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IN PURSUIT OF PER DIEM
DONOR AND RECIPIENT PRACTICES OF PER DIEM PAYMENT

Arne Tostensen

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Expertgruppen för biståndsanalys (EBA)

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Summary

Increasing emphasis on capacity-building and training activities as a proportion of donors' country programmes has drawn attention to *per diem* practices. This report discusses the uses and abuses of *per diem* payments, predominantly by aid agencies and their counterparts in developing countries. It draws extensively on a commissioned report published in 2012, which covered three African countries: Ethiopia, Malawi and Tanzania. The purpose of this report is threefold: (a) to summarise the understanding of the uses and abuses of daily subsistence allowances (*per diems*) in connection with seminars, trainings sessions, etc.; (b) to assess the effects of *per diem* systems on development programmes, budgets and incentives; and (c) to recommend remedies to identified challenges.

Capacity-building programmes require civil servants and representatives of civil society to travel away from their normal duty station. To compensate for the extra expenses incurred various forms of *per diem* are provided, normally set at standardised rates. The allowances are meant to be compensatory only but they tend to become salary increments that contribute significantly to total income. Therefore, civil servants are prone to become unduly preoccupied with pursuing such allowances, which in the aggregate reflect wastage in inflated budgets.

The 2005 Paris Declaration on Aid Effectiveness lays down the principle of *alignment* of donor procedures with recipient country systems. This has proved difficult to operationalise as dilemmas arise when systems diverge, in which case donors tacitly condone abuses in a misguided application of the alignment principle.

The methodology comprised a review of published literature and other secondary material. Empirical information was obtained from fieldwork in Ethiopia, Malawi and Tanzania, including interviews with key informants such as civil servants, civil society representatives, and donors. Additional information was obtained from hotels.

Per diem practices emerged in four categories with attendant consequences: (a) intended compensation: the *per diem* system covers travel expenses prudently and efficiently; (b) indirect, informal performance reward: *per diem* payments are perceived as a bonus; (c) unintended distortion of incentives: less time in office, too much time on travel; and (d) outright fraud. The movement from (a) to (d) is a slippery slope. Manipulation is attributable to: (i) inadequate control; (ii) asymmetry of information between principal and agent; (iii) a collective action failure, meaning 'when others benefit, why not me as well'; and (iv) political economy contexts and cultures that condone irregularities.

In Tanzania, which relies heavily on foreign aid, *per diems* are part of a larger set of allowances, such as remunerative allowances ('disturbance allowance', outfit allowance, and housing allowance), and discretionary, duty-facilitating allowances (overtime, honoraria for good performance, and sitting allowances). Allegedly, the share of allowances in total emoluments is typically about one-third for higher-level civil servants and one-quarter at the lower echelons. Legislation provides for tax exemption on allowances. Overall, the risk

of malpractices is great because exaggerated payments are provided as bonus; seminars and workshops are organised opportunistically; *per diems* are used to ‘buy’ loyalty from underlings; malpractices are more serious higher up in the hierarchy; and corruption is condoned.

Malawi, also heavily aid-dependent and riddled by endemic corruption, distinguish between remunerative allowances (training, extra duty, honoraria and sitting allowances) and performance-facilitating allowances (travel-related allowances such as *per diems*). A 2010 review revealed that travel-related allowances – accommodation, meals, and incidentals – accounted for three-quarters of all allowances and that excessive amounts were spent on such allowances that crowd out meritorious activities. The discretionary nature of authorisation and control encourages informal behaviour that violate formal rules, despite internal and external auditing. The donors managed to harmonise their *per diem* rates but failed to align with Malawi’s government system.

Ethiopia’s *per diem* rates are far below the real costs of meals and accommodation. As a result, an informal practice has emerged, whereby managers inflate the reported number of days that staff ostensibly travel beyond the actual number in order to compensate for real expenses. There are two different systems, one covering government-funded activities and one applicable to donor-funded projects. The latter is more attractive and create distortions. The situation gives rise to manipulation of budgets, shopping around for monetary benefit, buying of loyalty, higher rates at higher levels, donor money aura, and forging of receipts.

Across the three countries, the formal systems of travel-related allowances have the same basic structure, and it is amazing how much the *per diem* systems matter to civil servants. How they are applied in practice may impact significantly on the work environment, staff motivation and work priorities, and hence on the quality of public services. In Ethiopia, the official rates are too meagre for civil servants to benefit much, even when the number of days is artificially inflated. In Tanzania, by contrast, payments are generous compared to average salary levels. Malawi, unlike Tanzania, managed to incorporate a range of allowances, excepting *per diems*, into a ‘clean salary’ – an important step towards reducing *per diem* irregularities, but challenges remain. The formal travel control system is similar in the three countries, with unit-specific controlling officers and extra-institutional Auditors-General. Yet, challenges persist.

The challenges are predominantly related to compliance and enforcement of existing systems. Informal practices in breach of the rules are condoned and justified with reference to low salary levels. When less serious breaches become routinised, the systems embark on a slippery slope towards increasingly reprehensible practices. The donor community carries part of the responsibility for the emergence of the high-risk environment in the *per diem* conundrum.

The purpose of *per diems* should be reimbursement of travel expenses only. Extra emoluments to boost civil servants' motivation or secure them a decent salary should *not* be offered via the travel compensation system, and only when expenses have actually been incurred. *Per diem* rates should not be differentiated by seniority or salary level and full transparency should be ensured on applicable rates.

The efficiency of a *per diem* system hinges on the balance between trust and control. On the one hand, discretion is a prerequisite for (good) judgment. On the other hand, 100 per cent control (i.e. requiring receipts for all and sundry small expenses) will never be cost-efficient. Solutions do not primarily hinge on system reform. Rather, what matters is how existing rules are understood, respected and enforced. Whistle-blower protection should be enhanced.

Capacity-building is an integral part of endeavours to strengthen institutional quality. However, it is warranted to question whether such programmes give value for money. Beyond counting participants and courses, rigorous impact evaluations of training programmes and awareness-raising activities should be undertaken in order to reduce the volume of such activities if they are deemed superfluous, and thus curb propensities to offer generous *per diem* disbursements.

Periodic political economy analyses of the countries concerned would be helpful in understanding prevailing power structures and the actors involved. The donors' own practices are inconsistent and hardly in conformity with the principles of the Paris Declaration. The donor community should examine and reflect on procedures, policies and practices within their own organisations.

There is clearly need for further investigation into the complexities of *per diem* systems and practices, in width and depth. The existing body of literature is modest. Empirical studies within specific contexts could yield insights and pointers to curtailing reprehensible practices.

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1. Introduction

On the face of it, the payment of *per diem* – whether justified or not – may seem a mere trifle in the larger scheme of things. It appears, however, that the magnitude of the phenomenon is larger than at first sight, especially in aggregate terms. Within development cooperation where duty travel forms a considerable part, the *per diem* allocations within budgets seem out of proportion. Increasing emphasis on capacity-building and training activities in recent years as a proportion of most donors' country programmes, not least that of Sweden, only reinforces the importance of *per diem* practices. It is warranted, therefore, to draw closer attention to this issue with a view to understanding why it persists.

Hence, this report discusses the uses and abuses of per diem payment, predominantly by aid agencies and their counterparts in developing countries. The empirical emphasis centres on relationships with African countries, and covers practices by bilateral and multilateral actors and to some extent by civil society organisations, and by African governments who engage in similar practices in their own right and with their own systems and procedures. It draws extensively on the 2012 report co-authored by Tina Søreide, Arne Tostensen and Ingvild Aagedal Skage (Søreide *et al.* 2012) which addressed the issues within an analytical framework and empirically covered three African countries: Ethiopia, Malawi and Tanzania. These countries are long-standing major recipients of Nordic aid. Even though Swedish aid to Malawi has been minimal in recent years, the Malawian case remains instructive as far as the mechanisms are concerned. The specific purposes of the present report are:

- (a) to summarise the understanding of challenges associated with the uses and abuses of daily subsistence allowances (*per diems*) in connection with seminars, workshops, and training sessions;
- b) to assess the effects of *per diem* systems on development programmes, national budgets and civil servants' incentives;
- c) to recommend remedies to the identified challenges and assess the costs and benefits of a collective approach by donor agencies.

2. Compensation for work-related travel

In their efforts to enhance the level of competence and efficiency in developing countries' provision of basic services, aid agencies are organising – as one type of intervention among many others – a multitude of workshops, seminars and training sessions, typically in conjunction with local partners. This proclivity is reinforced by the importance that many aid agencies increasingly attach to competence- and capacity-building programmes in order to buttress institutions in partner countries. Such activities, as well as the general execution of donor-funded programmes, require civil servants and representatives of civil society organisations to travel away from their normal duty station or home base. To compensate

employees of public and private organisations for the extra expenses incurred when on work-related assignments or travel, various forms of *per diem* (non-salary daily subsistence allowance) are provided. The compensation offered is normally set at standardised rates, payable according to stipulated rules and regulations (Davies 2002).

While these allowances are meant to be compensatory only, they tend to assume the character of additional salary payment in countries where salary levels are generally low, which is typical of African countries. In a developing country, where civil servants draw low wages – even in the upper echelons – these extra emoluments may contribute significantly to total income. Indeed, the incentives embodied in these non-salary allowances may bear decisively on decisions whether or not to travel and participate in workshops and conferences, and may ultimately affect how efficient development programmes are implemented. Anecdotal as well as systematically collected evidence from many African countries suggests that various forms of staff compensation for participation in seminars do create opportunities for receipt of extra benefits in terms of *per diems* or other allowances. When such emoluments significantly increase their monthly pay, civil servants tend to become unduly preoccupied with pursuing these allowances, resulting in excessive travel and unnecessary trips. The aggregate volume of this form of compensation is reflected in wastage through inflated budgetary provisions.

The phenomenon of *per diem* abuse is not new. For decades, donors have complained about the difficulty of attracting civil servants to seminars without offering something extra. Observers refer to a ‘workshop mentality’ (Smith 2003) because many events seem to be organised for the sake of extra payments, not for their substantive content. The risk of *per diem* abuse must be understood in light of the close collaboration between donors and recipient governments. Aid agencies ostensibly aim to nurture transparency and accountability on the part of recipients. To that end, they are reticent about interfering in the administrative routines of recipient states’ bureaucracies, in accordance with the principles laid down in the Paris Declaration on Aid Effectiveness. Donors have adopted an anti-wastage policy and developed their own *per diem* systems. Owing to aid being an important source of funding for some states, aid organisations ostensibly have considerable leverage to counter the emergence of perverse incentive structures within recipient bureaucracies as well as in civil society. To what extent do donors abide by their own principles of aid effectiveness in their strategies to prevent wastage through the reimbursement of travel expenses?

The Paris Declaration was adopted in 2005 by altogether 91 countries and 40 multilateral agencies (OECD 2005 and 2008). The signatories committed themselves to five main principles, of which three are particularly pertinent in this context: (a) *ownership* (of development processes by recipient governments); (b) *alignment* (of donor procedures with country systems); and (c) *harmonisation* (among donors). While these principles seem compelling and straightforward, they have proved difficult to operationalise in real-life situations (Søreide *et al.* 2012). It appears that when applying them, dilemmas emerge which

require that difficult trade-offs be made. It must be recalled that the principles should not be enforced rigidly but rather be adapted to particular contexts that may differ considerably. For example, alignment will work best when the systems of recipient countries do not deviate dramatically from those of the donors, i.e. when the former enjoy considerable trust by the latter. In such situations of trust, the donors have every reason to believe that the aid they disburse will be managed efficiently at the recipient end. The waning aid modality of budget support reflects increasing distrust on the part of the donors in the recipients' management systems. With distrust and diverging donor and recipient systems follow more stringent controls.

For example, in the case of *per diem* systems and policies, there may be no other option for donors and recipients but to agree to disagree, e.g. with regard to the volume of the rates (modest or lavish) and differentiation by salary level or rank of civil servants as opposed to a flat rate for all personnel. At times, disagreement between the collaborating partners may be so strong that one party may take unilateral action, as has been the case when general budget and other modes of support have been suspended or discontinued. The pursuit of benefits derived from allowances is common globally and in all institutions. It is by no means a phenomenon peculiar to developing countries, although its gravity may be more pronounced in the context of constrained economies such as those of African countries with whom Sweden has sustained long-standing aid partnerships. Put differently, developing countries have less budgetary leeway to condone abuse.

There are two basic systems for reimbursement of travel costs: (i) reimbursement of actual expenses in various ways, based on original receipts that confirm expenditure; and (ii) payment of *per diems* (or daily subsistence allowances). The most common *per diem* systems are based on averaging the anticipated costs of travel. The best systems have a well-defined methodology, which is transparent to professional and administrative staff alike. Notwithstanding the accuracy of *per diem* rates relative to factual outlays, on account of their being averages of the anticipated costs of travel, they encourage 'gaming' of the system or rent-seeking behaviour since there will often be a discrepancy between actual expenses and the average rates. A tendency to benefit from this discrepancy happens in even the best run systems and is unavoidable, unless the *per diem* system is accompanied by a requirement to submit additional documentation (which then defeats the purpose of the exercise, i.e. reducing transaction costs). For example, although a selection of hotels may be surveyed to ensure that there are accommodation options in a city or location, staff often have a network of small hotels or pensions that they commonly frequent, where the room rates are considerably below the average. Alternatively, staff may stay with friends or colleagues, thereby avoiding accommodation costs altogether, and pocketing the balance as savings.

3. Methodology

The general theoretical approach outlined above provided a framework to understanding the mechanisms at play in the report by Søreide *et al.* (2012) on which the present report draws heavily.¹ Indeed, the present report is essentially a condensed version of the 2012 report, albeit with some additions and amendments. The findings and insights obtained five years ago provided the basis for a set of recommendations that were mainly addressed to the Norwegian aid authorities but also to governments in sub-Saharan Africa, multilateral agencies and CSOs operating in that part of the world. The empirical collection of data from fieldwork in Ethiopia, Tanzania and Malawi in late 2011 underpinned those recommendations, which probably apply elsewhere too.

The present report comprises four distinct elements: (i) a brief review of what has been published on the *per diem* issue to date; (ii) an overview of policies, regulations and practices; (iii) an assessment of consequences; and (iv) a set of recommendations.

The body of literature on the subject is comparatively small. The reason is arguably that the donor community does not consider the *per diem* issue to be a concern of major proportions. Donors apparently fail to see the aggregate picture; they just note isolated individual abuse from time to time without making much fuss about it. They certainly do not see it as a problem warranting serious study, with a few exceptions such as the 2012 report. It is an indication of the dearth of literature that the 2012 report – while not belittling its findings – features as a key reference in subsequent work (e.g. Nkamleu and Kamgnia 2014; Sanner and Sæbø 2014; Kenny 2017). The same perception appears to remain true even after the 2012 report was published.² The relevant publications predominantly address *per diem* challenges at the micro level, e.g. within project contexts (Singh *et al.* 2015). Some consider the role of *per diem* payments within the context of general remuneration systems, especially in the health sector (Maini *et al.* 2017; Bertone and Witter 2015; Vian *et al.* 2013). While these few contributions to the body of literature are welcome and add to the breadth of case studies, they do not alter to general picture depicted by the 2012 report. Rather, they confirm the 2012 findings. Even so, further studies are needed towards a comprehensive understanding of mechanisms and practices. The 2012 report ventured into territory that until then had been largely unexplored. The precursory desk study at that time was supplemented by information from representatives of key donors about policies and practices with respect to *per diem* payments. Surprisingly,

¹ The comprehensive original *per diem* report by Søreide *et al.* (2012) spurred the production of additional publications: a book chapter (Skage *et al.* 2014); a journal article (Skage *et al.* 2015); and a brief (Tostensen *et al.* 2016) with a view to reaching a wider readership.

² Search for additional literature published after the 2012 report was done in bibliographic databases and through colleagues who were familiar with the subject matter and had taken an interest in it previously. It must be conceded that *per diem* practices remain a neglected matter of interest to the academic as well as the donor community.

however, several donors were reluctant to share such information or they were simply ignorant or oblivious of the problem.

The review of published secondary literature at the time was supplemented by other secondary material and data provided by the institutions visited – including national statistics and national budgets/expenditures; circulars and staff manuals; audit information from the offices of auditors-general; and surveys by line ministries and donor agencies.

Most of the empirical information obtained in 2011/2012 – largely reproduced here for want of additional work – stemmed from fieldwork in the three countries of Ethiopia, Malawi and Tanzania that had been selected by Norad, who commissioned the study. Apart from publicly available material – the study relied primarily on in-depth, qualitative interviews with key informants representing a wide range of institutions and stakeholders, including academia, CSOs and the media. Information was also acquired from hotels hosting seminars and workshops. The range of respondents was reasonably broad and the number of interviewees large enough to facilitate corroboration of information. However, owing to the sensitivity of the subject matter under investigation, information gathering was difficult at times. Several requests for official statistics and information were declined. Sometimes the imparted information was contradictory. The triangulation of data sources and corroboration from diverse respondents made the findings plausible and defensible.

The key informants represented three broad categories: (a) the civil service (government); (b) civil society; and (c) donors. Representatives of each of these categories performed dual or triple functions such as: (i) providers or sources of *per diem* and allowances; (ii) recipients of *per diem* and allowances; and (iii) controllers of the payment of such allowances. Hence, the credibility of the responses was assessed carefully against the likely incentives of the interviewees to provide predictable answers in conformity with their interests.

4. Manipulation of per diem systems

Decisions by government institutions to organise seminars and send staff on trips abroad or on domestic travel are usually made by management. A decision-maker with oversight responsibility is authorised to allow spending of part of the department's budget on travel expenses, including *per diem* compensation and other related allowances. In many cases, it makes good sense to spend limited funds on trips and seminars and the decisions will often be the result of rational and optimal resource utilisation for better service delivery. However, the present report discusses practices when the choice of organising seminars/workshops/training sessions or authorising travels become a sub-optimal way of enhancing the skills of staff and the quality of services for society, even to the point of becoming dysfunctional.

When assessing *per diem* systems and the risk of manipulation for personal benefit, various forms of compensation have four categories of potential consequences:

- (1) intended compensation: the *per diem* system covers travel expenses prudently and efficiently;
- (2) indirect, informal performance reward: *per diem* payments are perceived as a bonus as distinct from compensation for travel-related outlays;
- (3) unintended distortion of incentives (or ‘perverse’ incentives) for those involved (less time in office, too much time spent on travel and seminars); and
- (4) outright fraud and corruption.

The movement from (1) to (4) is a slippery slope. Even if a manager aims for the first category only –which he/she is authorised to grant because that is strictly speaking what a *per diem* is about – neither of the first two categories is considered damaging to society. In the absence of other (formal) opportunities to offer extra rewards, a manager may elicit improved staff performance if those who deliver better results are offered participation in trips for which they receive generous *per diems*. Although such mechanisms may not be intended, they are not necessarily directly harmful. The third and fourth categories are clearly unintended, harmful or even illegal. They are the main focus of this report, which assesses how they may affect and distort the operations of bureaucracies and why the distortions are allowed to persist. Whereas the third category is unintended and could have harmful effects, it is not necessarily illegal in as strict sense, even though it may be ethically reprehensible. The fourth category, however, is palpably illegal and liable to criminal investigation and prosecution; it is a matter of corruption and punishable by law. This category does not feature prominently in this report. It is included to illustrate the risk of *per diem* abuse ending up in outright corruption.

The net consequences of *per diem* systems are difficult to ascertain, especially with respect to the unintended effects. Given the four categories of consequences, the first (intended consequences without significant inefficiencies) and the fourth (fraud, theft) can probably be compared with a service delivery optimum for society at large. The former is clearly positive and the latter is clearly harmful. However, in practice the second (indirect, informal rewards) and third categories (distortions in terms of wasted time and money) may coexist with similar features, which makes it difficult to determine both the net benefit or harm in terms of service delivery and to distinguish between the consequences.

Moreover, distortions resulting from the opportunity to benefit personally from the *per diem* system must be considered in light of the factors that drive an institution’s overall performance. When management is accountable for inefficiencies and internal and external controls are in place, why do inefficiencies and wastage persist? One possible reason is that the controls are weak or perfunctory because of low institutional capacity. Another reason appears to be that vested interests do not want to control such spending. A third explanation might be that audit institutions are ‘captured’ by other state institutions so as to render them ineffectual. The present report discusses these possible explanations.

5. Understanding the causes of (persistent) *per diem* manipulation

How can we understand why manipulation of *per diem* systems persists in societies where the performance of the public sector in service delivery is so critically important?

5.1 A problem of control

Clearly, the problem of *per diem* manipulation could partly result from inadequate or ineffective controls. Bureaucratic institutions are largely built on trust, embedded in and complemented by rules and regulations. A manager is expected to delegate some authority to enhance efficiency. Very detailed control is not an objective *per se* in bureaucratic institutions since civil servants are expected to behave accountably and ethically in performing work on behalf of the state. This ideal is sometimes disturbed by opportunistic behaviour or informal norms, for example, expectations of ‘loyalty’ from family or clan members who see ‘their’ civil servant as an opportunity to secure monetary or other benefits from the government system. For example, a study of corruption in an aid-financed family planning programme in Nigeria (Smith 2003) associates *per diem* fraud with patronage systems and a lenient attitude to spending and control in aid-financed projects.

The implementation of control systems in weak institutions can be very difficult, particularly since control depends on correctly reported expenditures, authentic (rather than forged) receipts and other travel documentation, as well as information about the seminar that the organisers have offered to participants. Controls alone are unlikely to solve the problem of manipulation in institutions with a complex set of weaknesses, unless combined with comprehensive changes, e.g. pay reform.

5.2 Incomplete control: the principal-agent perspective

It may be helpful to consider the problem in a *principal-agent perspective*. A principal (someone at managerial level) pays somebody else (an agent) to perform a specific task while the principal’s information about the agent’s actual performance is incomplete. The agent who is paid to perform the said task may very well benefit personally from the principal’s difficulty of knowing whether or not the agent does his or her best. Such principal-agent relationships may emerge:

- (i) within state bureaucracies (the top management wants its unit to perform but is unable to approve multiple staff travel decisions);
- (ii) between the political level and the civil service (the government wants to improve service delivery but is unable to address inefficiencies within the many ministerial departments); or
- (iii) between donor agencies and recipient government institutions and/or civil society organisations (donors might finance development programmes but are unable to control how they are implemented by government bureaucracies or CSOs).

The principal-agent relationship assumes that management above the level where manipulation occurs is benevolent. Management wants its institution to perform as well as possible, but is unable to control fully the opportunistic behaviour among the agents (employees), such as maximisation of *per diem* allowances for personal gain.

Following from this theory, the principal can reduce wastage by introducing various forms of control or introduce incentive-compatible contracts, so that the agents – given their diverse nature – have incentives to perform in the interest of the principal. Moreover, performance pay schemes could be introduced, for example, by increasing an individual's remuneration (bonus) as the unit's performance improves in terms of service delivery. This would shift the agent's individual incentives for attending seminars (primarily in order to collect *per diem*) towards initiatives for better service delivery. Another possible solution, consistent with the theory, might be that the principal allows the staff – or groups of staff – to compete in terms of better performance or service delivery while rewarding those who do best in improving the department's performance on core functions. The extent to which these solutions work in practice will depend on the visibility and measurability of civil servant performance, for example in terms of well-functioning service delivery.

5.3 Everybody benefits, why not me as well?

Internal solutions are harder to reach if the nature of the inefficiencies is a *collective action problem*. At the individual level, each employee – including at management and political levels – may, on the face of it, dislike inefficiencies associated with *per diem* system manipulation. However, given the size of a state bureaucracy, the individual 'grabbing' of *per diems* may be perceived as too insignificant to make a difference. If the expected net benefit to an individual of allowing the problem to persist is higher than the expected net value to that individual of curbing it, it will continue to exist, even if it is clearly detrimental at the aggregate level.

A further implication of the collective action perspective is that none of the institutions that could have reduced the wastage has an incentive to do so on its own. Although the government may have delegated authority to managers of various departments to take administrative, waste-reducing decisions, their lack of incentive to do so may explain the persistent inefficiencies. Furthermore, the internal or external audit functions may have been rendered inconsequential through corruption or by the action or inaction of a government that is averse to any form of scrutiny of its spending.

5.4 Political economy

Despite the ideal of accountable politicians, opportunistic behaviour and fraud are often deep-rooted at the political as well as the civil service level. Weak controls on spending can potentially benefit politicians, who also share benefits stemming from allowances. This complicates the search for control options since change cannot be expected to come from

the top echelons who are also culprits in the gaming of the *per diem* system. The beneficiaries at the top are likely to be deliberately reluctant to tighten control and enhance transparency because their own benefits and power might hinge on the opaque nature of the system. Moreover, at various levels, managers have a lot of discretionary authority over the system of travel compensation, an issue that matters considerably to staff. This authority can be abused to secure benefits, loyalty from staff, stronger party structures, and possibly even a share of the *per diem* reimbursed to staff. Managers are unlikely to relinquish that power, even if it implies that the travel compensation system will fail to work as intended. Hence, it cannot be ruled out that information about decisions regarding allowances are deliberately kept opaque by players high up in the government system.

5.5 Why do abuses of donor(-controlled) money persist?

As a collective action problem, the donor agencies may be reluctant to address *per diem*-related irregularities due to diplomatic concerns – misguided or not – that they would be interfering in the internal affairs of the national bureaucracies of recipient countries. Thus, they would violate the principle of alignment embodied in the Paris Declaration, or otherwise sour their cordial relations with partner governments with which they are to cooperate in the future.

How can actions or inactions by donor agencies contribute to explaining inefficiencies associated with *per diem* allowances within state bureaucracies?

- *Windfall revenues*: The mere fact that donor funds accrue to the recipient economy creates various indirect forms of distortion. Aid may encourage opportunistic behaviour ‘to get a piece of the cake’ – in whatever way possible – and this may affect the propensity to spend limited funds on seminars and travels, instead of funding other activities designed to improve service delivery more efficiently. If this were the case, one would expect more inefficiency associated with *per diem* allowances in aid-funded programmes as compared to government-funded programmes.
- ‘Generosity’: Donor agencies may compound the problem directly by offering high *per diem* allowances for their own organised events. Out of ‘generosity’ or self-interest, donor agencies may be careful not to offer lower rates than the applicable domestic standards. If raising the rates, the donors could offer the same rates their own staff receive. Such ‘generosity’ might have a contagious effect and contribute to inflating the rates applied by government agencies as well. A lax attitude to these issues – based on a perception that inefficiencies associated with *per diem* systems are too insignificant to make a fuss about – may prevent donor agencies from demanding cost-efficient spending on these kinds of payment as well as other expense items.
- *Lack of control*: Similar to the principal-agent relationships discussed above, the donor country governments may have incomplete information about their respective aid agencies’ performance in producing development results in recipient countries. Donor

agencies may make less effort to ascertain the development outcomes of their aid expenditure if the money can easily be transferred to the domestic government, e.g. by means of direct budget support or similar modes of aid provision. This would suggest that programme or hands-on project aid as alternative modalities of aid would be preferable in terms of control. However, such a stance would raise a trade-off problem. What would be a reasonable balance between control measures and transaction costs?

The above aspects suggest that the role of donor agencies is central to understanding the inefficiencies associated with *per diem* systems and (mal)practices. It follows that distortion is likely to be more widespread and pronounced the more aid-dependent a country is. Changes have to take place across institutions and within departments – induced by information about the magnitude of the problem and its distortional effects.

6. Findings from country case studies

The three countries examined exhibited different profiles on basic socio-economic indicators and differed in many respects with regard to *per diem* systems and practices. Still, a common feature was the manipulation – justifiably or not – of the regulations governing their respective *per diem* systems. The gist of the findings from each country is reproduced below.

6.1 Tanzania

Tanzania has long been commended for its good macro-economic management, political stability, a growing private sector, expanding trade and important institutional improvements, largely reflected in positive indicators of basic service delivery. However, even though economic growth has averaged about seven per cent since 2000, with some notable improvements in health and education, living standards have improved only slowly for the great majority of a growing population. Politically, the country is characterised by a dominant party system of governance. The incumbent party, Chama Cha Mapinduzi (CCM), has been in power since independence in 1961 (Eriksen 2018). Tanzania relies heavily on foreign aid, with one-third of its budget financed by more than 40 donors.

The rules regulating *per diem* and travel-related allowances are part of a larger set of allowances offered to civil servants. Some allowances are linked to a specific position or situation, referred to as remunerative allowances, including, for example, ‘disturbance allowance’ (if relocating to another duty station), outfit allowance, and housing allowance. Other allowances are discretionary benefits, often referred to as duty-facilitating allowances, which include overtime and special duty allowances, honoraria for outstanding performance and sitting allowances. Even if *per diem* payments seem restricted to specific situations, they are usually considered a form of duty-facilitating (i.e. discretionary) allowance since they depend on a manager’s approval of participation in a meeting or travel.

For many civil servants, allowances of all kinds contribute significantly to their total income. Generally, a civil servant's total emoluments consist of a basic salary less income tax plus applicable allowances plus discretionary allowances. The relative size of these remunerations varies significantly. The number of allowances, their rates, as well as the opportunity to influence their allocation, all increase with an official's rank in state institutions. A key informant alleged that the share of allowances in total emoluments is typically about one-third for higher-level civil servants and one-quarter at the lower echelons. However, in practice, for some lower level civil servants there are no extra emoluments, while for some top civil servants the share can be much higher, sometimes even higher than the basic salary. A study of civil service performance in Uganda and Tanzania found that three-quarters of the civil servants surveyed considered allowances as important as basic salary for their total income, while 13 per cent found allowances to be much more important than salaries (Therkildsen and Tidemand 2008).

The extent to which *per diem* reimbursements create extra 'profit' and distortive incentives depends on how generously they cover actual costs, assuming that the distortive consequences generate a surplus for the individual when all actual expenses have been subtracted. The actual expenses vary significantly. For some meetings, there are no extra expenses because transport and food are offered and the civil servant can thus pocket the whole *per diem* amount. In addition to *per diem* reimbursement, civil servants are sometimes offered sitting allowances. This form of compensation has been much debated and criticised for being 'double pay' since civil servants and elected politicians draw regular salaries for conducting their duties. There is no justifiable reason why they should be paid twice.

The Income Tax Act grants tax exemption on allowances payable to employees of the government and institutions that receive government subvention for their operations. Taxing allowances was considered administratively too expensive compared to the expected revenues generated. The Ministry of Finance considered that converting non-taxable allowances into ordinary salary payments would result in excessive financial commitments on the part of the government. Formal control systems are in place, both in government ministries and institutions as well as *ex post* by the Controller and Auditor-General. Staff must have advance management approval for travel and *per diem* reimbursement, as well as entitlement to other discretionary allowances, such as honoraria or extra duty allowances, but the *ex post* control is generally weak even though the audit office is widely recognised as independent and competent.

To some extent, however, the mass media and civil society act as watchdogs. However, although comparatively well ranked among African countries, Tanzania's global ranking has slipped since the election of President Magufuli in 2015 and the introduction of new legislation such as the Cyber Security Act, the Media Services Act, and the Statistics Act. These acts restrict the ability of the media to criticise the government. Similarly, the space is shrinking for civil society activities when deemed critical of the government.

Although hard evidence is limited to substantiate findings, interviews with key informants provided the basis for pointing out areas and situations where the risk of malpractice is considerable:

- *Exaggerated payments as bonus.* There was a widespread practice of offering extra duty allowances and honoraria as a form of bonus and a ‘carrot to get things done’. Even donors complain that civil servants attending events often expect some form of payment.
- *Organising seminars and workshops opportunistically.* It is not uncommon to establish a task force to write a report at a venue outside office premises, ostensibly to be able to concentrate, often in hotels outside the city borders to qualify for *per diem* payment.
- *‘Buying’ loyalty.* A manager’s discretionary authority with regard to selecting staff for trips and participation in meetings can be misused by offering civil servants more *per diem* days than entitled to. The assumption is that if staff have been given occasional extra payments, they would be less likely to report management failures or malpractices encountered and act as whistle-blowers.
- *The higher up the hierarchy, the worse it gets.* Malpractices vary with rank in the bureaucratic system. Higher up in the system there is ‘better’ opportunity to benefit from allowances and *per diems*.
- *Corruption condoned.* Tolerance of corruption in society leads to risk of malpractice and clear-cut fraud. The prevailing patronage culture suggests that civil servants feel obliged to use their authority to secure financial benefits for their kin. Tolerance reduces the feeling of guilt by the culprits as well as the risk of exposure.

The prevalence and precise magnitude of *per diem* abuse are difficult to ascertain. Yet, the size of the budgeted expenses for training activities, the frequency of workshops, proof that money has disappeared in some cases, and the picture portrayed by senior staff in relevant institutions suggest that the problem is real and substantial. There is little reason to assume that the challenges have diminished over the recent past.

6.2 Malawi

Shifting party coalitions since the democratic transition in the mid-1990s have not managed to move Malawi out of its economic crisis. Some of the economic woes can be attributed to extreme weather events such as intermittent droughts and floods. The predominantly agrarian economy, where the overwhelming majority of the population rely on agriculture for their livelihood, has not seen much sustainable improvement despite a short-term respite from fertiliser and seed subsidies. Apart from improvements in some social indicators such as education and health, the overwhelming majority of a fast growing population remains in abject poverty. Malawi is very aid-dependent, with roughly 40 per cent of the budget stemming from donor funding. The suspension in 2013 of direct budget support by major donors exacerbated the economic crisis.

The political system is singularly presidential and confers wide powers on the executive branch of government. Riddled with endemic petty and grand corruption, the incumbent coalition has limited leeway to manoeuvre and seems to engage in crisis management without strategic direction. Still, the political elite exhibits some self-interested cohesion vis-à-vis the electorate notwithstanding periodic elections (Tostensen 2017).

It is common to distinguish conceptually between two types of allowance in terms of their intended functions: (a) income-enhancing or remunerative allowances; and (b) performance or work-facilitating and work-enhancing allowances. The first category is usually part of the terms and conditions of service to attract and retain technical and professional cadres with required skills in a competitive labour market. They comprise training allowances, extra-duty allowances, honoraria and sitting allowances, leave travel and moving expenses allowances, housing allowances and other compensations. The second category is intended to improve performance of work and service delivery. Travel-related allowances (essentially *per diems* and transport in connection with events outside normal duty station) are generally considered performance-facilitating or work-enhancing. In practice, however, the distinction becomes blurred. A review conducted in 2010 revealed that travel-related allowances accounted for three-quarters of all allowances. As a proportion of salaries, allowances in general accounted for nearly 30 per cent, while travel-related allowances specifically accounted for slightly more than one-fifth of salaries (Peprah and Mangani 2010). The 2010 review found that excessive amounts were spent on travel-related allowances. Over the review period, the total travel budget (the sum of domestic and foreign travel) was on average nearly one-tenth of the total national budget.

In 2006, the government adopted travel guidelines, principles and controls for travel, making clear that *per diem* payments were not meant as supplementary income, performance rewards or similar benefits, only reimbursement of travel-related outlays, comprising three components:

- *Accommodation or lodging.* Outlays for overnight sleeping facilities, bath, personal use of the room during daytime, telephone access, as well as service charges for fans, air conditioning, fires and heaters when not included in the room rate.
- *Meals.* Expenses incurred for breakfast, lunch, dinner and related tips and taxes (but specifically excluding alcoholic beverages and entertainment expenses and expenses incurred for other persons, e.g. spouses).
- *Incidental expenses.* Fees and tips given to various travel servants and service providers.

The *per diem* rates as revised in 2011 – differentiated by salary grade – were significantly higher than the old ones, with increases ranging from 67 per cent for the highest grade to 200 per cent for the lowest. The ratio between the highest and lowest rate was 4:1.

The formal control procedures in the civil service are straightforward. An officer wishing to travel and attend an external event is required to submit an approval form to the

controlling officer who will assess the justification of the request and ascertain whether the budget can accommodate the expense. The controlling officer has considerable discretionary authority, which provides opportunity for patronage vis-à-vis subordinates. The discretionary nature of the authorisation and control system encourages informal behaviour that deviates from the formal rules and regulations. Furthermore, there are risks of double payment of per diems because coordination between departments within a ministry and between ministries is poor. In a particularly egregious case, a civil servant had claimed *per diems* for 1,057 days in one budget year.

Internal auditing systems are in place in all ministries. In addition, as the supreme audit institution, the National Audit Office (NAO) performs external audits of all government institutions. However, lack of compliance with established rules and regulations is widespread in the civil service, as is routinely pointed out in NAO reports. The Anti-Corruption Bureau (ACB) is part of the control system, although most cases investigated and prosecuted are unrelated to *per diems* and allowances. The ACB has commissioned surveys of attitudes to corruption in Malawi, but malpractices regarding *per diems* do not feature prominently (Chinsinga *et al.* 2010). Although not part of the formal system of controls, the mass media continue to perform important watchdog functions and reveal information to ‘name and shame’ culprits, and investigative journalism has improved in recent years. For example, the excessive *per diem* claim in one calendar year referred to above came to light due to investigative journalism.

The reasons for non-compliance are several. The most fundamental one is low salaries, which give staff a strong incentive to seek supplementary sources of income. Travel-related allowances are one such source that overall may account for one-quarter to one-third of total emoluments. The fact that travel-related allowances are tax exempt adds to their attractiveness. Second, low salaries have created a general atmosphere of tolerance of malpractice, which is not considered particularly reprehensible. Indeed, a perception is widespread that tapping such allowances is virtually a right, ethically defensible because the government is paying unreasonably low salaries that are inadequate to provide for a family.

The adverse consequences of the malpractices are diverse. First and most obvious, at the aggregate level excessive expenditure on travel-related allowances tends to crowd out other, more meritorious activities for which the budget has provided. Second, the malpractices reflect and feed an unhealthy institutional culture that appears to permeate the entire civil service and impede the development of the country. Third, the malpractices create distortions that are detrimental to efficient development activities.

Malawi’s civil society organisations (CSOs), of which about 400 are registered, comprise domestic and international entities. The domestic CSOs as a rule receive the bulk of their funding from foreign sources (donors and sister organisations alike), albeit to a variable degree. In a profoundly religious society such as Malawi, the faith-based organisations (FBOs) act as important watchdogs on the government. CSO activities involve much

training and awareness-raising in which seminars and workshops are major ingredients. Their *per diem* policies and practices are therefore of critical importance. However, policies and practices vary greatly because harmonisation among them is lacking. The umbrella organ, the Council of Non-Governmental Organisations of Malawi (Congoma) has not been an effective harmonising agent.

The donors have harmonised their *per diem* rates payable to public sector employees and civil society from their own funds but formalised agreement is not adhered to in practice, partly because donors use *per diems* and allowances as competitive instruments among themselves. Alignment with the government *per diem* system has failed.

6.3 Ethiopia

A federal republic with nine ethnically based states, Ethiopia faces tough challenges in terms of poverty reduction and development. It is also aid-dependent. The Ethiopian economy has grown rapidly in the past decade with an annual growth rate hovering around 10 per cent, resulting in considerable improvement of average rural welfare, despite high inflation. Ethiopia has no minimum wage regulation. Salaries in the public and private sectors and in civil society vary significantly. Ethiopian public salaries are comparatively low, which has made it difficult to attract competent professionals to important positions.

The incumbent government coalition has been in power since the ousting of the *Derg* in 1991. The regime is characterised as developmental yet authoritarian. The high economic growth rate is its main source of the legitimacy. However, the country is sharply divided along ethnic lines as embedded in its constitution.

The official government *per diem* rate is differentiated by salary level, and *per diems* are tax exempt. There is also a hardship allowance, if the place where the official is temporarily deployed is considered hazardous or arduous. However, sitting allowances are generally not given to civil servants. For staff not provided with vehicles and thus relying on mass transportation, travel costs are reimbursed upon submission of original receipts. Even after their upwards revision in 2001, the *per diem* rates are far below the real costs of meals and accommodation, estimated to be three to four times higher than the maximum *per diem* rate. While real costs are difficult to establish due to lack of systematic data collection, there is agreement among government officials, donors and civil society representatives alike that the rates remain grossly inadequate, especially in view of the high inflation rate throughout the past decade.

Owing to the low official rates, an informal practice has emerged, whereby managers inflate the reported number of days that staff ostensibly travel beyond the actual number in order to compensate for real expenses. Even though such a practice is formally illegal, it is generally accepted that management manipulates the number of days as a matter of administrative routine, though based on personal discretion.

Ethiopia has two different *per diem* systems: (a) the government system, and (b) the other one applicable to so-called Channel 1 projects. The latter are donor-funded, government-executed projects, which is the dominant mode of donor support to the government in Ethiopia. The Ministry of Finance and Economic Development (MoFED) is responsible for development cooperation and the regulation of *per diems* for Channel 1 projects, applicable to programmes funded by both multilateral agencies and bilateral donors. For nationally executed UN-financed projects, the government applies the UN *per diem* rate. For EU-funded projects, the rates vary from one project to another, determined through negotiation at project inception. The differing *per diem* rates and systems make donor-funded projects more attractive, as they increase the total remuneration package of government staff. Nonetheless, the rates on donor-funded Channel 1 projects remain insufficient. Hence, it has become increasingly difficult to persuade people to travel and attend necessary activities. Although donors are generally dissatisfied with project-specific rates and lack of harmonisation, they have not made progress towards harmonisation among themselves and with the government.

Civil servants, donors and civil society alike consider the Ethiopian public management system to function rather well, notwithstanding capacity constraints. The Inland Revenue Authority (IRA) has issued several directives to prevent *per diem* abuses. However, the incumbent coalition is centralised and, in effect, its partial amalgamation with the state is a source of inefficiency. Currently, there is no parliamentary opposition and a strict party whip thwarts free deliberation.

Civil society is weak, largely attributable to government policies and laws that constrain the ability of civil society to voice criticism against government and to hold it to account (Yeshanew 2012; Dupuy *et al.* 2015). The Ethiopian Charities and Societies Agency has been established to implement the new laws and monitor civil society activities. The ability of civil society to function as a watchdog is thus severely curtailed.

Opportunities for abuse and malpractice are legion and widespread, partly because such abuse is condoned on account of palpably too low *per diem* rates and partly owing to weak controls. The malpractices are listed below:

- *Manipulation of budgets.* To accommodate the condoned inflation of days justifying *per diems*, budgets are inflated to ensure matching of budgets with actual expenditure.
- *Shopping around for monetary benefit.* The incentive is strong to hunt for seminars and workshops that provide *per diems* for an artificially high number of days, thus diverting attention away from regular office duties.
- *'Buying' loyalty.* Managers' discretionary authority nourishes an informal 'bonus' system that may have a negative influence on the work environment when it leads to personal favouritism and the 'buying' of loyalty.
- *High levels, high rates.* Civil servants in the upper echelons of the state apparatus have more opportunities to accumulate *per diem* benefits.

- *Donor money aura.* The competitive rates of donor-funded Channel 1 projects attract the most competent people to these projects. The variation in rates creates tension and institutional inefficiency due to the perceived grievances by staff who are unable to benefit from donor-funded projects.
- *Inadequate per diem rates.* Civil servants who do not receive sufficiently inflated *per diems* to match the real costs of travel often avoid travelling, with a number of adverse ramifications. The lower tiers of government are especially affected.
- *Forged receipts.* Receipts for transport and other services are often forged. It is possible to obtain blank receipts at bus and petrol stations in order for culprits to fill in figures as they please. Managers have an opportunity to create fake attendance sheets, and pocket the surplus themselves.

The Ethiopian country case differs from those of Malawi and Tanzania in one particular respect. Whereas Ethiopia's *per diem* rates are generally below the actual costs incurred on travel, the opposite appears to be the case in Malawi and Tanzania. The irregularities observed are different, therefore, although they are still irregular. Even so, the remedies will be different.

7. Comparative perspectives

What are the main differences between the three case countries? How are they similar? What features and challenges seem to be generic as distinct from country-specific or even institution-specific? Formally, the system of travel allowances, its rates and control functions are similar across countries in most respects. How it works in practice, however, depends on a host of contextual factors. For example, stealing from the state coffers – which is what irregular appropriation of *per diems* amounts to – is considered a far more serious offence in Ethiopia than in Malawi. In Tanzania, some irregularities or petty corruption among civil servants are condoned.

Even an apparently trivial administrative issue such as the *per diem* system seems affected by the political environment. However, the connection between politics and travel compensation is not necessarily straightforward. Tanzania emerges as the country with the most significant pro-democratic developments over the last decade (notwithstanding authoritarian tendencies after the 2015 election of President John Magufuli), while at the same time being the country with the highest risk of wastage associated with *per diems*. In other words, the democratic mechanisms of accountability do not seem to check the irregular practices. In Malawi, also with all the trappings of a democratic system of governance, *per diem* irregularities similarly persist through informal mechanism despite formal steps to curb wastage. The autocratic behaviour of President Peter Mutharika and political developments in Malawi are not necessarily inconsistent with stricter controls on the payment of *per diems*. On the other hand, even autocratic regimes will not promote consistency if the irregularities serve to strengthen informal patronage systems. Ethiopia, with an authoritarian regime, appears to exercise the strictest government control on

spending, including travel expenses. Even so, Ethiopia seems to exhibit a discernible move towards a more lax situation similar to that of Tanzania and Malawi.

Across the three countries, the formal systems of travel-related allowances have the same basic structure. Each country has official rates; some opportunity exists for cashing in the balance between actual expenses and rates paid; managers approve trips or seminars; and unit-specific controls are in place on financial decisions, including the reimbursement of travel expenses. It is amazing how much the *per diem* system matters to civil servants. Clearly, the *per diem* systems and how they are applied in practice are not trivial issues. They may impact significantly on the work environment, staff motivation and work priorities, and hence on the quality of public services.

The degree to which *per diems* can in fact be a source of extra emoluments differs across countries, institutions and rank. In Ethiopia, the official rates are too meagre for civil servants to benefit much, even when the number of days is artificially inflated. In Tanzania, by contrast, payments appear overly generous compared to average salary levels. Malawi, unlike Tanzania, managed to incorporate a range of allowances, excepting *per diems*, into a 'clean salary' – an important step towards reducing *per diem* irregularities, but challenges remain. The formal travel control system is similar in the three countries, with unit-specific controlling officers and extra-institutional Auditors-General. Yet, the challenges persist.

8. Recommendations

All the three countries have put in place formal systems for reimbursing travel expenses and concomitant control mechanisms. Those systems are similar throughout the world, including in donor countries (Davies 2002 and OECD 2011). However, they vary somewhat in design, but above all, in how scrupulously they are enforced.

The 2012 study took a qualitative approach and cannot, therefore, report conclusively or exhaustively on practices and the magnitude of problems or wastage. Rather, it sought to describe the risks of wastage and incentive problems given the weaknesses of control. Government control systems should aim to estimate the monetary loss. However, the loss figures would be unlikely to capture the many forms of indirect, non-monetary adverse effects caused by civil servants' strong preoccupation with personal emoluments to the detriment of providing services and attending to their duties. Similarly, the detrimental effects caused by managers who 'poison' the work environment by allocating 'lucrative' trips and seminars unfairly, are hard to estimate. Clearly, seminars organised with the primary intention of obtaining extra payments do not enhance efficiency. In the same vein, the donor agencies who accept extensive training programmes without critical assessment run the risk of undermining the beneficial effects in terms of improved work performance.

A better understanding and awareness of the many challenges encountered are pre-conditions for making remedial recommendations. It is possible to exercise better control of large-scale *per diem* manipulation and contain abuse. However, it depends on the

political will to arrive at well-designed systems to that end. Ethiopia, Malawi and Tanzania have all adopted reasonably well designed formal systems for disbursing *per diems* and controlling abuse. The challenges overwhelmingly have to do with compliance and enforcement of existing systems, rules and regulations. Informal practices, strictly speaking in breach of the rules, are condoned and justified with reference to low salary levels. However, when the less serious breaches become routinised, the system embarks on a slippery slope towards increasingly reprehensible practices that are clearly illegal and may amount to massive fraud further down the slope. It is comparatively easy to improve or perfect existing systems within a reasonable timeframe but it is far more difficult and time-consuming to change the mind-sets and attitudes of individuals, be they public officials, civil society activists or aid workers, especially if the incentive structures push in the opposite direction.

Finding ways of preventing a slide towards increasingly reprehensible practices is a management responsibility. It is beyond the scope of the present study to provide detailed, operational recommendations as to how abuses could be counteracted. Besides, detailed prescriptions must be contextualised and tailor-made to the circumstances at hand. Even so, some suggestion may be ventured where there is scope for reform.

There is broad consensus that the donor community carry part of the responsibility for the emergence of a high-risk environment with respect to the *per diem* conundrum. Nonetheless, the donors have failed repeatedly in their attempts to coordinate their *per diem* rates and systems and to take concerted collective action. The precepts of the Paris Declaration seem forgotten.

8.1 Per diems for reimbursement of travel-related expenses only

The purpose of *per diems* should be to reimburse travel expenses only. Extra emoluments to boost civil servants' motivation or secure them a decent salary should *not* be offered via the travel compensation system. Information campaigns are warranted to convey the sole purpose of the travel compensation system: reimbursement of expenses incurred when on official mission outside normal duty station.

Despite the risk of fraud and distortive impact on work motivation, it is strongly recommended that the use of *per diem* payment be retained, possibly combined with reimbursement subject to submission of original receipts for specific expenses. The reimbursement should preferably be transferred electronically to the employees' bank accounts (not cash payment in 'brown' envelopes) if the banking systems make it feasible. Such a practice will make it easier to detect irregularities.

A cleaner system – whereby the reimbursed amounts are as close as practically possible to the actual expenses incurred – will reduce the risk of wastage and fraud. Standardised *per diem* rates should be calculated on the basis of surveys of hotels, restaurants and conference

centres throughout the country concerned. The standardised *per diem* rates should reflect the (average) true costs, adjusted periodically for inflation.

Per diem rates should *not* be differentiated by seniority or salary level. Given the fact that most countries apply *per diem* systems that differentiate by rank of staff, this recommendation may appear to violate the principle of alignment with domestic country systems. However, alignment should not be uncritical and mechanical. The differentiation is not warranted. Regardless of rank, staff could stay in similar hotels and eat similar meals. Rank is reflected in the salary system and should not be reinforced by the travel compensation system.

Reimbursement should be provided only when expenses have actually been incurred on official trips away from normal duty station, preferably with imposed ceilings of duration. This rule might constrain necessary travel for certain types of work that are inherently travel-intensive and time-consuming (e.g. auditors or inspectors on extended missions to remote areas). On the other hand, it is not unreasonable to impose a limit for attending training events and similar activities. Time ceilings are likely to curb rent-seeking without impacting adversely on work-related travel.

There should be full transparency about the applicable rates. There is no justification for keeping any feature of the system and the rates confidential, neither for governments nor for CSOs and donors. Likewise, there should be transparency about budget allocations and actual spending on training events for different categories of government institutions and geographical areas. Consistency between the intention of reimbursing for expenses and actual practice will leave the government and other organisations with little to hide from the public.

8.2 Promote better control systems

The effectiveness of any bureaucratic organisation hinges on the balance between trust and control. On the one hand, discretion is a prerequisite for (good) judgment. On the other hand, 100 per cent control (i.e. requiring receipts for all and sundry small expenses) will never be cost-efficient. For these reasons, there will always be a modicum of mismanagement risk even in a well-run bureaucracy. The rules and regulations were overall fine in all three countries, including the control mechanisms. The practice varied significantly, however, which suggested that solutions do not primarily hinge on system reform. Instead, what matters is how the existing rules are understood, respected and enforced.

Higher risks and larger amounts of wastage at the higher echelons of governance suggest a need for external control in addition to institution-specific internal controls. The more the challenges in an institution assume the character of a collective action problem, the more critical is external oversight, in the first instance by the national auditor-general but preferably by foreign agencies.

The efficiency of control systems depends on access to reliable information in understandable form, which is essential for ordinary citizens. Moreover, such access is vital for the mass media and civil society to enable them to serve as watchdogs.

International civil society organisations who act as conduits of funds to sister organisations should vet their local partners carefully before entering into partnerships to ensure they have the requisite managerial skills, including accounting. Such procedures are largely practiced already but need to be made more effective. A careful vetting process would help to inject trust into the partnership and forestall irregularities.

Whistle-blower protection should be significantly improved. Speaking out about mismanagement involving colleagues usually places a heavy burden on civil servants. In fact and paradoxically, the troubles would often be greater for the whistle-blowers than for the culprits. As a result, people with incriminating knowledge would tend to keep mum.

Deliberate attempts to defraud one's employer institution should be considered as theft. Instead of condoning reprehensible practices by using euphemistic or excusing terminology (such as 'bonus'), they should be referred to by their proper name: fraud or crime or whatever is more fitting. Proven cases of irregularities or fraud should lead to disciplinary sanction and prosecution if the case is grave.

8.3 Secure value for money in training and awareness-raising activities

Capacity-building is an important, integral part of any reform intended to strengthen institutional quality. The need for enhanced competence is palpable, and civil servants and CSO staff alike are routinely invited (or sent) in large numbers to training sessions and awareness-raising seminars. Donors are quick to suggest capacity-building as part of a strategy to improve service delivery, and in some programmes training makes up the bulk of the budget. However, such programmes provide ample opportunity and risk of *per diem* mismanagement. For that and other reasons, it is important to question whether or to what extent those programmes give value for money. Do the donors really assess whether all training activities are justified and worth the investment?

The importance of capacity-building combined with comprehensive administrative efforts associated with large-scale training will tend to leave the organisers, donors included, with a sense of achievement of better governance or service delivery. Indeed, a training programme could very well be an important step in the right direction, yet its contribution to better service delivery depends on its true impact, which needs to be ascertained. Value for money is not just a question of cost-efficient training (and prevention of *per diem* abuse). Above all, it is a question of the extent to which training makes a difference in terms of better and sustainable service delivery.

Robust quantitative results to ascertain the impact of training programmes on service delivery are rarely obtained. The true *ex ante* baseline on the level of competence and service

delivery prior to training is rarely known. This makes a comparison of *ex ante* and *ex post* performance difficult and faulty. Evaluations are often limited to rather simplistic end-of-workshop surveys of what participants claim to have learned during the training sessions they have gone through. Only rarely – if ever – do they include attempts to measure what difference the training has made to the participants’ daily work. Is what they claim to have learned and absorbed actually being used? The organisers of training sessions and awareness-raising campaigns must go beyond assessing the effectiveness of their programmes merely by the number of training events and participants. Instead, they should endeavour to measure real long-term impact.

Beyond counting participants and courses, rigorous impact evaluations of training programmes and awareness-raising activities should be undertaken in order to possibly reduce the volume of such activities if they are deemed superfluous, and thus curb propensities to offer or condone generous *per diem* disbursements.

Conducting rigorous evaluations based on quantitative methods and involving randomised control groups akin to quasi-experimental designs is very demanding. However, impact evaluation is an area where significant methodological advances have been made in recent years. Short of quasi-experimental designs, pragmatic or simpler approaches could contribute to drawing attention to the ultimate impact on service delivery. Moreover, participants in training sessions are likely to be more motivated to perform if they know that the results of their higher competence will be carefully evaluated. There is no shying away from making serious attempts to undertake thorough evaluations.

8.4 Address challenges facing the donor community

Thorough, periodic political economy analyses of the countries concerned would no doubt be helpful in understanding the existing power structures and the actors involved. In the interest of economy, the donor community in a particular country could pool their resources towards that end to ensure that the analyses would be comprehensive and profound enough. Such analyses would provide a useful backdrop to addressing a host of development challenges, including those associated with *per diem* compensation.

Notwithstanding the alignment principle of the Paris Declaration, differentiated *per diem* rates by seniority or rank of civil servants are hard to accept for most donors. Unless a domestic system for travel compensation conforms to the real purpose of the system (reimbursement only), the donors should be cautious about aligning. Instead, after careful consideration donors should make a pragmatic choice that both parties can live with, even if it is not optimal.

The donors’ own practices are inconsistent. They need to be harmonised. The donor community should examine and reflect on procedures, policies and practices within their own organisations. What is the justification for keeping *per diem* rates confidential (even though not all donors do that)? Why organise training sessions for participants who take

an interest only if they are paid an allowance? Are controls of spending and reporting procedures adequate for detecting irregularities? If not, what explains the lax attitude? Why do some donors purport to agree to the principles of harmonisation and alignment while deviating from them at the first opportunity? Moreover, embassy and donor agency staff are themselves not immune to the incentives inherent in the travel compensation systems. Respondents in recipient government institutions have clearly indicated that they are aware of misfeasance by donor personnel. The development partners should not underestimate the potential influence they might have by setting a good example.

9. Need for further investigation

In view of the fact that our knowledge about the uses and abuses of *per diem* payments remains scant, there is clearly a need for further investigation in width and depth. The existing body of literature is modest albeit growing slowly. In the interest of better and more efficient aid interventions, donors should be prepared to fund studies linked to their projects and programmes. Only with a broader base of empirical findings will it be possible to make firmer inferences about the prevalence and magnitude of the problem across countries. Empirical studies within specific contexts would yield insights and pointers to curtailing reprehensible practices.

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