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Facing Complexity in Development Finance: Challenges for a Donor Darling

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- ◆ Despite growing aid volumes, financing development is becoming more difficult, not less.
- ◆ Better information on private finance flows will help developing-country governments craft more effective policies.
- ◆ Without stronger government leadership, well-intentioned but diverging donor approaches risk cancelling each other out.

Ghana's Ministry of Health has a problem: every year, 3.5 million Ghanaians are infected with malaria, levels of infant mortality and maternal mortality remain high, and HIV/AIDS is far from under control. Luckily, the Ministry is not alone. A supportive central government is allocating increasing proportions of its annual budget to the health sector (17 per cent in 2006, exceeding international targets under the Abuja Declaration). External help is also abundant, with 19 official aid agencies, over 400 non-governmental organisations (NGOs), as well as several international pharmaceutical firms and foundations active in the health sector. So, are many hands making light work, or are too many cooks spoiling the broth?

The proliferation of official donors and private givers is now a common phenomenon in poor countries. Ghana, for example, is referred to as a "donor darling" in aid circles. In theory, more donors should mean more money and greater choice in reducing poverty and financing development. In practice, however, many poor country administrations are overwhelmed by the new complexity in development finance. They need new tools to face it successfully.

Strengthening information systems

For a start, governments and donors should improve their grasp of what money is flowing where. Strong information systems and data collection are a prerequisite for effective policies. In Ghana, for example, better information on household expenditure could help the Ministry of Health determine the right contribution levels for the newly established National Health Insurance Scheme. Leaving aside modest user fees that flow through the Ministry's

budget, most household spending is currently off official radar screens, despite WHO estimates that it accounts for around 65 per cent of the country's total spending on health.

Besides more information about domestic spending, governments need better data on private inflows from abroad, to help them make smarter allocation decisions. Knowing that private actors prefer to fight infectious diseases, for example, may free up public funds for general health systems support.

Unfortunately, the data on private flows to Ghana are highly inadequate. While the International Monetary Fund reports remittance flows – the money sent home by migrants – at \$ 100 million for 2005, the Bank of Ghana estimates at a vastly higher \$ 1.5 billion. Similarly, the Ministry of Health claims that private donations (for example from foundations) reached \$ 176 million between 2004 and 2005, but, when asked, is unable to break down this figure into further detail. Given the size of these estimates, private flows deserve to be tracked much more closely.

Improving co-ordination mechanisms

Policy makers have long been aware that their lack of co-ordination has raised the costs of fighting poverty. It is for this reason that they adopted the Paris Declaration on Aid Effectiveness in 2005, agreeing that government and donor priorities should be aligned, and that donors should reduce their bureaucratic demands on recipient-country administrations.

In Ghana's health sector, most donors have been putting these principles into practice. They are providing direct support to the Ministry of Health rather than "micromanaging"

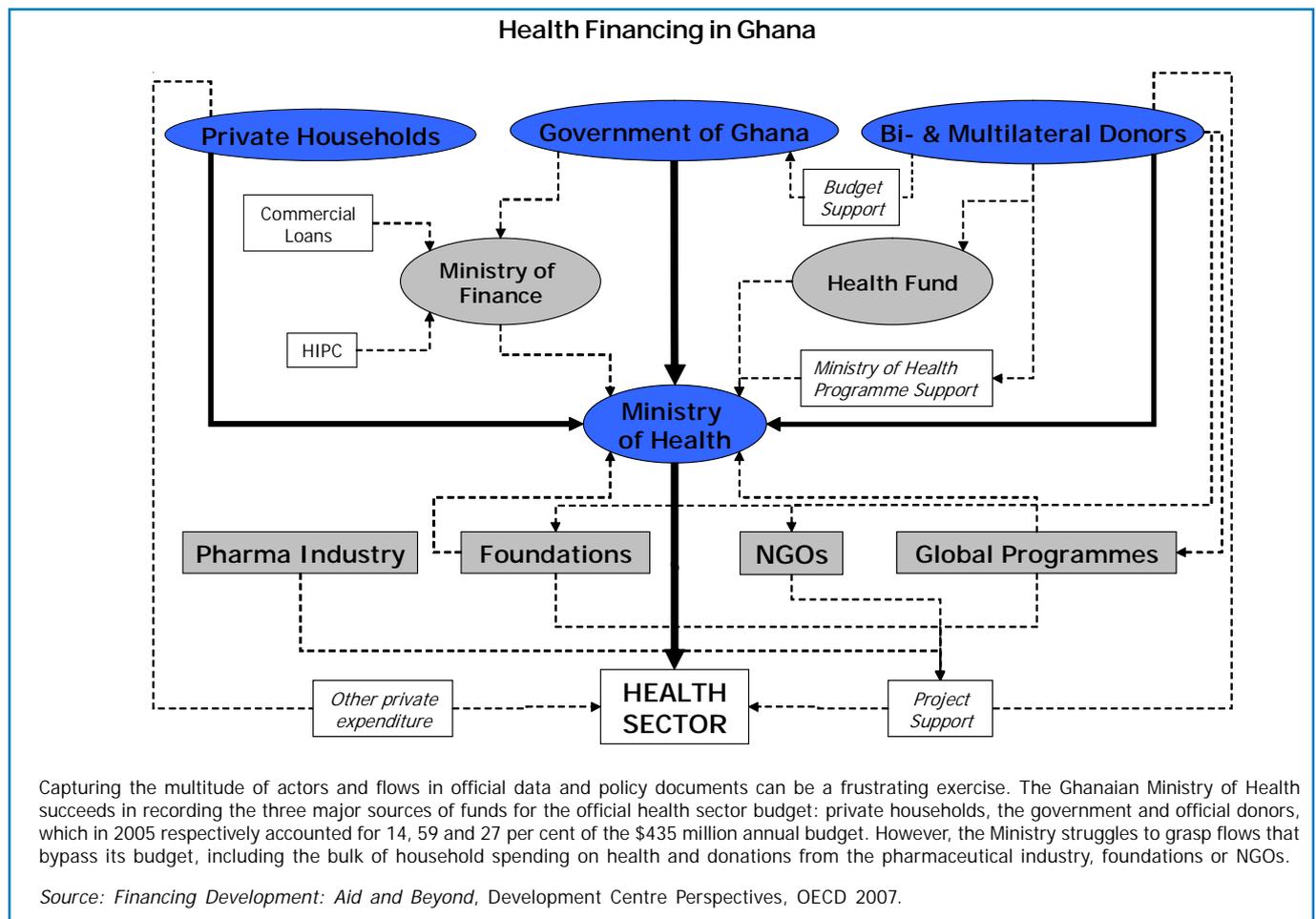
small local projects. Sometimes, however, priorities still clash. Take the example of bed nets, a crucial tool in the fight against malaria. While some donors, like UNICEF, want to distribute them free of charge, others, including the US-funded Netmark Partnership, believe that households will only use the nets if some of their own income is invested in them. More government leadership and donor co-ordination is required urgently if these activities are not to cancel each other out.

Many cooks, one chef

Ironically, some policy makers have become overzealous in their co-ordination efforts. In Ghana, HIV/AIDS matters

are now being discussed in a plethora of consultations, including the Ghana Aids Commission, the Partnership Forum, the Business Meeting, the UNAIDS Technical Working Group and the Country Co-ordinating Mechanism established by the Global Fund to Fight Aids Tuberculosis and Malaria. This is not only costly; it also clearly fails to achieve the objective of simplifying decision making.

Strengthening information systems and improving co-ordination are a difficult exercise for governments and donors alike. However, they are well worth the effort to promote development and fight poverty. In Ghana, they will allow the Ministry of Health to make more effective choices in financing its programmes – and become a chef in a kitchen full of assistant cooks.



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