Analysing Budget Management in the Public Healthcare Services Delivery Sector

A Case of District Hospitals in Malawi

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ABSTRACT

This article explores budget management in the public healthcare services delivery sector in the district hospitals of Malawi. The government of Malawi continues to allocate finances to support public healthcare services delivery; however, quality of services delivery remains poor. This is attributed to among other factors, poor budget management practices. The methodology entails a qualitative approach where data was collected through a review of literature of documents on government budgeting and individual semi-structured interviews. The study participants were purposively selected key-informants who were deemed to have a deep understanding of budget management in the district hospitals through their various roles. It was found that budgeting in the public healthcare delivery sector in Malawi is flawed and lacking; as such, the sector fails to achieve its public health services delivery goals. Specifically, the study reveals that budget management in the district hospitals lacks flexibility, faces limited government funding allocations, encounters late government funding, has a weak funding allocations formula and experiences ineffective budget evaluations. The study findings provide empirical evidence that explains budget management gaps that exist in the public healthcare sector in Malawi, and consequently, establishes a basis for recommendations to the government on the need to improve budget management practices.

INTRODUCTION AND BACKGROUND

Budgets are deployed by all types of entities to support managerial functions. Public and private organisations use budgets to effect financial planning and control (Di Francesco and Alford 2016:234). According to Penyak (2018:142), budgets provide direction on finances. By the same token, Anessi-Pessina, Barbera, Sicilia and Steccolini (2016:493) underline that a budget is a tool for "bargaining and allocating power and resources, for planning and controlling, and for ensuring transparency and stakeholder involvement". Fundamentally, "a budget is a management tool that is used in pursuit of organisational goals" (Gambo, Inuwa, Usman, Said and Shuaibu 2019:1). Jaelani (2018:213) claims that efficient and effective budget management assists in the management of budgetary variations, thereby aiding in control of resources. The aforementioned scholarly arguments express the significance of budgets in the discharge of managerial functions of planning, directing, allocation and controlling of finances with the key objective of achieving organisational goals. Consequently, budget failures in resource allocation and control, result in poor quality service delivery and for the public sector, this may have long-term implications for governments (Mutambara and Chinyoka 2016:34). Accordingly, in the public sector, where one of the major roles is provision of public welfare, budget management is vital (Ajibolade & Oboh 2017:218; Anessi-Pessina *et al*. 2016:491). Thus, public sector management places emphasis on the budget as it is a tool for public goal achievement.

In contrast, the budget has been used to misappropriate and mismanage public finances (Ajibolade and Oboh 2017:224). The observation on the use of budgets to mismanage public finances gives rise to the principal-agent debate, whereby, in pursuance of self-interests, agents allocate and utilise finances entrusted to them for causes other than achievement of goals which serve the public interest. This demonstrates that achievement of public goals can be derailed if the budget which is an enhancer of public financial management is deliberately used to misappropriate resources. With specific reference to the public health sector, Capuno, Rivadeneria, Beazley, Maeda and James (2018:94) point out that effective and strong processes in budgeting are ingredients for healthy spending. Further, the tasks of resource prioritisation and allocation when making plans and budgets in the health sector is a technical as well as a political process (Tsofa *et al.* 2021:22). Such a mix of dimensions to budgeting, adds complexities to public sector budget processes.

Despite the contradictions associated with the New Public Management (Pollitt and Bouckaert 2011:12); the concept promotes a high level of public administration effectiveness through proposed changes including decentralising leadership, which contributes to improved public resource usage and, consequently, better quality of public services (ăwirska 2014:109). The introduction of New Public

Management was meant to reform public sector management. For South Africa, the adoption of New Public Management principles like "participatory planning, decentralisation, performance management, effectiveness and efficiency were meant to improve public resource management" (Munzhedzi 2020:1). Accordingly, in 1998, the government of Malawi decentralised political and administrative authority to local level and this was aimed at improving economy, efficiency and cost effectiveness in service delivery; promoting accountability and governance; advancing socio-economic development; and creating democratic institutions in Malawi for improved governance that facilitates decision-making at all levels (Ministry of Health 2017b:25). Consequently, management of the public healthcare sector including financial management in Malawi was decentralised at district level (Borghi, Munthali, Million and Martinez-Alvarez 2018:60). However, councils and hospital management have limited authority over funding and spending decisions as they have partial control of the budget, for example, the drug and emoluments budget is done centrally (Piatti-Fünfkirchen, Chansa and Nkhoma 2020:iii).

Decentralisation was meant to enhance public service delivery in the sector according to Frumence, Nyamhanga, Mwangu and Hurtig (2013:20983); but it is noted that service delivery remains poor. This has been attributed to among other factors, poor budget management practices. The healthcare delivery sector in Malawi has challenges in managing budget processes from budget formulation to implementation. O'Neil *et al.* (2014:29) argue that the public healthcare delivery sector in Malawi experiences uncoordinated planning and funding whereby processes at sector and district level overlap or run in parallel. In addition, the risk of budget failure in financial planning and budgeting, monitoring and evaluation in the public healthcare delivery sector in Malawi is high (Ministry of Health 2017a:57). This state of affairs confirms the position of Pollitt and Bouckaert (2011:24) that adoption of a particular management tool does not guarantee its success as it may fit well, but contradict and reduce its impact. Therefore, management should analyse the adopted tools to determine the strategies needed to enhance expected outcomes.

This study attempts to explore the budgetary system in Malawi's public healthcare delivery sector and provide solutions, if any, for improvement. The study endeavours to answer the following research question: To what extent is the management of public funds for healthcare service delivery in Malawi challenged?

THEORETICAL FRAMEWORK AND CONTEXTUALISATION

This section brings into perspective the application of the agency theory to the practice of public sector budgeting. In order to appreciate the role that budgeting

has on the public healthcare delivery sector, the agency theory has been identified and used to discuss the implications of budgeting in the sector. Furthermore, empirical studies relating to public sector budgeting in a public sector healthcare service delivery have been brought into the discussion.

Budgeting and the agency theory

This study is guided by the agency theory. The agency theory articulates contractual obligations between a principal and an agent in which the latter is expected to undertake institutional management on behalf of the former (Eisenhardt 1989:58; Panda and Leepsa 2017:77; Snippert Witteveen, Boes, and Voordijk 2015:571). More importantly, the study is aligned to the agency theory as Smith and Bertozzi (1998:2) point out that the theory better explains the contractual relationship between principals and agents in relation to budgetary issues. Such types of relationships are a common occurrence in many organisations and are more inherent in the public sector. As explained by Leruth and Paul (2007:105), the head of the ministry is the principal and the employees serving the ministry are the agents. By inference, the public healthcare delivery sector engages managers entrusted to manage public finances and deliver health outcomes on behalf of the principals. In order for the agents to discharge their responsibilities and the principal to ensure that their expectations are fulfilled, they need the budget to plan, bargain, allocate and control financial resources (Anessi-Pessina *et al*. 2016:493). However, the agency theory is challenged with 'agency problems' (Eisenhardt 1989:58; Keay 2017:1296; Panda & Leepsa 2017:79; Smith and Bertozzi 1998:3), which according to Leruth and Paul (2007:108); Smith and Bertozzi (1998:3) are goal incongruences and information asymmetry between the principals and agents. Consequently, the prevalence of budget management challenges could be attributed to agency problems as captured in agency theory.

Public sector management and budgetary issues

Among governments, the major budget processes are ideally the same and cover budget formulation, approval, execution and evaluation (Andrews *et al.* 2014:2). Cashin *et al.* (2017:10) contend that each of the processes in the budget cycle needs to be complied with. In support, Piatti-Funfkirchen and Schneider (2018:338) explain that, the budgetary processes are connected with service delivery since the success of the budget depends on its preparation and implementation (Ajibolade and Oboh 2017:224; Ruiz *et al.* 2019:119). Being an important system of management control, each step in the budgetary process is crucial, hence, budgeting entities should ensure that budget management is thorough (Mutambara and Chinyoka 2016:33). Thus, all the stages in budget preparation

and management should be flawless if the budget is to be effective in attaining organisational goals.

Since developing countries face pressure to improve performance, Alkaraan (2018:588) appeals to those in charge of making financial expenditure decisions to ensure that they are properly guided when making financial plans and decisions. Regardless of the divergence of the 'economic' and 'routine' approaches to public budgeting, Di Francesco and Alford (2016:235) dispel perceptions that public sector budgeting is just a technicality and maintain that it presents the core of finance allocation and management.

The ensuing debate leads to the point that weaknesses in the budget process could result in budget management deficiencies. For instance, production of health policies, planning and budgeting are not coordinated; as a result, priorities in the health sector and funds provided by the government do not agree (World Health Organisation 2016:21). Thus, it is observed that there has to be alignment of budget activities by the health and finance officials to allow for synchronisation of funding and institutional activities. For instance, in the Philippines, the government introduced a compendium of public financial management reforms that oversee formulation and planning of budgets (Capuno *et al*. 2018:93). Unfortunately, it is recorded that healthcare service delivery budgets which are decentralised at local level continue to experience a weak connection between the budget for health, plans and goals (Capuno *et al*. 2018:93). This signifies that it may not be enough to have measures aimed at budget production and implementation but also to consider having appropriate institutional budget structures whose scope is intra-, inter- and departmental with appropriate staffing and policies. Thus, changes in organisational structures in public management reforms should be comprehensive to address the needs that the changes demand, if the reforms made are to be effective (Pollitt and Bouckaert 2011:17). As scholarly works indicate in the next section, budget management is a critical area in the public healthcare service delivery sector.

Budget management and the healthcare service delivery sector

Budget management is crucial in public sector management according to Anessi-Pessina *et al*. (2016:491) and by extension, it is equally central in public healthcare service delivery sector management. The World Health Organisation (2016:8) underscores that the achievement of health goals does not only depend on availability of finances; but also, on the effective and efficient use of allocated funds. This observation puts up a case for effective budget management, as Pollitt and Bouckaert (2011:1) claim that good management presents a marked influence on governments. Flawed budget management impacts on attainment of objectives, as was the case in Nigeria where economic growth was not achieved, despite

increased funding (Ajibolade and Oboh 2017:233). The budget's functional importance in planning and implementation cannot be appreciated if it is produced only to satisfy procedural requirements (Iyoha and Oyerinde 2010:370). The basis for such arguments are that finances for the public healthcare sector are not utilised and distributed in the most favourable way, as a result, marked priority areas and populations are not adequately served; deficiencies in financial management have led to incomprehensive and unsystematic execution of public health budgets and thereby, missing prospects of improved health outcomes (World Health Organisation 2016:8). Funding issues in the public hospitals in Malawi have contributed to inadequate health inputs leading to preventable deaths according to Mbuya-Brown and Sapuwa (2015:4), limited access to healthcare, higher than expected maternal and child mortality and low-quality healthcare services (Ministry of Health 2017b:13).

The health sector faces its own complexities and challenges; hence, financial management should accommodate this unique nature of the healthcare service delivery. For instance, Cashin *et al.* (2017:15) point out that the uncertainty in resource requirements, especially in predicting for individual health requirements and unforeseen crises in the healthcare sector, leads to funding allocation challenges. Cashin *et al.* (2017:2) suggest that health budgets should be accorded specific provisions that address the uniqueness of the sector. Often, the healthcare service delivery sector is expected to deliver as desired, despite that inputs may be erratic and unstable, rendering effective budget management unattainable (Flink 2017:1). It is crucial that organisations should attain budget goals and the budget itself needs to be properly managed. As is typical with public sector management reform initiatives across the globe the public sector struggles in achieving consistency and responsiveness of budget processes on the one hand and organisational flexibility on the other (Di Francesco and Alford 2016:233). In addition to this general observation, the health sector faces budget challenges unique to its nature that require flexibility in the management of funds if equity, efficiency and quality are to be achieved (Cashin *et al.* 2017:15). The point that the health sector presents inherent forecasting challenges cannot be denied. The argument is that flexibility should be applied in producing and managing health budgets in order to reflect the uncertain and inherent nature of health services provision which prevents accurate forecasting. As it will be noted next, budgeting in the health sector faces budget management challenges.

Budgeting in the health sector and its deficiencies

Poor budget management may have repercussions on the implementation of health policies and consequently, attainment of financial goals (Piatti-Funfkirchen and Schneider 2018:336). Hence, public goals can be achieved if budget

management is effective and efficient. In public sector management, public financial management is concerned with financial management using the budget (Piatti-Funfkirchen and Schneider 2018:336). The budget is thus, an important tool that facilitates management and goal achievement in the public sector. The diversity in its functionalities strengthens its importance in institutional management. A strong budgetary process is a good ingredient for effective spending in the healthcare sector; consequently, effective and efficient healthcare budgets should be devolved to the local level while governments should continue to reform financial management at the national level (Capuno *et al*. 2018:93). Specifically, referring to the resource-constrained healthcare delivery sector in Malawi, rigorous planning and budgeting systems are crucial (Twea *et al*. 2020:3). Further, gaps that are prevalent in the budgeting processes and management need to be identified and researched on to improve public financial management in general and budgeting in particular. In this regard, Anessi-Pessina *et al*. (2016:506) hold that research on budgeting contributes towards external accountability and stakeholder inclusion. The budget, therefore, remains a crucial tool for management and achievement of goals in the public sector, as such, there is a need for political will to ensure that appropriate public financial management reforms are identified and implemented. The need for meticulous budgeting, particularly in the public healthcare delivery sector, is strongly advocated for, since financial planning and management has significant implications on healthcare delivery (Piatti-Funfkirchen and Schneider 2018).

In Africa, there are myriad challenges when it comes to budgeting for the health sector. It has been observed that the sector is not prioritised when distributing public revenues; and is inadequately funded (World Health Organisation 2016:34). Furthermore, budgets are produced using historical data and there are inequitable budgetary allocations (World Health Organisation 2016:34). Le Gargasson, Mibulumukini, Gessner and Colombini (2014:1040) add that the public healthcare sector faces excessive usage of off-budget procedures and that limited human resource capacity, lack of motivation in budget preparation and implementation, interference on funds flows from ministries and dependence on donors' disbursement schedules, are causes of inefficiencies in budget management. It is believed that if such budget management challenges are managed, the sector would experience efficiency and effectiveness in financial use. In Nepal, financial management was decentralised in a bid to improve resource allocative efficiency, but it is noted that this was not achieved. In a bid to improve management of health expenditure, financing authorities and health managers are encouraged to cooperate to be able to fully utilise funding allocations to health (World Health Organisation 2016:34). Tsofa Molyneux and Goodman (2016:261), therefore, argue for increased research into issues affecting planning and budgeting in the public healthcare sector.

Allocation of financial resources in the public healthcare delivery sector

Multiple scholarly works reveal that the public healthcare sector in many countries experiences inequitable allocation of resources (Christian & Crisp 2012:725; Clemente, Lázaro-Alquézar and Monta˜nésa 2019:507; Morton 2014:165). For instance, South Africa is said to be failing in providing high quality healthcare despite the financial resources that go into the sector due to among other causes, inequalities in resource distributions (Christian & Crisp 2012:725; South African Lancet National Commission 2018:1). In Sudan, unequal allocation of resources for health has resulted in poor performance of the health system and variations in service delivery (Ismail 2020:1105). In Tanzania, Kuwawenaruwa, Borghi, Remme and Mtei (2017:124) record that there are inequities across public healthcare facilities and argue for improved monitoring and strengthened reporting systems. Clemente *et al*. (2019:503) state that the existence of financing inequalities amplifies variations of health outcomes among populations.

Inequalities of financial resource allocation in the public healthcare service delivery sector is a common occurrence and is fuelled by information gaps regarding population health statistics (Morton 2014:165). The traditional funding allocation basis of using capacity and not demand for healthcare services is seen to be inappropriate in ensuring equitable resource allocation. Distribution of finances for health service delivery is not optimal, consequently, disadvantaged populations may fail to access medical care (World Health Organisation 2016:25). It follows that, there are poor health outcomes in areas where countries are experiencing inequitable distribution.

The public healthcare service delivery sector in Malawi

Public healthcare services delivery in Malawi is offered at community, primary, secondary and tertiary levels which are connected through a referral system (Makwero 2018:2; Ministry of Health 2017a:2). According to Bashar, Bhattacharya, Tripathi, Sharma and Singh (2019:1511), a referral system is a process whereby low-level facilities pass on patients to upper levels for better management. Following the decentralisation of the healthcare delivery sector to the local government level, Directors of Health and Social Services were made responsible for district healthcare service provision which covers the community, primary and secondary levels and they report to the District Commissioners (Twea *et al*. 2020:2).

In terms of budget control, Twea *et al*. (2020:2), explain that Directors of Health and Social Services are responsible for other recurrent transactions, earmarked recurrent budgets for emoluments and drugs; while the capital expenditure budget

is centralised. According to Cashin *et al*. (2017:32) procurement of essential medicines, health consumables and equipment in the healthcare sector of many low- and middle-income countries is centralised and they note that this leads to reduced flexibility. They recommend centrally negotiated purchase agreements; and decentralised procurements since supply directly matches with demand. District hospitals get their monthly budgetary allocations through the Treasury in the Ministry of Finance but also receive additional support from donors (Piatti-Fünfkirchen *et al*. 2020:2). This study specifically focuses on budgeting issues relating to government funding in the district hospitals. Thus, the interest of this study is to interrogate and understand the limitations of the budget processes and management faced by the public healthcare service delivery in Malawi and how such challenges, if any, may be addressed.

Budget formulation

Budget formulation relates to how expenditure priorities in the healthcare sector are established, approvals obtained and allocation of funds done (Piatti-Funfkirchen & Schneider 2018:338). The budgeting approach in the public sector in Malawi is the medium-term expenditure framework which incorporates national priorities and policies (Ministry of Finance Economic Planning and Development 2016:6). The framework provides limits to budgetary provisions which are supposed to be prioritised in line with policy objectives. Health sector needs are determined by bottom-up consultations where lower-level players articulate their needs. Furthermore, the Treasury communicates funding ceilings in advance on which to base budgeting. The guidelines also explain that usually the ceilings do not vary in between the years and institutions commence budget preparation even prior to receiving the budgetary ceilings, save for annual adjustments that barely alleviate inflation effects. This entails that there is no link between assessed healthcare needs and funding commitments. With reference to the medium-term expenditure framework, annual budgets are formulated that stipulate anticipated activities in a financial year (Piatti-Fünfkirchen *et al*. 2020:6). Public budgets in Malawi are formulated using the top-down and bottom-up approaches (Government Malawi 2014:20). The top-down approach relates to policy direction and ensures that government priorities are identified and incorporated in the operational plans and budgets. On the other hand, the bottom-up budgeting involves a review of programmes to be undertaken by the respective departments in line with any pronouncements made by central government. Piatti-Fünfkirchen *et al*. (2020:12) point out that budget protocols in the public sector in Malawi in general and the health sector in particular, stress on effecting control and not on achieving operational flexibility, thereby undermining best practices in budget management. Such rigidity is a constraint in the health sector where unplanned eventualities

arise and cannot wait for protocol, like the Covid-19 crisis management and response. This leads to the argument that officials need to be innovative in solving budget problems if they are to excel. The approach to budgeting in the health sector in Malawi confirms that principals indicate their preferences by directing their expectations to the agents, that is, the top-down budget approach; and the agents acknowledge the principals' position by aligning their plans accordingly. However, funding constraints prevent the agents from undertaking activities aimed at achieving goals on behalf of the principals. This is notwithstanding the fact that agents would pursue interests other than those of the principals at the expense of limited funding, thereby further compromising goal achievement.

Budget execution

Budget execution covers implementation of budgets in financing healthcare services (Piatti-Funfkirchen & Schneider 2018:338). In line with the provisions in financial planning, government funding follows programme cash flows in order to strengthen budget execution (Government Malawi 2014:28). In addition, transfers of financial resources are provided for, subject to acquisition of the necessary approvals and notifications (Government Malawi 2014:28). Piatti-Fünfkirchen *et al.* (2020:iv) state that the budget execution stage is subject to adherence to laid down procedures but note that these inhibit flexibility as the focus is to institute controls. For instance, funds cannot just be shifted from one budget line to the other without passing supplementary budgets. According to Piatti-Fünfkirchen *et al.* (2020:iv), the effect of flexing such rigidities would be seen in that internal controls have been violated, thereby, contravening the Public Finance Management Act 7 of 2003. Basically, this is a weakness of agents who manipulate the internal control systems.

Budget monitoring, reporting and evaluation

Budget evaluation is a review of budget implementation (Piatti-Funfkirchen & Schneider 2018:338). This is supported through the reporting and monitoring functions. Accordingly, monitoring, reporting and evaluations are meant to point out challenges encountered and achievements made to inform and enhance decision-making, performance delivery and the execution of budgets. Budget evaluations are important as they provide a basis for oncoming budget decisions (Piatti-Fünfkirchen *et al.* 2020:v; Piatti-Funfkirchen & Schneider 2018:338). Malawi undertakes integrated monitoring, reporting and evaluation in which budget implementers provide feedback on how the budget has been implemented (Government Malawi 2014:6). However, it is revealed that the evaluations that take place are not linked to the budgetary performance in the public

sector, for instance, it is claimed that evaluations do not inform budgetary allocations but rather funds are allocated based on past allocations (Piatti-Fünfkirchen *et al.* 2020:v).

This study was based on the agency theory. This was deemed more suitable due to the inevitable nature of the existence of agency relationships in a public sector management in general, and the specific provisions in budget management in the public healthcare sector. As debated herein, the public healthcare sector the world over faces myriad budgeting deficiencies which consequently affect service delivery, which inevitably require interventions, if the sector is to achieve its objectives.

RESEARCH METHODOLOGY

This is a qualitative study using data collected from literature reviews and semi-structured key-informant interviews. The researchers reviewed literature on published articles and government policy documents on public financial management and budgeting in the public sector generally and specifically on the health sector. Of the participants to the interviews 10 were purposively sampled officials with in-depth knowledge of budgeting issues in the public healthcare sector. These officials were from hospital management, Councils, National Internal Audit, National Local Government Finance Committee and Civil Society Organisations. The interviewees were made up of Directors for Health and Social Services (2), hospital accountants (2), Executive Director for Civil Society Organisation, Director of Finance, Financial Analyst, Internal Auditor, External Auditor from the National Audit Office and a District Medical Officer. The interviews were tape- recorded and transcribed. The transcripts were reviewed and themes were established.

RESULTS AND ANALYSIS OF FINDINGS

The study explored budget management in the public healthcare services delivery sector in Malawi. Interviews were conducted with key informants on budget management. This section presents findings and results from themes that developed from the key question 'To what extent is the management of public funds for healthcare service delivery in Malawi challenged?' Direct quotes from participants are used to stress a point and enhance data integrity and this was discussed alongside related literature. Identities of research participants are concealed and codes are used instead to maintain their anonymity in line with ethical requirements.

Inflexible budgets due to standardised budgeting

The findings from the study reveal that budget preparation and management is inflexible due to pronouncements and directives from the central government. All district hospitals in Malawi are compelled to abide by the set guidelines. In line with this argument, an interviewee (NAO1) observed that:

"The Ministry of Health would provide guidelines. Since we have the National Health policy that document guides the hospitals including the district hospitals what to prioritize in their health budget. The Ministry of Health has to communicate through its policy and other circulars so that district facilities should actually put those in spotlight when they are doing their budgeting".

This ensures that there is uniformity in the budget process as well as in managing the budget in the public district hospitals. In support of consistency, Di Francesco and Alford (2016:233), underline that public sector budgeting should follow prescribed rules on resource allocation, transfer and expenditures to be accountable.

The budget prescriptions extend to funding allocations for various activities within the hospitals. For instance, hospitals are guided on how much of the allocations should be devoted to particular expenditure items. As a participant (DHSS1) explained:

"We are given guidelines to say for example how much of that money will go towards say utilities. There is a guide as how much funding goes towards internal trainings for example".

On the contrary, the 'practices and norms' in public budgeting are seen to deter the flexibility that public institutions require (Di Francesco and Alford 2016:232). This applies more to the public healthcare service delivery where some flexibility in budget management is necessary due to the uncertain and inherent nature of the sector. Di Francesco and Alford (2016:236) claim that rigid application of authoritative budget statements would inhibit flexibility to the extent that budget rules restrict the extent to which funds are allocated. This may point to trust deficits between principals and agents. In pursuit of goal alignment that the agency theory is challenged with, principals announce measures meant to ensure that agents act in accordance to the objectives of the principals.

Late funding

Public hospitals, like most government institutions in Malawi, are funded every month. The study findings indicate that the public health sector in Malawi is challenged with late government funding. Such experiences were narrated by participants who expressed that their institutions receive government funding late and that this affects service delivery. An interviewee (DMO1) observed that:

> "…the times at which the monies come through, that's the one that delays. I will give an example, for example, our February funding is not yet in at the moment and this is March".

A further clarification of the consequences of late funding to the hospitals is what a participant (ACC1) pointed out that:

> "The challenge is that as a hospital, the hospital needs to run each and every time, we have a lot of activities, the timelines of the funds leaves a lot to be desired. We receive funds mostly very late and we have dire need of essential items".

Late funding has been seen to have repercussions on hospital operations (Piatti-Fünfkirchen *et al.* 2020:v). Other countries face similar challenges, for instance, Nigeria (Akortsu & Abor 2011:128); Tanzania (Frumence *et al.* 2013:20983) report of delayed government funding to the health facilities. These inefficiencies on the part of the principal in providing for resources affects goal attainment by agents who despite having the skills and expertise to undertake delegated responsibilities are handicapped due to resource constraints.

Inadequate budget allocations

The study findings indicate that the budgetary allocations provided to the health sector are insufficient to cater for healthcare services delivery requirements. A participant (ACC2) explained that:

> "we are restricted by the ceilings communicated to us by Treasury. Normally the ceiling is what restricts us that we should not do all those. Normally we trim the budget projected on the various activities because of the ceiling. It's not an ideal situation".

From the foregoing findings, it is evident that the ceilings are not reflective of the needs of the hospitals. Furthermore, despite the stable increases in nominal values of the allocations over the years, Piatti-Fünfkirchen *et al.* (2020:iii) reveal that the real value of funding is eroded by inflation. In agreement, a participant (DHSS2) stated that:

> "Funding trends over the years has been a constant increase about 10% nominal increment but with inflation, this is no increase in value. Ideally, there has been no increase at all".

District hospitals budget only up to a predetermined budgetary allocation which is not reflective of hospital needs. The allocated budget provisions are not enough to support service delivery (Piatti-Fünfkirchen *et al*. 2020:ix). Despite being aware of this challenge, the healthcare budget remains at an average of 10.8% of total government expenditure (Ministry of Health 2017b:25); which is below the Abuja Declaration target of 15% of national budget. Gambo *et al.* (2019:11) emphasise the need for provision of adequate funding for health to support national health goals. In addition, Borghi *et al*. (2018:63), confirm that globally, government funding is usually inadequate for healthcare needs. Thus, the mismatch between budget requirements and allocation entails that the consultations that are undertaken to determine budget requirements are not considered in determining funding allocations.

These findings contrast with the spirit in the agency theory as, according to Leruth and Paul (2007:106), agents are expected to produce stipulated output having been provided with funding to support operations. The study results herein, imply that the principal is failing to support the agent with the adequate resources meant to be used for healthcare service delivery, consequently, making agents less accountable for results.

Inequitable funding allocations to hospitals

The study findings show that central government allocations to district hospitals are not equitable. Thus, it shows that the resources that are shared among the hospitals do not reflect the need of the individual hospitals. Respondents to this study observed that funding is allocated to district hospitals based on preceding years' allocations. An interviewee (DHSS2) said:

> "…so that ceiling most of the times is determined by either the previous year funding, so the increase it by maybe 10… 5%....".

In addition, a participant opines that the formula that the government uses to share the funds at the national local government level is not clear, is lacking and needs improvement. A participant (DHSS1) narrated that:

> "I think the other way would be to see how they do the allocations for the funds, to say, do they really reflect the population that we have? Does that really put into consideration the distance to referral facilities…?"

The National Health Policy advocates the "right to good health, and equitable access to health services without any form of discrimination to all people of Malawi" (Ministry of Health 2017b:22). This pronouncement entails that resource allocation should be equitable in order to reach out to all. Sharing of financial resources among

hospitals should reflect demand or need for healthcare which could be different across districts. In agreement with the study findings, Borghi *et al.* (2018:60) observe that funding across districts in Malawi varies greatly. The rise in decentralised management and delivery of public services in the low- and medium-income countries calls for a realistic and impartial formula for resource allocation (Twea *et al*. 2020:1). Despite that the resource sharing formula for Malawi was reviewed in 2019; its implementation is partial with funds allocations still based on historical figures (Piatti-Fünfkirchen *et al.* 2020:19). The allocation sharing formula that is currently used in the district hospitals in Malawi is not reflective of considerations for equity as it is based on 'input historical budget' and because there are shifts in disease burden and urbanisation, matters of equity are not satisfied (Piatti-Fünfkirchen *et al.* 2020:iv).

Similar observations on use of historical figures, incrementalism, to apportion finances are also made elsewhere (Islam, Akhter and Islam 2018:66; Maharaj, Robinson and Mc Intyre 2018:190; Regmi, Naidoo, Greer and Pilkington 2010:372). This implies that inequalities and inefficiencies in the initial formula would continue to affect funding allocations over the years. According to Ibrahim (2019:323), despite that incrementalism eases the budgeting process, it leads to wastages and Ibrahim recommends the zero-based approach to budgeting which allocates resources based on merit of the activities to be undertaken. By implication, the best resource allocation basis for public healthcare services delivery is that based on need. The higher the demand for healthcare services, the higher should be the allocation for resources, otherwise, health delivery sectors will continue to have health coverage and access gaps. Thus, a need-based approach to resource distribution ensures that subnations that require more funding are taken care of, thereby improving overall health outcomes in line with the agency theory.

Restricted budget amendments/reviews

It is emerging from the study that budget reviews are restrictive as users are accorded a single opportunity in the financial year to review the budget. Further, the study reveals that the reviews only involve moving financial resources from one budget line to the other and not necessarily to accommodate increased demands for financial resources. A participant (FA1) stated that:

> "...they are allowed to do 'virements' at midyear they are allowed to do 'virements' but basically these 'virements' they probably have made a provision higher say for utilities but then probably they have seen that most basically is just reallocating within the ceiling".

Budgets are prepared under assumptions and are meant to guide expenditure in a given period. In a world of uncertainties where assumptions do not always

hold true, especially in the healthcare service delivery sector, there is a need that budget management be flexible. Di Francesco and Alford (2016:232) stress the importance of flexibility in public sector management which is associated with complexity, economic and political instability. The health sector is inherently a complex sector with uncertainties that necessitate flexible management of budgets. Flexible budgeting in the public sector can be defined as the ability of a government to deal with opportunities and challenges in a timely and efficient way (Choi and Coffey 2011:118). Moreover, enhanced flexibility enables public sector institutions to effectively achieve results (Di Francesco and Alford 2016:232). In addition, Piatti-Funfkirchen and Schneider (2018:336) hold that budget management in the public sector is faulted for being inflexible in the provision of additional resources.

Ineffective evaluations

The findings of the study confirm that, though management of finances in the hospitals is evaluated, the results of the evaluation do not inform decisions regarding budget management. An interviewee (DHSS2) made the following observations:

> "…it's about the actual evaluation, to say we have done the evaluation of your funding…The evaluation of your performance does not really affect the funding that you will get in the subsequent year. For example, we realize that we are struggling to do some key issues, some basic issues and you have that report that would really determine whether they would get more funding, so that also is another challenge that we have on the budget".

When implementing budgets, there is a need for performance evaluations to inform set budget objectives (Wagner, Petera, Popesko, Novak and Safr 2021:603). In line with the agency theory where the principal delegates responsibility to discharge their responsibility to the agents, the need to evaluate performance is important. Such evaluations should be used to gauge attainment of organisational objectives which is in the interest of the principal.

District hospitals in Malawi face budget challenges which impact service delivery. Such challenges include late and inadequate government funding, ineffective budgetary evaluations coupled with inequitable funding allocations.

CONCLUSIONS AND RECOMMENDATIONS

The budget is an important tool that supports management to discharge its administrative functions in the quest to achieve organisational goals. The study

argues for the importance of effectively managing the budget. In public sector management in general, and the health sector in particular, budgets are prepared subject to set limits by the government, thereby missing the connect between finance availability and requirements. Despite the fact that funds are disbursed to hospitals in accordance to submitted cash flows, these are usually submitted late and are insufficient, thereby disturbing the healthcare services delivery supply chain. Furthermore, the prescriptive nature of public sector management makes budget management rigid which is not ideal given the uncertain nature of hospital operations. Budget management in the health sector is faulted for disregarding information obtained from budget evaluations. Evaluations are meant to improve decision-making. The persistent inadequate fundings cripple operations as often hospitals and health facilities are left to operate with minimal resources at the expense of patients' and staff welfare. The funding allocation formula that is currently used, is inequitable and promotes variations in healthcare service provision.

The study reveals contradictions presented by public management reforms. It is imperative for governments to scrutinise the budgetary challenges prevalent in the public healthcare delivery services sector and address them, otherwise, public health service delivery will remain poor. Thus, a well-managed budget is a vital tool in managing finances. There are a number of proposals towards the challenges in budget management.

Despite the large sphere of decision-making and implementation, the absence of requisite capacity training will render the reforms ineffective. So, the introduction of reforms should be accompanied by capacity building initiatives. This will entail that the support functions of budget management in the area of financial planning, reporting and evaluations would be enhanced. In addition, the government should be lobbied to prioritise and increase funding allocations for the health sector. This can result in improvements in the availability of essential items. Hospital management should look into more effective and efficient ways of utilisation of resources. Further, there is a need to improve on the central government funding allocation formula to district hospitals to make them more accommodating and comprehensive to enhance equitability in resource allocation.

NOTE

* This article is based on a doctoral thesis undertaken by R. Hanif which was conducted at North-West University titled: "Developing a framework for expenditure management in the Malawian public healthcare sector", under the supervision of Professor Wedzerai S. Musvoto.

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