

## 16. When per diems take over: training and travel as extra pay

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Weak access to basic services and poor framework conditions for the private sector impede development. Low-quality service provision for example in health, education, utility supply, industry regulation or law enforcement can often be explained by inefficiencies in state administration. This is why many governments offer extensive training to build capacity or to introduce new approaches and strategies. Training programmes are often organized in collaboration with development partners and as complements to development interventions. As a result, a significant share of budgets is allocated to seminars and workshops. Higher competence among civil servants at all ranks is expected to strengthen bureaucratic efficiency and thus improve sector performance for better development. In the same vein, heightened awareness with regard to salient issues such as gender, transparency, HIV and AIDS, micro-finance, and so on, is also expected to improve performance.

Whether the many training programmes, workshops and seminars actually enhance efficiency and performance depends on the manner in which they are organized and how receptive the participants are to learning. While it is often assumed that training programmes lead to better performance, research suggests that training programmes are often organized and attended for the mere purpose of obtaining extra pay rather than for their substance (see Cooksey, 2007, 2010; Jansen 2009a, b; Vian, 2009). Civil servants who attend seminars and workshops are offered per diem payment in line with existing travel compensation systems, which means that they are offered non-salary daily subsistence allowances intended to cover extra expenses when on duty travel away from office. The compensation is normally set at standardized rates, payable according to stipulated rules and regulations. While per diem payments were initially meant to be compensatory only, they tend to assume the character of additional salary payments in countries where salary levels

are generally low (Policy Forum, 2009). 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 about whether or not to travel and participate in seminars, workshops and conferences.

When such emoluments significantly increase their monthly pay, civil servants may become unduly preoccupied with pursuing such allowances, and pay less attention to the contents of the events.<sup>1</sup> Some may even prefer attending seminars and obtain extra payment instead of discharging their regular work. If this is so, the incentives inherent in travel compensation systems can prevent governments from reaching the full potential of their training programmes, and worse, the training programmes themselves may indeed become a source of inefficiency. For this reason we need better knowledge about the problem of *per diem grabbing* and how to improve the efficiency of travel compensation systems. This chapter presents some of the results of a qualitative study on per diem manipulation and fraud in three developing countries.

## 16.1 PER DIEM GRABBING IN THREE COUNTRIES

At the request of Norad, the Norwegian Agency for Development Cooperation, the authors conducted a study of the phenomenon of per diem irregularities and fraud in Tanzania, Ethiopia and Malawi, a project carried out during 2011–12.<sup>2</sup> The study specifically addressed the misuse of the systems as it plays out in practice.<sup>3</sup> Apart from publicly available 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 – we relied primarily on semi-structured, qualitative in-depth interviews with key informants representing a wide range of institutions and stakeholders, including academia, civil society organizations (CSOs) and the media (120 respondents in total). Corroboration of information was sought to establish relatively firm inferences, notwithstanding the sensitive nature of the topic. The public sector in the three countries has adopted standardized travel reimbursement systems, with rates and rules on how compensation should vary with rank and city or area, standardized forms for the request of reimbursement and rules regarding supporting documentation such as original receipts. Management approval is needed prior to travel in all of the countries, and all have a system of internal and external audit.

Formally, the travel compensation systems in the three countries are similar and resemble international best practice when it comes to these kinds of systems. It was remarkable, therefore, to see how differently they work in practice, which suggests that contextual factors are important, such as low salary levels.

### **16.1.1 Ethiopia**

A main reason why it is difficult to ensure that the Ethiopian travel compensation system works efficiently is the meagre per diem rates. The official rates (Council of Ministers, 1993, 2001, 2008) are far below the real costs of meals and accommodation which are estimated to be three to four times higher than the maximum per diem rate.<sup>4</sup> For this reason, a civil servant is hesitant to travel, unless he or she has been reassured that the number of reported days on travel may be inflated to match the actual expenses. The civil servant is thus paid for more days on travel than has actually taken place. This practice is condoned and defended by government officials as a way of maintaining flexibility with regard to expenses in a situation with uncertain budgets and high inflation. However, it also provides significant room for managerial discretion, which may be misused by leaders who want to favour certain employees or promote party loyalty in a polity perceived by Human Rights Watch (2010) and Freedom House (2011) as a repressive one-party state. The practice seems to have created a culture of increasing tolerance of irregularities and malpractices. Civil servants who are loyal and efficient expect their managers to use the opportunities offered by the system to secure them something extra.

Different development partners negotiate per diem rates on the programmes they finance on a case-by-case basis (Ministry of Finance and Economic Development, 2008). These negotiated higher rates make sure that externally funded programmes are carried out as intended. For this reason, it has become more popular for civil servants to work on programmes financed by development partners, leaving a bias against ordinary government-financed programmes. In effect, the differences in the per diem rates seem to influence how government institutions allocate their staff resources.

### **16.1.2 Tanzania**

Although Tanzania has been commended for its macroeconomic development, political stability and a growing private sector, the country has a long way to go to ensure that its travel compensation system works

efficiently. The reason is not only the functioning of the travel compensation system itself. Just as important is a range of discretionary allowances offered to motivate staff or incentivize extra performance, including special duty allowance, honoraria for outstanding performance and sitting allowances for attending certain meetings. Many civil servants seem to consider the travel reimbursements as just another source of extra pay. During our study we were given examples of civil servants who could obtain per diem payments for more days than they had actually travelled, reimbursements for more expenses than what they had incurred, or for meetings not attended.<sup>5</sup> However, the rates are significantly higher in Tanzania than for example in Ethiopia, and the civil servants do not have to inflate the number of days to gain something extra from travelling. We cannot report the magnitude of fraud and mismanagement in the system. However, the total government wage bill accounted for 32 per cent of the 2010/11 budget. Allowances accounted for 16.2 per cent of the total wage bill, of which duty-facilitating allowances made up 10.2 per cent, remunerative allowances 6 per cent and domestic per diems 4 per cent. The total absolute allocation for allowances amounted to TZS 269 billion (USD 165 million).

### **16.1.3 Malawi**

When reforming their staff compensation system in 2004, Malawi incorporated into a 'clean salary' many extra allowances previously payable to civil servants. Travel-related per diem is currently the only allowance remaining at a manager's discretion. Although this was a wise reform, it may have led some managers who want to offer their employees something extra to 'stretch' the travel compensation system a bit too far. For example, a manager satisfied with a department's performance may offer the whole department 2 days of travel compensation – as a bonus – even if no trips or training courses have taken place.<sup>6</sup> A 2010 review of travel-related expenditure showed that excessive amounts were being spent on travel-related allowances, accounting for 21.9 per cent of salaries. Over the period 2006/07–2010/11, the total travel budget (the sum of domestic and foreign travel) was on average 9.2 per cent of the total national budget (Peprah and Mangani, 2010). Malawi's high travel expenditures aggravate the country's budget deficit, which has been hovering around 5 per cent of GDP in recent years. The travel-related allowances constitute a large proportion of the total emoluments of civil servants and quite certainly take on the character of salary supplement rather than reimbursement of expenses.

### 16.1.4 General Findings

In all three countries we got the impression that per diem grabbing is a phenomenon of significant magnitude. The different practices and consequences can be placed in three categories of mechanisms that could lead to managers' 'per diem misuse' as opposed to the intended, efficient travel compensation in a strict sense: (1) indirect, *informal performance reward*: per diem payments are used as a bonus; (2) unintended *distortion of incentives* for those involved (less time in office, too much time spent on seminars); and (3) *outright fraud* and corruption. These categories will obviously have different impacts on development. The many training initiatives financed by development partners or the governments expand opportunities for extra payments through the travel compensation system, although the risk of fraud is present also on duty travel which is not part of a competence-raising programme. We could not obtain data indicating the volume of fraud or the impact on training outcomes. However, interviews with more than 120 respondents in key positions provided numerous examples of how grabbing is carried out in practice by organizers of training events as well as by the civil servants attending them.

The travel compensation systems and how they are applied in practice are not trivial issues. They impact significantly on the work environment, staff motivation and work priorities, and hence on the quality of public service delivery. The degree to which a travel compensation system can be a source of extra emoluments differs across countries, institutions and rank. The fact that government rates in Tanzania (and Malawi) are sufficiently high to provide an economic reward from participating in training activities create different distortionary incentives than in Ethiopia where the low government rates lead to consistent manipulation of budgets on a discretionary basis. In all three countries, however, there is a de facto opportunity to benefit more in donor-financed programmes, partly because the rates are higher and partly because the allowances are sometimes seen as a means to attract participants to the seminars. One consequence is that when similar training is replicated by different agencies there is still an economic incentive to participate in all of them to obtain more payment, instead of prioritizing other work tasks.

## 16.2 EXPLANATORY FACTORS

Civil servant salaries are very low in all three case countries. At lower levels, poverty must be understood as a driving force underlying individuals' per diem grabbing, but there are no indications that

malpractice decreases at higher echelons of government (Fjeldstad, 2005). From a government perspective, it is clearly a problem of organization as well. This implies that a large proportion of staff emoluments is allocated informally, which is typically less controlled and fair than what formal payment would be. Why does per diem grabbing persist in a state administration, even if the problem is well known to the government?

### **16.2.1 Lack of Control**

Manipulation of travel expenses is irregular and a form of fraud and thus, intuitively, a problem of weak control. Such a view assumes principal-agent characteristics of the problem, where the main reason why the problem continues is lack of information by the principal (Rose-Ackerman, 1975; Mookherjee and Png, 1992). Whether the principal is a manager within a given institution or a separate controlling institution, such as a ministry, a principal-agent problem can be solved with better monitoring efforts and/or incentive schemes connected to staff performance. There are strong reasons to consider lack of control an important part of the problem. In all three case countries, staff as well as managers could forge receipts and produce fake seminar attendance sheets. In addition, in many training events it was possible for civil servants to attend just long enough to obtain the offered allowance, and then leave. Besides, some managers told us they would show up unexpectedly at seminars, simply to check how many staff were actually present. In all three countries, the National Audit Office was well aware of the challenges, and apparently, did what could be done to report attempted fraud. However, there are many means of per diem grabbing from funding intended for capacity-raising programmes. They include faking non-existent training events, when in reality the money has been pocketed by the organizers of the events. Careful auditing of capacity-raising programmes will often require some form of performance evaluation in order to check whether the training has had the intended impact on institutional efficiency, a form of control which requires broad competence and resources on the part of the auditors. Concerns about the need for such monitoring challenges uttered in interviews indicated clearly that the problem of per diem grabbing has principal-agent characteristics.

### **16.2.2 A Management Problem**

We found, however, that weak control is not the whole explanation. There were too many cases where managers had allowed per diem

irregularities to happen or continue, or accepted the obviously opportunistic organization of seminars (in other words, primarily to maximize per diem payments). They misused the system to offer extra payments to staff, and inflated their unit's budget to create financial space for manipulation of the travel compensation system. There were even cases of managers reimbursing staff for more days than staff members had requested. These findings were surprising given the assumption that most managers are rewarded in some way if their unit performs well.

It appeared, however, that many managers had a strong interest in keeping the extra discretionary authority given to them by the travel compensation system. Correspondingly, for many staff members it would be important to be included among those allowed to attend seminars or to travel, simply because of the extra emoluments. The manager's authority to make such decisions would afford him or her with an opportunity not only to demand added commitment by subordinates, but also to demand loyalty. Such expectations on the part of managers apply regardless of how he or she performed or what form of irregularity was involved. As mentioned above, this authority could also be used to reward loyalty to the incumbent political party. This fact, combined with a general tolerance of such forms of misuse across government institutions, suggests that the problem should also be seen as a collective action issue.<sup>7</sup>

General resistance to reform of the travel compensation system – from too much discretionary authority and lax controls to less discretion and more stringent controls – was rather unconvincingly justified by the need for financial flexibility. There seems to be little understanding of how discretion itself could be a significant cost, particularly in terms of influencing staff incentives (Olson, 1996). However, by keeping the system 'flexible' financially, the managers were not only given added authority; but also the opportunity for increased personal income. In all three countries, the per diem rate varies by rank or seniority. Managers in government institutions benefitted most from generous per diem payment. They had incentives to keep the status quo, particularly since these emoluments were tax exempt.

### **16.2.3 Donor Interests**

International donor agencies play an important role in financing and designing development programmes and training events. Several development partners have tried to harmonize their rates and systems with those of recipient countries, but in practice, these attempts are undermined if the donors effectively compete for participants. The offered allowance is a means of attracting the most relevant or senior staff from government

institutions. One international organization told us that they would not reach their internal targets for training programmes – which might also, in turn, jeopardize future funding – unless potential participants were offered generous allowances for attending. Apparently, their targets were set as the sheer number of participants attending training events or the number of activities, rather than the demonstrated learning and service delivery outcomes expected to ensue. Surprisingly, another international organization would not divulge the rates they offered workshop participants since this was considered confidential information.<sup>8</sup> Several managers of government institutions were annoyed that development partners would not inform them or were negligent about informing them about what staff would be offered when attending training events. Such lack of information could easily lead to a situation in which staff would be compensated twice (from their government institution *and* the development partner). With respect to control of expenses for training events, there was significant variation across development partners and embassies. Some would insist on using government systems, which means, in effect, that hardly any independent control was conducted on behalf of the development partner. Others, however, would demand detailed information and control by independent auditors.<sup>9</sup>

In general, however, we found representatives of development partners who considered the problem of per diem grabbing an insignificant problem. The way these emoluments could distort development programmes, the impact of training events, and the function of government institutions seemed not to be fully comprehended among development partners. Nor did they seem to appreciate the role of development aid in compounding and aggravating the problem. This neglect on the part of development partners is surprising in view of the large amounts of money that are allocated to activities susceptible to per diem irregularities, and might be explained by the donors' own incentive problems as described above.

### 16.3 POLICY DISCUSSION

Following from the principal-agent perspective on the problem of per diem grabbing, improved monitoring of how seminars and workshops are organized and financed will be an important part of a solution. Control can be facilitated by standardizing and harmonizing per diem systems. Information about rates, rules and the amounts spent on travel expenses should be transparent and made publicly available to establish rates that are compensatory only, as distortionary incentives are created by rates at



all levels. Lessons may be learned from results-based domestic CSOs that cannot afford to waste scarce resources.<sup>10</sup> In addition to internal control routines, training programmes and travel expenses should be subject to external auditing as well. The National Audit Offices in all three case countries told us that they would be interested in closer collaboration with development partners to control public institutions' expenditures and the funding of training programmes.

However, bureaucratic efficiency hinges on a balance between trust and control. Discretion is a prerequisite for flexibility, and 100 per cent control will never be cost-efficient. For this reason, there will always be a modicum of risk of mismanagement and fraud in travel compensation systems, and control initiatives have to take place within framework conditions that keep civil servants motivated. Better control systems should therefore be combined with some form of recognition of performance. Unless the intrinsic motivation of civil servants is in line with the goal of better service provision, there will always be inefficiencies of some sort. In Tanzania, the state administration is about to introduce performance-based pay. This may be a step in the right direction, but it is difficult to predict how it will play out in practice if existing allowance systems remain the same. One important vehicle of directing focus at performance, however, would be to evaluate the impact of training programmes on improved service delivery, not merely by counting how many participants have received per diem allowances.

In addition, it will be important to change the widespread acceptance of per diem allowances as a source of extra pay – in other words, a move away from the current per diem culture that seems entrenched in many countries. Civil servants at all levels need to understand that travel compensation systems are meant for reimbursement of *travel expenses only*. Furthermore, they need to act on that understanding. The monetary per diem benefits accruing to staff should be channelled into a formal wage. Managers should be instructed never to use per diem allowances as a device for incentivizing performance in office or for buying loyalty from their subordinates. Likewise, the development partners should not condone such irregularities. They should not allow the inflation of the daily allowances offered for the purpose of attracting participants to training activities, as this leads to replication and waste. Moreover, they should ensure that training programmes are subjected to independent auditing, at least until perceptions of these kinds of payments have changed and the system is cleaned up.

## NOTES

1. For a discussion of how payments may distort intrinsic motivation, see Frey (1997).
2. This chapter presents a snapshot of results with particular focus on *grabbing*. The comprehensive results of literature reviews, data collection and interviews are available in a separate report: Søreide, Tostensen and Skage (2012), downloadable at <http://www.norad.no>. We wish to thank Norad for the opportunity to conduct the study and our local consultants, Mekonnen Gebeyehu in Ethiopia, Tom Kavinya in Malawi and Samuel Wangwe in Tanzania. We are also grateful to Michael Davies and Odd-Helge Fjeldstad for useful advice and comments on the main report.
3. The magnitude of the problem could not be ascertained precisely with hard data. The focus on mismanagement and misuse of the system should not be construed to mean that misuse happens consistently across and within all public institutions in the countries concerned. The extent of abuse varies, which suggests that management is important at the institutional level.
4. At the time of fieldwork in Ethiopia the maximum rate was ETB 70, equivalent to about USD 4.1 at the exchange rate at that time. In general, the availability of and access to budget information and national statistics in Ethiopia was very limited.
5. See Vian et al. (2011) for similar findings.
6. In one extreme case investigated for fraud, one and the same person had claimed per diem allowances for 1057 days in one calendar year. The case was part of a larger scam in the Ministry of Agriculture and Food Security, involving 20 civil servants (*Daily Times* (Blantyre), 10 November 2008).
7. A study of corruption in an aid-financed family planning programme in Nigeria (Smith, 2003) associates per diem fraud with patronage systems and a lax attitude to spending and control in aid-financed projects.
8. Details are available in Søreide et al. (2012).
9. If stricter controls were instituted, the reputation would spread that it was harder to misuse the travel compensation system for training events financed by the (strict) development partner in question.
10. Although this chapter focuses on government institutions, CSOs were also covered by the study upon which this chapter is based.

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