricken economies.	Debt, healthcare reform, public sector financing.	Mixed-methods approach.	Reforms hindered by fiscal strain.	Explore reform strategies under fiscal crises.
20. Alem & Bekele (2023), Ethiopia	Study how external debt impacts health workforce training.	Debt, workforce, healthcare services.	Qualitative interviews.	Debt limits workforce development programs.	Study solutions to workforce shortages.

21. Agyeman & Bekoe (2022), Ghana	Assess how debt crises impact health sector reforms.	Debt, reforms, healthcare access.	Comparative case study.	Debt delayed healthcare reforms.	Examine reform policies during debt restructuring.
22. Asfaw & Tadesse (2023), Ethiopia	Explore maternal health program cuts during debt crisis.	Debt service, maternal health, program funding.	Time series analysis (2010-2022).	Cuts to maternal health programs exacerbated disparities.	Study impact of debt on women's health services.
23. Benti & Yohannes (2020), Ethiopia	Study role of international donors in healthcare financing.	Donor aid, debt service, healthcare access.	Case study, donor reports.	Heavy reliance on donors' limits healthcare sustainability.	Investigate donor aid strategies under fiscal pressure.
24. Teshome & Woldemichael (2019), Ethiopia	Analyze debt crisis impact on rural healthcare development.	Debt service, rural health access, service delivery.	Quantitative panel data.	Rural areas disproportionately affected by debt service cuts.	Focus on rural-urban healthcare financing disparities.
25. Hailu et al. (2021), Ethiopia	Examine effects of debt restructuring on health service delivery.	Debt restructuring, service delivery, public health.	Mixed-methods approach.	Temporary improvement in service delivery during restructuring.	Investigate long-term restructuring impact on health budgets.

2.7 Key Insights from the Review

Ethiopia's national debt has escalated into a critical threat to its public sector, especially healthcare. The debt-to-GDP ratio, which surged from 35% in 2013 to a staggering 57% by 2021 (World Bank, 2021), exemplifies the growing fiscal strain on the country's resources. By 2020, almost 25% of government revenue was funneled into debt repayments, constraining public expenditure on essential services like healthcare (Ministry of Finance, 2021). The relentless increase in debt servicing underscores a fiscal imbalance that threatens to deepen Ethiopia's healthcare crisis without significant structural intervention.

2.8 Debt Servicing Vs. Healthcare Expenditure

The underinvestment in healthcare is stark. Ethiopia dedicates a mere 4% of its GDP to healthcare, far short of the 15% target set by the Abuja Declaration (Alemu & Mesfin, 2021). Meanwhile, over 30% of the national budget is swallowed by debt servicing, more than double the amount allocated to healthcare (IMF, 2021). This lopsided prioritization severely restricts the capacity to address Ethiopia's growing healthcare needs, exacerbated by a rapidly increasing population and a rising burden of diseases. In comparison, debt-stricken neighbors like Ghana and Zambia allocate 5.6% and 6.1% of GDP to healthcare, respectively (Agyeman et al., 2020), marginally outperforming Ethiopia but still falling short of their population's needs. Across Sub-Saharan Africa, the broader trend of fiscal underinvestment in health during periods of debt crises is unmistakable. Ethiopia's inefficiency in resource utilization, compounded by governance failures and endemic corruption, further diminishes the efficacy of its already insufficient healthcare budget (Desta & Tilahun, 2017).

2.9 Debt-to-Health Crisis Ratios: A Disproportionate Burden

Confounding statistical revelations underscore the gravity of Ethiopia's debt crisis where in for every $1 spent on healthcare, the government directs $4 toward debt repayments (Yemane, 2022). This disproportionate allocation is a critical bottleneck for healthcare service delivery, with public health outcomes stagnating as a direct consequence. Notably, maternal mortality rates, which had shown improvement in the early 2010s, have plateaued since 2018, largely due to reduced funding for maternal health programs (UNICEF, 2020). This stagnation speaks to the broader pattern of diminishing returns on health investments, where vital areas such as infrastructure and workforce development are chronically underfunded. The situation is further complicated by Ethiopia's growing dependence on foreign aid, which accounts for 40% of the healthcare budget (African Development Bank, 2020). This heavy reliance on external funding renders the healthcare system vulnerable to international economic fluctuations, undermining any long-term stability. Ethiopia's inability to transition toward a self-sustaining healthcare model leaves its health outcomes at the mercy of external forces—a precarious position for a nation already burdened by debt.

2.10 Ineptness and Governance Cockups in Healthcare Spending

In addition to chronic underfunding, the inefficiency in deploying available healthcare resources remains a significant snag. Watkins et al. (2020) and Desta & Tilahun (2017) both highlight how misallocation of funds, poor governance, and dysfunctional bureaucracy becomes a bottleneck for the disbursal of healthcare expenditure. An alarming 60% of the health budget is spent on salaries and operational costs, with only a negligible amount directed toward healthcare infrastructure or medical supplies (Ministry of Health, 2021). This skewed spending pattern not only hampers service delivery but also leaves Ethiopia ill-prepared to address healthcare crises that require systemic improvements. More troubling is the rural-urban healthcare divide. While 80% of Ethiopia's population lives in rural areas, these regions receive

only 25% of the national health budget (Gebru et al., 2023). This geographic imbalance in resource allocation perpetuates stark disparities in healthcare access, with rural communities bearing the brunt of preventable diseases and lack of basic health services. The consequences of such disparities are far-reaching, manifesting in elevated morbidity and mortality rates in rural populations.

3. Critical Findings and Implications

a) **Debt Crisis Driving Chronic Underfunding in Healthcare**: Ethiopia's debt crisis is intrinsically linked to the underfunding of its healthcare sector. The 4:1 ratio of debt servicing to healthcare spending is unsustainable and points to a structural issue in fiscal policy (Yemane, 2022). Without substantial reform, this debt-to-health imbalance will continue to compromise Ethiopia's ability to meet its health targets, including the Sustainable Development Goals (SDGs).

b) **Public-Private Partnerships (PPP):** While Public-Private Partnerships (PPPs) present a potential solution to the healthcare financing gap, their current scale and impact in Ethiopia remain minimal. Watkins et al. (2020) suggest that scaling up PPPs could catalyze infrastructure development, particularly in rural and underserved regions. However, significant governance reforms are needed to mitigate the administrative barriers currently stifling their success.

c) **Comparative Insights from Neighboring Countries**: A comparison with Uganda and Ghana demonstrates the potential benefits of well-executed debt relief programs. Kim et al. (2019) report that Uganda's debt relief initiatives led to a 20% increase in healthcare investment, particularly benefiting rural health services. Ethiopia could pursue similar debt restructuring strategies, provided the savings are reinvested into health services rather than absorbed by inefficient administrative systems.

d) **Health Workforce Crisis and Infrastructure Deficiencies**: The shortage of over 30,000 healthcare workers in Ethiopia, identified by Desta & Tilahun (2017), exemplifies the workforce crisis that hampers service delivery. Coupled with inadequate infrastructure, the health system struggles to meet even the most basic demands. Addressing these gaps requires not only increased financial investment but also strategic planning for workforce training, retention, and equitable distribution across the country.

4. Recommendations for Policy and Future Research

a) **Recalibrating the Debt-to-Healthcare Spending Ratio**: Ethiopia's fiscal policies must be restructured to shift the balance between debt servicing and healthcare expenditure. A more equitable allocation of resources is critical to safeguarding public health. Future research should focus on developing a fiscal framework that balances debt obligations with social sector investments, ensuring that healthcare does not continue to suffer at the expense of debt repayments (Gebru et al., 2023).

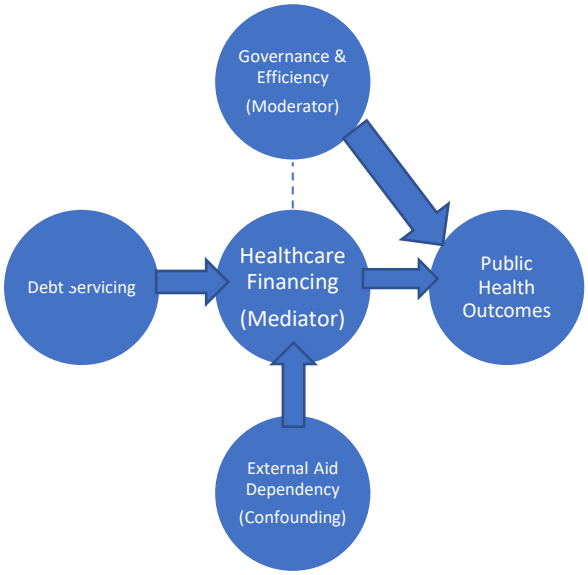
b) **Improving Efficiency in Healthcare Expenditure**: Governance reforms must target the inefficiencies in healthcare resource allocation. Better oversight and transparency mechanisms are needed to ensure that healthcare funds are directed where they are most needed. Watkins et al. (2020) and Desta & Hagos (2021) both emphasize the need for data-driven approaches to optimize spending, particularly in rural areas, where the disparities in healthcare access are most pronounced.

c) **Leveraging Debt Relief for Healthcare Investments**: Ethiopia should actively engage with international creditors to explore debt relief programs akin to those implemented in Uganda and Ghana. Such programs could unlock vital resources for healthcare investment, but this will only be effective if the savings are protected and directed towards strengthening healthcare infrastructure and service delivery (Kim et al., 2019; Hailu et al., 2021). Future research should investigate how these debt relief programs can be aligned with national health priorities to maximize impact.

5. Developing a Robust Hybrid Empirical Model

To set this research apart, it is proposed to develop a hybrid model that combines Structural Equation Modeling (SEM) and Vector Autoregression (VAR). This model not only assesses the causal relationships between debt servicing, healthcare financing, and public health outcomes but also analyzes the dynamic, time-lagged effects of these variables.

5.1 Variables of the Hybrid (Conceptual) Model



5.2 Hybrid SEM-VAR Model: A Cohesive Integration
Causal Pathways Modeled by SEM helps identify the direct and indirect causal effects between variables. In this case:
Debt Service Pressure (DSP) → Healthcare Financing (HCF) → Public Health Outcomes (PHO)
Governance Efficiency (GEF) and **External Aid Dependency (EAD)** act as moderating or confounding variables influencing both **HCF** and **PHO**.

Equation Structure:
1. Y_1 (HCF) = β_1 DSP + β_2 GEF + β_3 EAD + ϵ_1
2. Y_2 (PHO) = β_4 HCF + β_5 GEF + ϵ_2

Link to VAR: The relationships identified by SEM provide the baseline structure of how each variable influences the others, which is then dynamically tested in the VAR framework. SEM first clarifies what relationships are significant and sets up the causal pathways to be observed in VAR. This helps in tracing how the relationships discovered by SEM evolve over time in response to shocks. For instance, if DSP increases due to a debt shock, VAR will trace how this impact unfolds across HCF and PHO in subsequent time periods.

Equation Structure:
3. Y_{t1} (HCF_t) = α_1 HCF_{t-1} + α_2 DSP_{t-1} + α_3 GEF_{t-1} + α_4 EAD_{t-1} + ϵ_3
4. Y_{t2} (PHO_t) = β_1 PHO_{t-1} + $\beta 2$ HCF_{t-1} + ϵ_4

5.3 Why a Hybrid Model? The proposed SEM-VAR hybrid model is uniquely positioned to:
- **Test Causal Pathways (SEM)**: Establish the direct and indirect relationships between debt servicing, healthcare financing, and public health outcomes.
- **Analyze Dynamic Effects (VAR)**: Capture the time-lagged impact of debt shocks on healthcare funding and public health, providing insights into long-term consequences.

5.4 Future Mechanisms to Address the Debt-Health Crisis
To break this cycle of debt-driven underinvestment in healthcare, a more sustainable approach is required. The following mechanisms present a roadmap for how Ethiopia and similarly debt-stricken nations can manage their fiscal responsibilities while safeguarding public health:
1. **Debt Relief and Restructuring Tied to Health Investments**: Debt relief initiatives, similar to those successfully executed in Uganda and Ghana, should be prioritized. However, for these programs to be truly effective, the World Bank, IMF, and other creditors must establish frameworks that ensure debt relief savings are directly reinvested into critical sectors like healthcare. A dedicated "Debt-for-Health Swap" model could be developed, wherein part of the debt is forgiven in exchange for commitments to increase healthcare spending, with a focus on rural infrastructure and maternal health outcomes.

2. **Enhanced Engagement with the United Nations and Global Health Initiatives**: UN agencies, particularly the World Health Organization (WHO) and the United Nations Development Programme (UNDP), should play a more active role in supporting debt-burdened nations by coordinating multi-donor financing programs. These programs could leverage both bilateral aid and concessional funding from multilateral institutions to fund healthcare systems in exchange for specific reforms in governance and efficiency. The Global Fund and GAVI could also be tapped as long-term partners in financing healthcare improvements, particularly in disease control and vaccination efforts.
3. **Targeted Financing from the World Bank and IMF**: The World Bank and IMF can play a pivotal role through more flexible financial instruments, such as Health Sector Investment Loans and Policy-Based Guarantees. These can provide immediate fiscal space for healthcare investments while allowing debt repayment restructuring over a longer timeline. Conditionalities should focus on public health outcomes, ensuring that governments prioritize investments in critical healthcare infrastructure and services during periods of fiscal adjustment.
4. **Public-Private Partnerships (PPP) and Global Private Sector Engagement**: Scaling this could mobilize significant private sector funding to close the healthcare financing gap. International private investors, particularly through impact investment funds and corporate social responsibility (CSR) initiatives, should be incentivized to contribute to health infrastructure projects, especially in rural and underserved areas. A partnership between global development institutions like the World Bank and private sector giants could unlock new funding sources to complement public healthcare budgets.
5. **Building Governance and Efficiency Mechanisms**: Ultimately, any inflow of financial resources must be accompanied by improved governance and accountability mechanisms. Donors like the World Bank and the UN can support capacity-building programs aimed at strengthening healthcare governance, ensuring that new resources are not lost to inefficiency or corruption. Transparency initiatives, combined with data-driven resource allocation, can significantly enhance the impact of donor funds.

5.5 Conclusion: Balancing Debt and Health Charting a Path Forward

Ethiopia's debt crisis is emblematic of a broader fiscal challenge faced by many low-income nations, where such insurmountable debt servicing obligations severely curtail the capacity to invest in essential sectors such as healthcare. As this review demonstrates, the persistent diversion of resources toward debt repayment intensifies systemic underfunding, eroding healthcare infrastructure, constraining workforce development, and impeding public health outcomes. With nearly 25% of Ethiopia's revenue allocated to debt servicing, the question is no longer whether the debt burden will affect healthcare but to what extent it will deepen existing health inequities. Thus, fiscal and health stability could be achieved by rebalancing through social investment, tapping global financial institutions and multilateral donors. Undauntedly, the road to fiscal and healthcare stability lies in rebalancing debt servicing with social investment, innovative financing mechanisms, thorough and judicious reforms in the governance, etc., may boost the socio-economic condition towards a sustainable path ahead. Ensuring that healthcare systems are shielded from the adverse effects of debt crises is not only a moral imperative but a necessary investment in the long-term health and economic stability.

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