**Effect of currency exchange rate fluctuations on Aid Effectiveness in the Health Sector in Zambia**

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Development assistance for health (DAH) remains a significant and important source of health financing in many low and lower middle-income countries. However, this assistance has not been fully effective. This study explores the effect of currency exchange rate fluctuations on volatility of DAH in Zambia using a mixed methods approach. Data covering the period 1997–2008 were collected from various financial and programmatic reports, while six key informant interviews were conducted to validate and translate findings from the quantitative analysis. Results show fluctuations in the volume of funds disbursed to the Ministry of Health by donors due to changes in the exchange rates between non-US$ currencies and the US$, ranging from -11.1% to +13.4% during the period 1997–2008. The overall effect was a loss of US$13.4 million over the period 1997–2008 which is equivalent to an annual average loss of US$1.1 million per annum. There were also fluctuations in the US$ amount that was converted to the Zambian Kwacha to fund districts ranging from -22% to +22% over the same period. The monthly average loss that was incurred was US$302,214 per month, but large gains and losses were observed when individual months were analysed. The results further show that currency exchange rate losses contribute to reductions in the health workforce, quantity and quality of health services, while currency exchange rate gains can contribute to reduced absorption capacity and/or low utilization of financial resources. The study concludes that fluctuations in currency exchange rates contribute to volatility in DAH, reduces financial stability and leads to unpredictability of DAH which ultimately affects health service delivery. For DAH to be effective, governments and donors should increase awareness and work systematically to mitigate currency exchange risks.

**Keywords:** Development assistance for health, aid effectiveness, predictability of aid, aid volatility, currency exchange risks, Zambia.