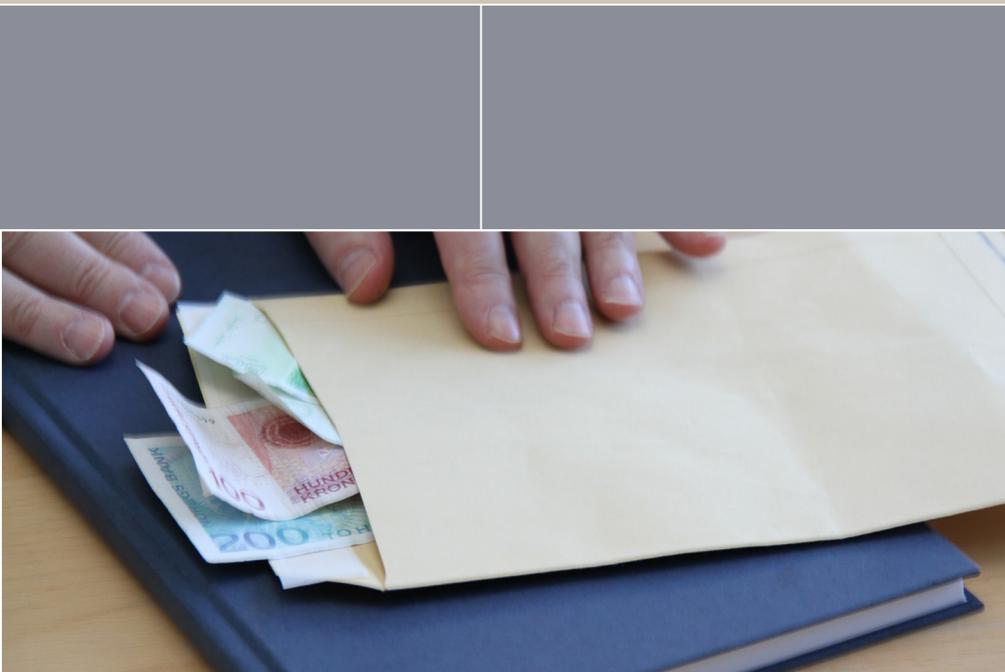




Hunting for Per Diem

The Uses and Abuses of Travel Compensation in Three Developing Countries

Report 2/2012 Study





Norad

Norwegian Agency for
Development Cooperation
P.O.Box 8034 Dep, NO-0030 Oslo
Ruseløkkveien 26, Oslo, Norway

Tel: +47 23 98 00 00
Fax: +47 23 98 00 99

Photo: Bente Humberset
Design: Siste Skrik Kommunikasjon
Print: Network Broking/Møklegaards Trykkeri
ISBN: 978-82-7548-645-3

Hunting for Per Diem

The Uses and Abuses of Travel Compensation in Three Developing Countries

March 2012

Tina Søreide, Arne Tostensen and Ingvild Agedal Skage

Preface

Cash is a great incentive. The last decade has seen a boom in various forms of cash incentive programmes, from the conditional cash transfer programmes that emerged in Latin America in the late 90's, providing cash to budget-constrained households conditional on sending children to school and for health check-ups, through to results-based financing and cash-on-delivery programmes, very much in vogue today, whereby governments only receive funding when they can show an agreed-upon progress on certain outcomes and results. While the incentives usually work, the potential adverse and unintended effects need to be kept an eye on; fertility rates may increase as a result of cash per child, sector results not in the government-donor contract may be neglected. When the compensation employees of public and private organisations get for extra expenses incurred when on workshops and seminars away from their normal duty station is substantially larger than their actual expenses, such per diems or allowances gain the same role as 'conditional cash'. And while it does ensure an incentive to attend such events, it equally provides a number of potentially perverse incentives.

Capacity building is a central concern of development efforts in general, and in Africa in particular. A large portion of development aid is spent on seminars and workshops to enhance competence and efficiency in state administrations as well as in civil society organisations. While there can be little doubt that the government staff, NGO staff and civil society employees attending such training and awareness-raising events learn something and upgrade their skills, the effectiveness of these workshops is a sadly understudied and underreported area. While the effectiveness of training-workshops is likely to be the subject of a future research programme of Norad's Evaluation Department, this study focuses on the potential abuses of the current mix of per diem and allowances systems.

This report is all the more timely as the last decade has seen a rapid increase in the amount of donor funds allocated to allowances and per diem in connection with seminars and workshops. The study makes an assessment of the origins, operation and potential consequences of per diem compensation with particular reference to effects on development programmes, national budgets and civil service delivery.

What are some of the unintended and unwanted consequences of the current allowances systems? Who are the key external and local actors among donors and government driving the allowances and per diem phenomenon? Can the positive aspects of per diems be retained while minimising the potential negative consequences? Ethiopia, Malawi and Tanzania were selected as country cases.

The study shows that there is a variation in the three countries with regard to the way the per diem and seminar systems operate, opening up the possibility for a variety of methods for misuse or non-optimal use of the money that has been allocated for seminars.

The study has no conclusive evidence of the precise magnitude of the per diem problem but gives important insights into the potential for misuse, and contains a number of recommendations on how donor organizations and governments can promote a collective approach to improve on the current systems.

Oslo, April 2012

A handwritten signature in black ink, reading "Marie Moland Gaarder". The signature is written in a cursive, flowing style.

Marie Moland Gaarder
Director of Evaluation

Acknowledgements

The Norwegian Agency for Development Cooperation (Norad) commissioned the Chr. Michelsen Institute to undertake this study of practices with regard to per diems and travel-related allowances in Ethiopia, Malawi and Tanzania. The present report summarises and synthesises the findings. Field work was conducted by the core team consisting of Tina Søreide (team leader), Arne Tostensen and Ingvild Agedal Skage who were assisted by three local consultants in the countries concerned: Mekonnen Gebeyehu (Ethiopia); Tom Kavinya (Malawi); and Samuel Wangwe (Tanzania). Their assistance and inputs were invaluable.

We also wish to acknowledge the contributions and insights provided by numerous respondents in the field and at home (see appended lists of interviewees) and the time they generously shared with us. A special word of thanks goes to our quality assurance team – Michael Davies and Odd-Helge Fjeldstad – who read our work and offered helpful comments and suggestions at a day-long workshop, and to Gaute Torsvik – who offered valuable insights on incentive problems in organisations.

The usual disclaimer applies: this report does not reflect the policies or views of Norad or the Norwegian Ministry of Foreign Affairs. The responsibility for its contents and any remaining errors rests entirely with the authors.

Bergen, March 2012

Contents

	Preface	iii
	Acknowledgements	v
	Acronyms and abbreviations	viii
	Executive summary	xiii
1	Introduction	3
2	Understanding per diems use and abuse: Analytical approach and methodology	6
	2.1 Per diem compensation for the individual employee	6
	2.2 Manipulation of per diem systems: What forms of abuse are harmful?	7
	2.3 Understanding the causes of (persistent) manipulation	9
	2.4 Methodology	12
	Country statistics	15
3	Tanzania	16
	3.1 Government system of per diems and allowances	18
	3.2 Development partners and civil society	30
	3.3 Conclusion	36
4	Malawi	39
	4.1 Government system of per diems and allowances	40
	4.2 Development partners and civil society	56
	4.3 Conclusion	61
5	Ethiopia	63
	5.1 Government system of per diems and allowances	64
	5.2 Development partners and civil society	74
	5.3 Conclusion	80
6	Comparative perspectives and analysis	81
	6.1 Official systems for civil servants	82
	6.2 Development partners	86
	6.3 Understanding per diem irregularities and fraud	88
7	Recommendations	91
	7.1 Use per diems for reimbursement of travel-related expenses only	93
	7.2 Promote better control systems	95
	7.3 Secure value for money in training and awareness activities	96
	7.4 Address challenges facing the donor community	98
	Annex 1: Terms of reference	105
	Annex 2: Persons consulted	111
	Annex 3: References	116

Acronyms and abbreviations

ACB	Anti-Corruption Bureau
CAG	Controller and Auditor-General
CCM	Chama Cha Mapinduzi
CCRDA	Consortium of Christian Relief and Development Association
CEO	Chief Executive Officer
CMI	Chr. Michelsen Institute
CSO	Civil Society Organisation
DAC	Development Assistance Committee
DfID	United Kingdom's Department for International Development
DPG	Development Partners Group
DPP	Democratic Progressive Party
ESAMI	Eastern and Southern African Management Institute
ETB	Ethiopian Birr (currency)
FBO	Faith-based Organisations
FEAC	Federal Ethics and Anti-Corruption Commission
GoM	Government of Malawi
HACT	Harmonised Approach to Cash Transfers
IDA	International Development Association
IPSA	International Public Sector Accounting Standards
IRA	Inland Revenue Authority
JAST	Joint Assistance Strategy for Tanzania
MIM	Malawi Institute of Management
MISA	Media Institute of Southern Africa
MoAFS	Ministry of Agricultural and Food Security
MP	Member of Parliament
MWK	Malawi Kwacha (currency)
NAO	National Audit Office
NCA	Norwegian Church Aid

NPA	Norwegian People's Aid
OFAG	Office of the Federal Auditor-General
OPC	Office of the President and Cabinet
PAC	Public Accounts Committee
PANE	Poverty Action Network Ethiopia
PCCB	Prevention and Combating of Corruption Bureau
PIM	Programme Implementation Manual
PO-PSM	President Office-Public Sector Management
REPOA	Research on Poverty Alleviation
TANU	Tanzania African National Union
TASAF	Tanzania Social Action Fund
ToR	Terms of Reference
TRA	Tanzania Revenue Authority
TZS	Tanzania Shilling (currency)
UNDP	United Nations Development Programme
UNHCR	UN High Commissioner for Refugees
UNV	UN volunteer
USAID	United States Agency for Development
USD	United States Dollars
WFP	World Food Programme ACB Anti-Corruption Bureau

Executive Summary



Executive Summary

Background, approach and methodology

1. Seminars, workshops and excursions are necessary to enhance competence and efficiency in state administrations as well as in civil society organisations. The need to improve efficiency in most developing countries' basic service delivery explain why a significant proportion of aid money is spent on seminars, workshops and travel arrangements for civil servants and members of civil society organisations. Reimbursement of participants' travel expenses is an integral part of such activities. While the disbursement of such payments may function well and cost-effectively in most settings, the large amounts spent warrant attention to the question whether development partners get 'value for money' for these expenses.
2. This study makes an assessment of the origins, operation and consequences of per diem compensation in connection with seminars and workshops, with particular reference to effects on development programmes, national budgets and civil service delivery. Country cases are Ethiopia, Malawi and Tanzania. Per diems are intended to compensate employees of public and private organisations for extra expenses incurred when on work-related assignments away from normal duty station. The compensation offered is set at standardised rates, payable according to stipulated rules and regulations.
3. The Paris Declaration on Aid Effectiveness provides a backdrop and guidelines regarding the relationship between donors and recipients, including travel compensation issues. Its principles have proved difficult to apply in real-life situations. Compromises and trade-offs have often been the only options to arrive at workable modus operandi.
4. The study seeks to (a) update our understanding of challenges associated with the uses and abuses of per diems; (b) assess the effects of per diem systems on development programmes, national budgets and civil servants' incentives; and (c) recommend remedies to the identified challenges.
5. There are two basic systems for reimbursement of travel costs: (i) reimbursing actual expenses incurred upon original receipts; and (ii)

payment of per diems in cash. Notwithstanding the accuracy of per diem rates as averages of anticipated costs of travel, they encourage 'gaming' of the system or rent-seeking behaviour since there is normally a discrepancy between actual expenses and the average rates.

6. To organise seminars and send staff on domestic or foreign trips are management decisions. A decision-maker with oversight responsibility is authorised to allow part of the department's budget to be spent on travel-related expenses. Management decisions may lead to four categories of consequences: (a) intended compensation: the system covers travel expenses efficiently; (b) indirect, informal performance reward: per diem payments are perceived as a bonus; (c) unintended distortion of incentives for those involved (less time in office, too much time spent on seminars); and (d) outright fraud and corruption. These consequences may be seen as a slippery slope from legitimate disbursement, through dubious practices to outright large-scale fraud.
7. Per diem irregularities and fraud could result from inadequate or ineffective controls. Bureaucratic institutions are built on trust and managers delegate authority to enhance efficiency. Very detailed control is not an objective per se because civil servants are expected to be accountable. This ideal is disturbed by opportunistic behaviour when informal norms create opportunities for reaping undue monetary benefits from the system.
8. Donor agencies contribute indirectly to exacerbating the risk of per diem-related irregularities. The mere fact that donor funds accrue to the recipient economy creates indirect forms of distortion. Aid encourages opportunistic behaviour 'to get a piece of the cake'. Donor agencies compound the problem directly by offering high per diem allowances for their own organised events. This 'generosity' may have a contagious effect and contribute to inflating the rates. Making only feckless efforts to ascertain the development outcomes of aid expenditure also contribute to persistent irregularities.
9. In terms of methodology and structure, this study comprises four elements: (a) desk study of secondary literature; (b) mapping of policies, regulations and practices in three countries; (c) assessment of consequences; and (d) recommendations. During fieldwork we relied on in-depth, qualitative interviews with key informants representing a wide range of institutions and stakeholders, including academia, civil society and the media. The range of respondents was reasonably broad and their number large enough to enable corroboration of information. Time and resource constraints precluded quantitative methods of data gathering that would have allowed for statistical analysis.

Tanzania

10. The rules regulating travel-related allowances in Tanzania must be considered as part of a larger set of allowances offered to civil servants. Allowances linked to a specific position are referred to as remunerative allowances, while others are discretionary benefits referred to as duty-facilitating allowances. Per diems are considered a form of duty-facilitating (i.e. discretionary) allowance since they depend on a manager's approval of participation in a meeting, seminar or trip.
11. For many civil servants allowances of all kinds, including travel-related per diems, which are considered generous, contribute significantly to total income. Total emoluments comprise basic salary less income tax plus applicable allowances plus discretionary allowances. The share of allowances in total emoluments is typically one-third for higher level civil servants and one-quarter at lower echelons.
12. The total government wage bill accounted for 32 per cent of the 2010/2011 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).
13. Previously, allowances were taxable in principle although this rule was never enforced. Following amendment of the Income Tax Act in 2011, allowances are now legally tax exempt.
14. Formal controls have been instituted, both internally in government institutions as well as externally by the Auditor-General. A number of irregularities have been addressed, including cases of per diem-related manipulation. Additionally, the mass media and civil society act as informal watchdogs. Misfeasance can be sanctioned severely but in practice, hardly any cases are investigated and prosecuted unless large-scale corruption is suspected.
15. The opportunity for donors to exercise control depends on the mode of aid transfer. Project and programme funding are comparatively easier to control than budget support. The latter account for 20 per cent of total aid transfers to Tanzania. When programmes are executed by the government, the risk of irregularities is significant in some contexts. The ability to exercise formal or informal control depends on access to information. Yet, an institutional culture of secrecy appears to permeate the civil service.
16. Risks of malpractice and fraud include: (a) exaggerated payments as bonus; (b) opportunistic organisation of seminars; (c) 'buying' of loyalty by manager's with discretionary authority; (d) more serious abuse at

higher levels of echelons of administration; (e) irregularities are tolerated or condoned.

17. Given the 'mixed bag' of civil society organisations it is not possible to generalise about their practices, irregularities, and strategies to prevent per diem-related fraud. Many CSOs confirm irregularities on the part their local partners, despite vetting, spot checks and auditing procedures.
18. While development partners finance and/or organise training and workshops in response to institutional problems, they should be aware of how these events provide ample opportunity for manipulation of per diems. Extra payments are used too frequently (often to attract participants), and this 'inflationary' practice has contributed to inducing civil servants to expect 'something extra' simply for doing their regular job. Internal controls are generally process-focused (what seminars have been held, with how many participants) instead of results-focused (outcomes in terms of better service delivery). 'End-of-workshop evaluations' of what participants have learned say little about the actual use of the new knowledge acquired and its effect on performance.
19. Donor harmonisation is coordinated by the UNDP. In March 2011, the donors agreed on a list of principles to be applied with regard to per diem compensation. However, interpretation and practices vary from one agency to another so as to undermine the harmonising intent. Tanzania is a country where renewed harmonisation efforts are direly needed in setting standards and adhering to them.
20. We have no conclusive evidence of the precise magnitude of the per diem problem, yet the size of the budget expenses for training activities, the frequency of workshops, proof that money has disappeared in some cases, and the picture described by senior staff in the most relevant organisations suggest that it is real and substantial, and still in need of convincing, workable solutions.
21. Development partners can contribute to reducing the problem by harmonising their systems, offering benefits in-kind (food and accommodation) instead of cash per diem payment, being transparent about who is participating where and what they receive, being clearer about expected results from training in terms of better service delivery outcomes, and creating opportunities for controlling government spending of development aid and loans.

Malawi

22. In Malawi it is common to distinguish between two types of allowance in terms of functions: (a) income-enhancing or remunerative allowances; and (b) performance or work-facilitating and work-

enhancing allowances. Travel-related allowances (essentially per diems and transport in connection with events outside normal duty station) are generally performance- or work-enhancing.

23. The system of remuneration in Malawi (regular salary plus various allowances) used to be more complex in the past. Previously Malawi had a wide range of allowances. However, in 2004 a range of allowances were incorporated into a 'clean salary'. Only travel-related allowances remain.
24. A 2010 review of travel-related expenditure showed that travel-related allowances accounted for 21.9 per cent of salaries. Excessive amounts were being spent on travel-related allowances. Over the period 2006/2007–2010/2011, the total travel budget (the sum of domestic and foreign travel) was on average 9.2 per cent of the total national budget. Malawi's high travel expenditures aggravate the country's budget deficit problem which has been hovering around 5 per cent of GDP in recent years.
25. The figures show that: (a) the proportion of the state budget spent on travel-related allowances is unsustainable and in dire need of pruning, and (b), that allowances constitute a large proportion of the total emoluments of civil servants and thus take on the character of salary supplement rather than reimbursement of expenses.
26. The official travel policy of 2006 states that the components of a per diem are threefold: (a) accommodation or lodging; (b) meals; and (c) incidental expenses. In other words, they are intended to reimburse travel-related outlays only. They are not meant as supplementary income, performance rewards or similar benefits. In 2011 the official per diem rates – differentiated by salary grade – were adjusted upwards.
27. Formal control procedures in the civil service are straightforward. However, the ways in which controls are exercised depend to a large extent on the attitude of the controlling officers. Some of them apply the rules and regulations to the letter while others flout the rules or apply them less rigidly.
28. Internal auditing systems are in place in all ministries. External audits are performed by the National Audit Office (NAO) in all government institutions. It reports to the Ministry of Finance and submits simultaneously its reports to Parliament where the Public Accounts Committee (PAC) considers its reports and may summon controlling officers to respond to queries. The Anti-Corruption Bureau (ACB) is part of the control system and comes into play only when per diem and allowance abuses of significant proportions are detected, although most cases investigated and prosecuted are unrelated to per

diems and allowances.

29. Though not part of the formal system of controls, the mass media (electronic and print) continue to perform important watchdog functions and reveal information to 'name and shame' culprits. Access to information is restrictive. An Access to Information Bill was tabled in Parliament but later withdrawn by the executive. A new section 46 of the Penal Code authorises the Minister of Information to ban a publication if it is deemed to be against the public interest.
30. The reasons for non-compliance with the per diem rules are several. The most fundamental one is low salaries which give staff a strong incentive to seek supplementary sources of income. The fact that travel-related allowances are tax exempt adds to their attractiveness. A general atmosphere of tolerance of malpractice has been created to the effect they are no longer considered particularly reprehensible.
31. Domestic CSOs receive the bulk of their funding from foreign sources (donors and sister organisations alike), albeit variably. CSO activities normally involve a lot of training and awareness-raising in which seminars and workshops are major ingredients. The policies and practices of CSOs in terms of per diem payments are therefore of critical importance. But it is not possible to generalise about their practices. They vary greatly because harmonisation is lacking.
32. In late 2011 the donor community in Malawi agreed to amend their rules and regulations about per diems as well as to adjust the rates upwards in view of increasing costs. The applicable principles for the implementation of the system – identical to those adopted in 2008 – were reaffirmed. It is commendable that the donor community in Malawi has thus been able to harmonise in the spirit of the Paris Declaration.
33. Malawi's current system of per diem payment represents major problems and is unsustainable given the country's revenue base. The main driving force underlying the malpractices remains the low salary level in the civil service, which creates incentives for 'allowance-hunting' and a lax ethos surrounding these issues. The laxity of controls, despite formal procedures and rules, and the condoning of malpractices by supervisors and controlling officers is tantamount to an unsound institutional culture that has evolved over the years.

Ethiopia

34. The official per diem rates of the Ethiopian government are differentiated by salary level and are tax exempt. The 1993 directive was revised in 2001 and the rates adjusted upwards. Still, the current rates remain grossly inadequate – 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 of ETB 70. A review of the rates is in progress and an increase of 60 per cent is expected.

35. The Ministry of Finance and Economic Development (MoFED) is responsible for development cooperation and the regulation of per diems for Channel 1 projects, which is the label attached to donor-funded interventions. The bulk of donor support is extended through Channel 1 interventions. General budget support was suspended in 2005 as a result of the political crisis.
36. MoFED issued a directive in 2008 that stipulates the per diem rates for projects implemented jointly by donors and the Ethiopian government, with a maximum rate of ETB 138.
37. Regardless of the 2008 directive, different forms of per diem payment exist in the system, and the rates vary between and within projects. The rates are usually determined through negotiation between the government and donors on a case by case basis. The variation in per diem rates makes donor-funded projects more attractive, as they increase the total remuneration package of government staff and thus create distortions.
38. Civil servants, donors and civil society alike consider the Ethiopian public management system to function rather well, notwithstanding capacity constraints. The government has instituted reforms to improve its expenditure controls. The Inland Revenue Authority (IRA) has also issued several directives to prevent abuses. The Office of the Federal Auditor-General (OFAG) monitors government expenditures, submits its audit reports to the parliamentary Public Accounts Committee, while its consolidated report is presented to parliament in plenary.
39. Ethiopian civil society is weak. Recent legislation established the Ethiopian Charities and Societies Agency which has been mandated to implement the new law and monitor civil society activities. Foreign agencies are not allowed to engage in political matters. Local CSOs receiving more than 10 per cent of their funding from foreign sources are precluded from addressing political matters. As a consequence, the ability of civil society to function as a watchdog is severely curtailed.
40. Ethiopia is the worst country case reviewed in terms of commitment to harmonisation of per diem rates by some 50 donors. MoFED laments that better alignment and harmonisation are made difficult because the donors are unable to agree among themselves on a single rate. Harmonisation should be done in phases, by first harmonising donor rates and then aligning these with government project rates. MoFED

considers the alignment of government rates and donor-funded project rates unfeasible, owing to the extra budgetary burden it would place on the government. The donors have not accorded priority to harmonisation.

41. Risks of malpractice and fraud include: (a) manipulation of budgets to make them consistent with the inflated number of travel days; (b) shopping around for monetary benefit, e.g. for seminars and workshops that provide per diems for an artificially high number of days, thus diverting attention away from regular office duties; (c) 'buying' loyalty by managers who enjoy discretion to engage in personal favouritism; (d) managers in high-level positions receive higher per diems and have more opportunities to accumulate per diem benefits; (e) competitive rates of donor-funded Channel 1 projects attract the most competent people, distort priorities, and differential rates create tension and institutional inefficiency; (f) civil servants who do not receive sufficiently inflated per diems to match the real costs of travel often avoid necessary travelling; (g) receipts for transport and other services are often forged and managers have opportunities to fake attendance sheets and pocket the surplus themselves.
42. Donors operating in Ethiopia are more constrained in dealing with CSOs than their counterparts in the other two countries under review, owing to the law barring CSOs that receive more than 10 per cent foreign funding from engaging in politics. Some CSOs systematically collect price information to set their own per diem rates.
43. Few efforts are made to harmonise rates among donors and CSOs. The Consortium of Christian Relief and Development Association, which is the biggest umbrella organisation of CSOs, is of the opinion that each organisation should seek to be competitive when it comes to salaries and per diems to attract young, aspiring professionals or community participants. Mostly, private auditing firms carry out audits of CSOs and submit them annually to the donors.
44. The Ethiopian case shows how difficult it is to establish a functioning per diem system in a situation of soaring inflation and severe budgetary constraints. The government is hesitant to tie the per diem rate to an inflation index for two main reasons: (a) the inflation indices are unreliable and based on a national aggregate; and (b) Ethiopia runs a budget deficit economy and the government prefers flexibility in the system. Therefore, an informal practice has evolved of civil servants manipulating the number of days spent on travel to secure (partially) adequate compensation for staff. This practice contributes to creating a culture of increasing tolerance of malpractices in a country that most respondents perceive to be less corrupt than the average on the continent. The discretionary powers of managers enable them to build staff loyalty and patronage networks.

Comparative perspectives

45. The study shows how a limited area of state administration reflects a microcosm of a country's history, politics and level of development. How it plays out in practice depends on contextual factors.
46. Across the three countries, the formal systems of travel-related allowances have the same basic structure and elements. In each country there are official rates; some opportunity for cashing in the balance between actual expenses and rates they are paid; manager who approve trips or seminar; and unit-specific controls of financial decisions, including the reimbursement of travel expenses. In all three countries the per diem systems seem to matter a great deal to civil servants. 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.
47. In all three countries there is a de facto opportunity to benefit more in donor-financed programmes. But the degree to which per diems can in fact be a source of extra emoluments differs across countries, institutions and rank.
48. The risk of fraud depends on controls as well as the intrinsic motivation of civil servants. The formal travel control system is similar in the three countries. Beyond the formal controls, access to information for civil society and ordinary citizens is critically important to enable them to assess value for money in government investments and service delivery, including acting as watchdogs with regard to per diem expenditure.
49. Risks of irregularities and fraud were identified in all three countries, the most frequently mentioned being manipulation of the number of days on mission. Similarly, organising seminars and trips primarily for the sake of obtaining per diems is another form of risk.
50. The three countries are highly aid-dependent. The presence of donors and aid money are part of the reason why there is wastage associated with the per diem system. The inability of aid agencies to coordinate among themselves complicates the dialogue between the governments and development partners.
51. In some donor agencies, the commitment to align with national systems may have generated a lax attitude to maintaining their own controls in respect of the specifics of the government's expenses in aid-financed projects and programmes. Several agencies have repeatedly failed to align their practices with recipient government rates and rules when this was feasible, or failed to honour their commitment to harmonise rates and rules as agreed with the other development partners.

52. Not all donors are transparent with respect to the per diem rates and conditions they offer. Surprisingly, some development partners – purportedly promoting transparency, anti-corruption, efficient administrative systems, etc. – do not wish to share information about all aspects of their per diem systems.
53. From an analytical perspective, we find several explanations for the persistence of per diem malpractices, including (a) a collective action problem – observed in cases when no manager or institution has an incentive to change (adverse) behaviour; (b) a principal-agent problem – when management has incomplete information about staff decisions and choices; (c) patronage – civil servants are eager to secure benefits and positions for allies and obtain monetary benefits that can be shared with family, kith and kin; (d) aid and windfall revenues have an impact on attitude to spending because expectations of obtaining extra payment tend to be higher if projects are donor-financed; (e) political economy incentive problems are probably the main reason why problems persist. Unless those with sufficient authority introduce better systems and demand integrity, nothing will change. In the long run, failure to do so can only be explained by the benefits they obtain through institutionalised, entrenched weaknesses.

Recommendations

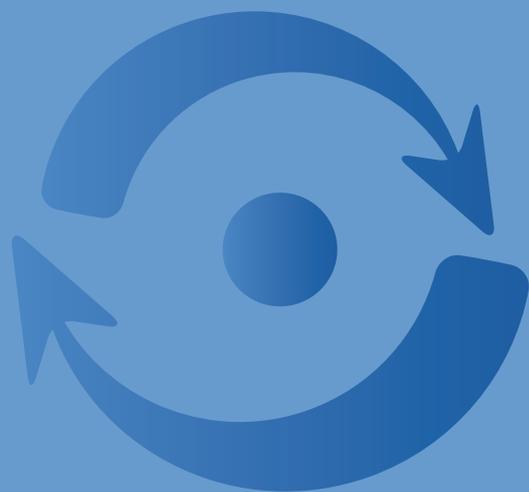
54. Addressing the per diem challenge depends on political will to arrive at well-designed systems. However, even the best designed systems have loopholes which can be exploited for personal benefit. The challenges discussed in this report concern both structure and agency. The structures are the systems put in place with attendant control mechanisms, including the built-in incentives that tend to militate against compliance. The agency of individuals operating within a given structure is induced by incentives to bend the rules and cheat, largely driven by low regular salaries which are common to all three countries. Overall, although with some ambiguities and exceptions, Ethiopia, Malawi and Tanzania have adopted reasonably well designed 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 less serious breaches become routinized the system is placed on a slippery slope towards increasingly reprehensible practices that are clearly illegal and may amount to massive fraud. It is comparatively easy to improve or perfect existing systems within a reasonable time frame but it is far more difficult and time-consuming to change mind-sets and attitudes of individuals, be they public officials, civil society activists or others, especially if the incentive structures work in the opposite direction.

55. Use per diems for reimbursement of travel-related expenses only. The purpose of the per diems should be to reimburse travel expenses only. Extra emoluments to boost civil servant motivation or secure them a decent wage should not be offered via the travel compensation system. Standardised per diem rates should be calculated on the basis of surveys of hotels, restaurants and conference centres across the country concerned. Per diem rates should not be differentiated by staff seniority or salary level. This recommendation appears to violate the principle of alignment but that principle should not be applied uncritically or mechanically. Regardless of rank staff stay in similar hotels and eat similar meals. Rank is reflected in the regular salary system and should not be reinforced by the travel compensation system. Reimbursement should be provided only when expenses have actually been incurred. There should be full transparency about the rates provided.
56. Promote better control systems. The effectiveness of any bureaucratic organisation hinges on a balance between trust and control. Discretion is a prerequisite for judgment and excessive controls will never be cost-efficient. There will always be a modicum of risk of mismanagement and fraud even in well-run bureaucracies. Nevertheless, well-designed control systems contribute significantly to reducing risk and send unequivocal signals that adherence to the rules is expected. What matters is how the existing rules are understood, respected and enforced. Higher risks and larger amounts of wastage at the upper echelons of governance suggest a need for external control in addition to institution-specific internal controls. The efficiency of control systems depends on access to reliable information. Whistle-blower protection should be significantly improved in all three countries. Deliberately defrauding one's employer should be referred to as theft. Instead of condoning reprehensible practices by using euphemistic or excusing terminology, they should be referred to by their proper name: fraud or crime or whatever is more fitting.
57. Secure value for money in training and awareness-raising activities. Training and awareness-raising programmes provide ample opportunity and involve risk of per diem mismanagement and fraud. For that reason it is important to question whether or to what extent such programmes give value for money. In line with the Paris Declaration principle of managing for results of the extent to which training makes a difference in terms of service delivery should be ascertained. Low expectations of results and vague reporting requirements without rigorous impact evaluation divert attention away from value for money concerns. Curb propensities to offer or condone generous per diem disbursement. Even if the methodology of impact evaluation is challenging, there is no shying away from making serious attempts to undertake such evaluations. In line with the Paris

Declaration's principle of ownership, initiatives to document better the impacts of donor-financed training programmes could very well be handled by local research institutions.

58. Address challenges from the perspective of the development community. One solution will not necessarily fit all circumstances. The Paris Declaration is a useful referent, yet the country context will have to inform the dialogue and the interpretation of the Declaration's principles. Development partners should be cautious about aligning and carefully consider existing arrangements and then make a choice based on what may be deemed a pragmatic solution that both parties can live with. Donors should harmonise their travel compensation systems and rates. The difficulty of harmonisation needs to be brought up to the international level, such as DAC/OECD. Continued harmonisation failure is no longer acceptable. The donor community should examine and reflect on procedures and policies within their own organisations.

Main Report



1 Introduction

Development partners contribute to enhancing the level of competence and efficiency in developing country's provision of basic services by means of workshops, seminar and training. The organisation of such training and the execution of donor-funded programmes require civil servants and representatives of civil society organisations to travel. Various forms of per diem (non-salary daily subsistence allowance) are intended to compensate employees of public and private organisations for extra expenses incurred when on work-related assignments or travel away from their normal duty station or home base. The compensation offered is normally set at standardised rates, payable according to stipulated rules and regulations.

While these allowances are only meant to be compensatory, they tend to assume the character of additional salary payment in countries where salary levels are generally low. 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 development programmes are carried out. 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 volume of this form of compensation is reflected in inflated budgetary provisions.

The phenomenon of per diem abuse is not new. For a couple of decades at least, development partners have complained about the difficulty of attracting civil servants to their seminars without offering something extra. Other observers refer to a 'workshop mentality' because many events seem to be organised for the sake of extra payments, not for their contents. The terms of reference for the present study ask for an assessment of the origins, operation and consequences of non-salary allowances in connection with seminars and workshops, with a particular focus on the effects on development programmes, national budgets and

civil service incentives. The case studies of Ethiopia, Malawi and Tanzania provide information and insights about the extent to which these consequences impede or distort the results of aid-funded programmes as well as service delivery in general. A further purpose of the study has been to identify efficient remedies to the challenges encountered, with a particular view to encouraging a joint approach by the donor community.

The risk of per diem abuse must be understood in light of the close collaboration between development partners and 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. They have, however, adopted an anti-wastage policy and developed their own per diem systems. Representing an important source of funding for some states, aid organisations have considerable leverage to counter the emergence of perverse incentive structures within recipient bureaucracies as well as in civil society. To what extent are development partners guided by their own principles of aid effectiveness, namely the Paris Declaration, in the development of strategies to prevent waste through the reimbursement of travel expenses?

The Paris Declaration was adopted in March 2005 by altogether 91 countries and 40 multilateral agencies, including regional development banks, the World Bank and the International Monetary Fund (OECD 2005 and 2008). The signatories committed themselves to five main principles: (a) ownership (of development processes by recipient governments); (b) alignment (of donor procedures with country systems); (c) harmonisation (among donors); (d) managing for results (in order to document achievements); and (e) mutual accountability (donors and recipients are jointly accountable for results). The harmonisation and alignment principles are particularly relevant to the issues under discussion in the present study. In September 2008 the signatories reaffirmed their commitment by way of the Accra Agenda for Action which reiterated, reinforced and elaborated upon the 2005 Declaration.

While these principles may seem compelling and straightforward, they have proved difficult to operationalize in real-life situations, an observation we have made also in this study. It appears that when applying them, dilemmas emerge which require difficult trade-offs to 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 the donors have every reason to believe that the aid they disburse will be managed efficiently at the recipient end. The aid modality

of budget support reflects a large measure of trust by the donors in the recipients' systems.

Conversely, when donors' and recipients' systems diverge the former will be inclined to distrust the latter and exercise more stringent controls. In other words, alignment does not mean that the donors mechanically accept the systems at the receiving end. The Paris principles are guidelines rather than hard dictates. Hence, flexibility is called when operationalizing the principles with a view to arriving at *modus operandi* that both parties can live with. 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 size of the rates (lower or higher) 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 budget support has 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, e.g. those selected for this study.

The present report seeks to:

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

As will be explained in Chapter 2 about our methodological approach, the study starts with a theoretical analytical framework, followed by an empirical part which draws on desk studies, personal interviews with key informants and other means of data collection in the three case study countries as well as from donor agencies. Findings from Tanzania, Malawi and Ethiopia are reported in Chapters 3–5, respectively. As the reader will realise, the challenges differ in each country. The country-specific results are compared in Chapter 6, while Chapter 7 provides recommendations. The main arguments and findings are summarised in the Executive Summary.

2 Understanding per diems use and abuse: Analytical approach and methodology

This chapter sets out the analytical approach of the study, defines key concepts, and presents the methodology used in the collection of primary and secondary data.

2.1 Per diem compensation for the individual employee

There are two basic systems for reimbursement of travel costs: (i) reimbursement of actual expenses in various ways; and (ii) payment of per diems (or daily subsistence allowances). Payment of per diems to officials has a long history and can, for example in the UK, be traced back to at least the 14th century. The purpose of per diems is essentially to compensate travelling officials fairly for the costs incurred on overnight stays away from their duty station while at the same time simplifying administration by eliminating the controls needed in a system of reimbursing actual costs.

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 staff and administrations alike, so that all parties are aware of the limitations that confine their choices. For an illustration of a per diem compensation system, see the textbox below on UN travel compensation for its international staff.

Example: UN travel compensation system for its international staff

The UN system for its international staff is but one such system but its principles and criteria are commonplace. Based on annual surveys it combines the average room costs for suitable hotels (at single occupancy rates) with the average cost of eating three meals per day in the chosen hotels or in typical restaurants, with an additional percentage (15 per cent) for those incidental expenses that a traveller could be expected to incur, such as coffee breaks, local taxis, laundry, etc. The cost of accommodation is usually the largest component of these calculations and, as a result, it is common to find that good systems differentiate between locations as room rates, unlike eating costs, depend on a limited number of hotels in an area and their standard. Typical of the UN rates for a country are those for Uruguay:

Location/City	Local currency rate (Pesos)	Room cost as a percentage of the per diem rate
Colonia	5,110	64
Montevideo	4,951	51
Punta del Este (December-March)	6,000	61
Punta del Este (April-November)	4,400	53
Salto	3,760	66
Elsewhere	2,730	60

Features to observe are that:

- the percentage representing room rates is published so that staff and others can understand the underlying calculations and plan their accommodation accordingly;
- some cities have more than one rate (in the above case because there are seasonal differences due to tourism seasons but in some cases because some commonly used hotels in frequently visited cities have markedly higher room costs than the average); and
- there is an 'elsewhere' rate covering all other locations in the country.

Additionally, it is common to have some differentiation based on the grade of the official. For example, in the UN system officials at Director (D) levels and above have a rate that is 25 per cent higher than the published figures.

Notwithstanding the accuracy of per diem rates, 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 staff can have a good choice throughout a city, staff often have a network of small hotels or pensions that they commonly frequent, where the room rates are considerably below average. In addition, staff may stay with friends or colleagues, thereby avoiding accommodation costs altogether and pocketing the saving.

2.2 Manipulation of per diem systems: What forms of abuse are harmful?

Decisions by government institutions to organise seminars and send staff on trips abroad or on domestic travel are made by management. A decision-maker with oversight responsibility is authorised to allow part of the department's budget to be spent 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

decision will often be the result of rational and optimal resource utilisation for better service delivery. However, the present report considers cases when the choice of organising seminars or authorising travels becomes a sub-optimal way of enhancing 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, we find such forms of compensation to have four categories of potential consequences.

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

Even if only the first category is what a manager aims for, 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 the present study which questions how they affect and distort the operations of bureaucracies and why the distortions are allowed to persist. In judging unintended distortions, the present study takes an analytical approach and refers to impact on service delivery regardless of legality.

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/no 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 both determine 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 the 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. The present report discusses these possible explanations in the context of the three countries selected, but, first, a brief understanding of per diem-related fraud from a general perspective can be helpful – without reference to specific countries.

2.3 Understanding the causes of (persistent) manipulation

How can we investigate the extent to which manipulation of per diem systems occurs and understand why it persists in societies where the performance of the public sector in service delivery is so critically important?

A problem of control

Clearly, the problem of per diem fraud could be the result of inadequate or ineffective controls. Bureaucratic institutions are built on trust. 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 in the work they do 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 benefits from the government system.¹

The implementation of control systems in weak institutions can be very difficult, particularly since control depends on correctly reported expenditures, genuine (rather than forged) receipts and other travel documentation, as well as information about what those who organise seminars have offered participants. Controls alone are unlikely to solve

Theory of incomplete control: the principal-agent perspective

A *principal* (someone at managerial level) pays somebody else (an *agent*) to perform a task while the principal’s information about the agent’s actual performance is incomplete. An agent who is paid to perform a duty may very well benefit personally from the principal’s difficulty of knowing whether or not the agent does his or her best.

In the context of the present study, such principal-agent relationships may emerge:

- within state bureaucracies (the top management wants its unit to perform but is unable to approve all staff travel decisions);
- between the political level and that of the civil service (the government wants to improve service delivery but is unable to address inefficiencies within the many ministerial departments); or

¹ 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.

- between donor agencies and recipient government institutions and/or civil society organisations (CSOs) (donors might finance a development programme but are unable to control how it is being 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 fully control 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 service delivery improves. 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 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* of civil servant performance, for example in terms of well-functioning service delivery.

the problem of fraud in institutions with a complex set of weaknesses, unless combined with more comprehensive reforms, e.g. pay reform.

Everybody benefits, why not me/us 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 management and the political level – may dislike inefficiencies associated with per diem systems. But, given the size of a state bureaucracy, his or her 'grabbing' of per diems becomes too insignificant to make a difference. If the expected net benefit of allowing the problem to persist is higher than the expected net value of curbing it, it will continue to exist.

A further implication of the collective action idea is that none of the institutions that could have reduced the wastage has an incentive to do so on its own. The government may have delegated authority to managers of various departments to take these administrative decisions, and thus the incentive problems may explain the inefficiencies. The audit function may have been rendered inconsequential through corruption or by the action or inaction of a government that is averse to any form of scrutiny on its spending.

Political economy

Despite the ideal of accountable politicians, we have to accept that opportunistic behaviour and fraud can be deep-rooted even at the

political level. Weak control on spending can bring about benefits, for example because politicians are beneficiaries and share the benefits stemming from allowances. This complicates the search for control options since change then cannot be expected to come 'from above'. The beneficiaries might be deliberately reluctant to improve transparency because their own benefits and power might hinge on the secrecy surrounding the system. Moreover, at various levels, managers are given a lot of discretionary authority over the system of travel compensation, an issue that matters considerably to staff. This power can be used to secure benefits, loyalty from staff, stronger party structures, or possibly even a share of the per diem reimbursed to staff. This is a power they are unlikely to relinquish, even if it implies that the travel compensation system fails to work as intended. Hence, in this study we cannot exclude that information on allowances is deliberately kept opaque by players high up in the government system.

How can abuses continue with donor (controlled) money?

As a collective action problem, the donor agencies may be reluctant to address the issue of per diem-related irregularities due to diplomatic concerns – misguided or not – that they would be interfering in a national bureaucracy's internal affairs, thus violating the principle of alignment embodied in the Paris Declaration, or otherwise souring their cordial relations with a recipient government.

How can problems on the part of the 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 trips, instead of funding other activities that could improve service delivery more efficiently. If this were the case, we would expect to see more inefficiency associated with per diem allowances in aid-funded programmes, when 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 domestic standards – or, if higher, offer the same rate their own staff receive. This 'generosity' may have a contagious effect and contribute to inflating the rates used 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 fuss over – 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 in the textbox 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. 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 raises a trade-off problem: how to balance controls against transaction costs?

These aspects suggest that the role of donor agencies is central to understanding the inefficiencies associated with per diem systems. 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.

2.4 Methodology

The above general theoretical approach to understanding the mechanisms at play has informed the present report, which nevertheless has an applied, operational orientation. The findings and insights obtained provide the basis for a set of recommendations – principally addressed to the Norwegian aid authorities that commissioned the study but also to governments of sub-Saharan Africa, multilateral agencies and CSOs operating in that part of the world. The empirical collection of data that makes up the bulk of the report underpins those recommendations.

The study comprises four distinct elements:

- i. a desk study and review of what has been published on this issue, including grey literature, and an update of international best practice;
- ii. a mapping of policies, regulations and practices in the three country cases;
- iii. an assessment of the various consequences; and
- iv. a set of recommendations.

Prior to our fieldwork for the purpose of collecting primary data we conducted a desk study of secondary literature on the issues under scrutiny. Comparatively little has been written on the subject – especially of an empirical nature. The scant existing literature was a challenge; we ventured into territory so far largely unexplored. The precursory desk

study was supplemented by information from representatives of key donors on policies and practices with respect to per diem payments. Surprisingly, several donors were reluctant to share such information or they were simply ignorant or oblivious of the problem.

Most of the empirical information obtained stems from fieldwork in the three selected countries: Ethiopia, Malawi and Tanzania. Each chapter on the country cases has a brief introductory section on recent economic and political developments. This is followed by an account of the country-specific rules and regulations for the payment of non-salary daily allowances (per diems and similar compensatory emoluments) in connection with seminars and workshops, including taxation aspects. We discuss the practices of state institutions, civil society and the donor community alike, as well as the interaction between these categories of stakeholder. To the extent available, we provide specifics on rates payable to different categories of staff, the procedures to be observed in their disbursement, aggregate figures spent on such allowances, and trends over time. Furthermore, we consider attempts by donor agencies and civil society organisations to harmonise their policies and practices and to align them with those of the recipient countries in accordance with the Paris Declaration. A table up front lists key figures and indicators on aid and development for each of the three countries concerned.

Fieldwork was undertaken by the three core team members in conjunction with a local consultant in each country. 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, CSOs and the media. Information was also acquired from hotels hosting seminars and workshops. The respondents numbered altogether 120 (see the appended list of interviewees). It would have been desirable, of course, to have interviewed an even larger number of informants. That preference notwithstanding, in our experience the law of diminishing returns tends to set in after a certain number of qualitative interviews have been conducted. Even if more information could have been obtained through more interviews, it is our considered view that the added value would have been marginal. At any rate, the time constraints did not allow for more interviews. Even so, the range of respondents was reasonably broad and the number of interviewees large enough to facilitate corroboration of information so as to justify relatively firm inferences. It should be recalled that the resource constraints ruled out time- and resource-demanding quantitative methods of data gathering allowing for statistical manipulation, e.g. surveys covering different categories of respondent. Besides, quantitative survey methods would have their own limitations given the sensitivity of the issue at hand,

probably resulting in data of dubious reliability. Regardless of the methodological constraints, however, at the end of the day we are confident that our report portrays a fairly accurate picture of the situation.

Owing to the sensitivity of the subject matter under investigation, information gathering was difficult at times. In all case countries we experienced that several of our requests for official statistics and information were declined (or simply not followed up). Sometimes the information imparted to us was contradictory. The representativeness of the data can, perhaps, be questioned and the findings in some cases dismissed as being based on hearsay and rumours. However, by triangulating data sources and seeking corroboration from diverse respondents our conclusions are based on evidence and can be defended. When the information provided was inconsistent, most likely reflecting the diverging interests of respondents, we point that out and allow the readers to judge.

For reasons of comparability we prepared in advance a set of interview guides to ensure that similar types of information were obtained in all three countries. We found, as expected, that semi-structured qualitative in-depth interviews have their own dynamic which made it difficult to be exhaustive and cover all aspects of relevance. Most interviewees were forthcoming and communicative, however, although some strayed from the subject matter and others were defensive and declined to answer certain questions, especially if they were of a sensitive nature as is inherently the case in a study of this nature. When interviewing busy senior staff the time constraint was sometimes severe and interruptions frequent.

The key informants represent three broad categories: (a) the civil service (government); (b) civil society; and (c) donors. Representatives of each of these categories perform dual or triple functions such as: (i) providers or sources of per diems and allowances; (ii) recipients of per diems and allowances; and (iii) controllers of the payment of such allowances. All along, the credibility of the responses was carefully assessed against the incentives of the interviewees to provide predictable answers in conformity with their interests. Corroboration was sought. In Chapter 6 we undertake a comparative analysis to identify differences and similarities between the country cases and the potential importance of regulatory differences, as a basis for making generic and country-specific recommendations.

Country statistics

This table provides some basic statistics for each of the case countries.

Indicator	Malawi	Tanzania	Ethiopia
Population, millions (2010) ¹	14.9	44.84	82.95
Population growth rate (per cent) ²	3.1	3.0	2.1
GDP, current USD billion (2010) ³	5.1	23	29.7
GNI per capita, Atlas method, current USD (2010) ⁴	330	530	390
Net ODA received per capita, current USD (2010) ⁵	53.5	67.4	47.1
Exchange rate 1 USD = local currency (15.08.2011) ⁶	MWK 162.6	TZS 1,594	ETB 16.9
Budget Process Oversight & Transparency: 0-100 ^{7*}	83 (2009)	56 (2010)	71 (2010)
Supreme Audit Institution: 0-100 ⁸	90 (2009)	91 (2010)	86 (2010)
Open Budget Index: 0-100 (2010) ⁹	47 (2010)	45 (2010)	NA
Democracy index: 0-100 (2010) ¹⁰	85** (hybrid regime)	92 (hybrid regime)	118 (authoritarian regime)
Poverty headcount ratio at national poverty line (% of population) ¹¹	52.4 (2004)	33.4 (2007)	38.9 (2005)
Improved sanitation facilities, urban (% of urban population with access) ¹²	51	32	29
Life expectancy at birth (2009) ¹³	53	57	58
Adult literacy rate (15 years and above) % ¹⁴	74 (2009)	73 (2009)	(2008)

* The Global Integrity Report from Malawi in 2009, with a slightly different indicator termed 'Budget Process'.

** Malawi has experienced increased political repression and violence the last two years, which questions the representativeness of the 2010 rating.

-
- 2 World Bank (2010)
 - 3 World Bank at <http://data.worldbank.org/indicator/SP.POP.GROW>
 - 4 World Bank (2010)
 - 5 World Bank (2010)
 - 6 World Bank (2009)
 - 7 OANDA.com
 - 8 Global Integrity (2010/2009)
 - 9 Global Integrity (2009/2010)
 - 10 International Budget Partnership (2010)
 - 11 Economist Intelligence Unit (2010)
 - 12 World Bank
 - 13 World Bank
 - 14 World Bank (2009)

3 Tanzania

Tanzania is being commended for its macro-economic management, political stability, a growing private sector, expanding trade and important institutional improvements as reflected in indicators of basic service delivery. However, even if economic growth has averaged seven per cent since 2000, with some notable improvements in health and education, living standards improve slowly and are still far from achieving the Millennium Development Goal of halving the proportion of people living in poverty by 2015. Significant investments in basic services and utilities have been made, yet they are insufficient to meet the needs of a growing population. Although the administration of the country is functional (with a large public sector), it faces serious governance challenges, including insufficient capacity and inefficient administrative systems.¹⁵

High levels of corruption seem to prevent the country from exploiting its full development potential. Despite some progress in recent years,¹⁶ the National Governance and Corruption Survey from 2009, prepared by the country's Prevention and Combating of Corruption Bureau (PCCB), found public service delivery to be "crippled by corruption and institutional inefficiency". Civil servants' low pay level is frequently referred to as the main explanation of rampant corruption, although the perception is also widespread that corruption and undeserved benefits at higher echelons of government is a more serious challenge.¹⁷

At the political level, the country is characterised by a dominant party system of governance. Jakaya Kikwete has been president since 2005 and was recently re-elected for a second term until 2015. The incumbent party, Chama Cha Mapinduzi (CCM), has

15 See Kenny (2011) for an account of positive developments, in Tanzania as well as in other developing countries. Allegations of corruption and undeserved benefits for the political elite are voiced very frequently in the media domestically, as well as in reports and journal articles by independent researchers.

16 For example, progress is indicated by the citizen surveys of local governance conducted by Research on Poverty Alleviation (REPOA) (see Fjeldstad et al. 2008) and World Bank Governance Indicators. Tanzania has taken important institutional and legal steps to reduce corruption, although indicators of the rule of law, government effectiveness and regulatory quality show few signs of progress (see World Bank's Governance Indicators, which suggest negative developments in some of these areas).

17 Many studies support this claim. Cooksey (2010) finds manipulation of per diem systems a more distortive problem at higher levels of governance, and Fjeldstad (2003) finds corruption to thrive among those with "high salaries and good working conditions."

been in power since independence in 1961.¹⁸ During President Kikwete's first term, internal party squabbles seemed to hinder changes needed in many areas. Now in his final term in office, some observers expect him to pursue reform initiatives more forcefully, particularly to improve the performance of the public sector and secure access to basic services for larger parts of the population.

Most reform initiatives are taken following dialogue with development partners. Tanzania relies heavily on foreign aid, with one-third of its budget financed by more than 40 donors. The four most important of them contribute nearly half the total amount provided: the International Development Association (IDA), the United Kingdom's Department for International Development (DfID), Japan and the European Union – listed in order of amounts provided. In 2009, Norway contributed more than NOK 730 million (approx. USD 130 million), including direct budget support.

Considering the country's vast development challenges and its long history of receiving aid, several development partners are prepared to accept some responsibility for the current situation. They are aware that their financial assistance may have contributed to escalating problems of corruption and are considering ways of reversing unfavourable trends. A range of good governance initiatives have been promoted by donors over the past decade, particularly in the form of anti-corruption training to improve general levels of competence and accountability. Nevertheless, despite a high risk of corruption, development partners continue to offer budget support. This modality of support relies heavily on government auditing systems and is ostensibly extended when the government systems enjoy a high degree of confidence by the donors. Although government spending is subjected to considerable donor control also within this aid modality, they are rather more 'delayed' compared to other forms of aid. The control mechanisms follow government procedures with comparatively slow reporting routines. This means, in turn, that it will normally take time for the donors to react if funds are found to have been used in improper ways.¹⁹

In line with the Paris Declaration on Aid Effectiveness, efforts have been made to improve the organisation and performance of development support to Tanzania. A framework for collaboration, the Joint Assistance Strategy for Tanzania (JAST), agreed in 2006, guides aid management in general as well as cooperation between the government and its development partners. This framework emphasises harmonisation of donor policies and action, national ownership and leadership, alignment of government and development partner processes and the strengthening

¹⁸ The party at independence was called Tanganyika African National Union (TANU), which changed its name to Tanzania African National Union in 1964. After the merger in 1977 with Zanzibar's Afro-Shirazi Party, the current name was adopted.

¹⁹ See The Economist Intelligence Unit's 2011 Tanzania Report for critical comments on the continued use of budget support, which implies less donor control of aid funding. Kolstad and Fritz (2003) warn against the use of budget support in countries where the risk of corruption is substantial.

of mutual accountability as the overriding principles of development assistance. The present study of per diems and allowances, however, reveals that these principles are difficult to operationalize and implement in practice.

3.1 Government system of per diems and allowances

In Tanzania, the set of rules regulating per diems and travel-related allowances must be considered as part of a larger set of allowances offered to civil servants.²⁰ Some allowances are linked to a specific position or situation, referred to as remunerative allowances, and include for example 'disturbance allowance' (if relocating), outfit allowance and housing allowance. Other allowances are discretionary benefits, often referred to as duty-facilitating allowances, and include overtime and special duty allowances, honoraria for outstanding performance and sitting allowances. Even if per diems 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 trip.²¹

For many civil servants allowances of all kinds, including travel-related per diems, contribute significantly to their total income. Generally, a civil servant's total emoluments consist of the following elements: 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. According to a representative of the President's Office, the share of allowances in total emoluments is typically about one-third for higher level civil servants and one-quarter at 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.²² 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).²³

Per diem system (rates, magnitude of expenses, taxation)

The per diem rates are regulated by Government Circulars prepared by the Public Service Management Department in the President's Office.²⁴ According to a high-ranking representative of this office, these circulars are classified and could not be shared with us. We were given copies of the original circulars from other sources since they are circulated

20 See Cooksey (2010) for a recent study of the whole range of allowances in Tanzania and information about their historical origins.

21 Definitions of the most common allowances were listed in a note distributed by the President's Office Public Sector Management unit (PO-PSM) on 19 July 2005.

22 In an interview with a Norwegian magazine published by Norad, *Bistandsaktuelt* (20.12.2011), the Minister of Finance, Mustafa Mkulo, referred to cases where the basic salary is only one-fifth of total income. Our study did not acquire evidence of such proportions between salary and compensation, yet there were many rumours of generous allowances arrangements.

23 The sample in the quoted study is not representative of the population of civil servants in Tanzania.

24 The information is listed in the government's Standing Orders.

informally outside the state administration. According to the most recent circular (20 June 2008), per diem rates for trips to domestic cities and municipal councils are as shown in Table 3.1 below. These rates had been raised from the 2005 level to meet the “rising cost-of-living and salary level for civil servants”, i.e. the motivation for raising them was not only the cost of living but also a wish to make the per diem rates commensurate with income levels.

Table 3.1 Official per diem rates for civil servants

Position level	TZS		
	City and municipality	Regional and district town	Other areas
Assistant Directors and above	80,000	65,000	45,000
Professional/Administrative Officers, Senior Clerical Officers	65,000	45,000	35,000
Executive Secretaries and below	45,000	30,000	25,000

The extent to which per diem reimbursements create extra ‘profit’ and distortive incentives depends on how generously they cover actual costs, assuming (as discussed in Chapter 2) that the distortive consequences generate a surplus for the individual when all actual expenses have been subtracted. For several reasons it is difficult to estimate this surplus for the individual civil servant. There are no available data on the average (actual) expense. Even if such a figure were available, it would have been misleading because of the variation in the dataset, i.e. civil servants’ expenses per day vary considerably. The actual expenses to be covered vary significantly as well. For some meetings, there are no extra expenses because transport and food are offered and the civil servant can pocket the whole per diem compensation. This can happen, for example, if the event is organised by development partners who fail to inform the government institutions that transport is arranged and food is included. In other situations, when civil servants on duty trips have to stay in expensive hotels, in case no other hotel is available, the ‘surplus’ may be very meagre, particularly for those at the lower end of the salary scale and, accordingly, with lower per diem compensation. Table 3.1 shows that the rates differ significantly with level of income, a differentiation that is difficult to defend with reference to differential expenses.

However, most of the respondents interviewed claimed that many civil servants, particularly at higher salary levels, do in fact obtain a surplus in many of the situations when per diem compensation at standard rates is being offered. In the next pages we return to how this is played out. For a direct comparison of rates, salaries and expenses, a recent Policy Brief

prepared by Policy Forum, in collaboration with Twaweza, two local CSOs, describe the rates as generous:

Relative to basic wages and salaries of civil servants, allowances are very high. For instance, a receptionist (scale TGS A) earns a maximum monthly salary of Tshs 129,300, a finance management officer (scale TGS D) Tshs 384,850 and a principal accountant (scale TGS G) Tshs 818,560. So a middle level officer attending a 3-day workshop outside Dar es Salaam, 'earns' about a third of his/her monthly salary, an amount that is provided tax free. Relative to other comparators such as the daily minimum wage for civil servants, or the (food) poverty line, per diems are particularly high. A civil servant spending a day in the rural areas easily pockets a per diem to cover expenses for food and beverages that is 10 to 20 times larger than the food poverty line for a family of five." (Policy Forum 2009:5)

These comparisons to ordinary citizens' expenses and wage levels indicate how much the per diem payments may matter to the individual civil servant. Moreover, Policy Forum also points to the particularly high rates for trips abroad, for which the rates range from TZS 403,000 (USD 253) per day and up to TZS 546,000 (USD 343) for the ranks listed in the table above.²⁵ A civil servant going on a five-day overseas trip easily doubles his or her monthly salary, even at the highest level of pay.

In addition to per diem reimbursements, civil servants are sometimes offered sitting allowances. This form of compensation has been much debated in the media, particularly since members of parliament in December 2011 more than doubled their own sitting allowances for attending parliamentary meetings (from TZS 70,000 (USD 43) to TZS 200,000 (USD 125)). Even before this increment sitting allowances had been criticised as 'double pay' since MPs also draw regular salaries for conducting parliament duties.²⁶ With regard to the rules governing the payment of sitting allowances for civil servants, reliable information is difficult to obtain. According to the President's Office, however, sitting allowances are generally not part of the compensation package offered civil servants, but usually given only those who participate in special committees or boards of parastatals. For these committees the rate can be up to USD 750 per committee meeting attended. However, civil servants can be offered sitting allowances when attending seminars organised by donor organisations, an issue to which we will return below.

²⁵ These rates were based on those listed in a Government Circular of 2005, not on that of June 2008. Several observers have criticised the government for sending excessively large delegations to international conferences. However, the President's Office has significantly reduced its travel budget for the 2011/2012 period.

²⁶ The decision was followed by harsh criticism from many quarters. The Dar es Salaam-based journalist and economist, Karl Lyimo, suggested that the increase of allowances, which has to be formally approved by the President, is a quid pro quo for the parliament's approval of the controversial Constitutional Review Bill (Citizen 31 December 2011).

Magnitude of expenses

The government's total wage bill as a proportion of the 2010/2011 budget stood at almost 32 per cent, or about 10 per cent of GDP,²⁷ distributed by category of emolument as listed in Table 3.2 below. The amount allocated for remunerative (i.e. non-discretionary) allowances is lower than for the duty-facilitating (i.e. discretionary) allowances, but the difference is decreasing.

Table 3.2 Emolument distribution by type (2010/2011 budget)

Type of emolument	Percentage of total wage bill
Basic wages	83.3
Allowances (total)	16.2
• Duty-facilitating allowances	10.2
• Remunerative allowances	6.0
• Domestic per diems	4.0

Domestic per diems account for almost half the budgeted amount for duty-facilitating allowances, i.e. around four per cent of the total wage bill. The amount budgeted for duty-facilitating allowances was three times higher in central government compared to local government, while four times higher than the amounts specifically budgeted for per diems. Duty-facilitating allowances are much more common in central government institutions. However, while local government staff are more numerous and a bigger recipient of basic wages in aggregate terms, the total emoluments for central and local government institutions are approximately the same since central government staff are much more frequently compensated with some form of allowance, per diems in particular.

According to Sikika, a local civil society advocacy organisation, the amounts allocated for training and allowances are excessive. Sikika regularly prepares critical reports on government expenses based on official budget information.²⁸ According to one of their recent reports, TZS 272 and 171 billion, respectively, were allocated for these purposes in the 2008/2009 budget. For the next budget period, it was scaled down markedly upon instructions from the Ministry of Finance. In the 2010/2011 budget, the allocations were back to a high level, at TZS 269 billion.²⁹ This level of expenditure is continued in the 2011/2012 budget (at TZS 262 billion), but some changes are worth noting. The amounts allocated for non-discretionary allowances increased significantly, from TZS 208 to 231 billion, while the allocations for discretionary allowances, per diems included, dropped from TZS 38 to 11 billion, a reduction of 70 per cent. Sikika interprets this reduction as a signal from the government that it is committed to reducing its travel activities. However, according to the same budget, the government intends to increase training activities for

²⁷ Data on the wage bill were provided by the World Bank Country Office, based on the official Integrated Financial Management System (IFMS) data in Tanzania.

²⁸ For more information, see Sikika's website: www.sikika.or.tz/en/

²⁹ There is some inconsistency between the figure from Sikika, which reports TZS 263 billion, and that reported here, which stems from the World Bank.

civil servants. Even if the increase is modest, from TZS 55 to 58 billion, it contrasts sharply with the cuts on travel-related allowances.

Taxation

According to the Income Tax Act, the various allowances (per diems included) were taxable until recently, but in practice, they were not. There had been a tacit understanding within the state administration that allowances not be taxed, even though this understanding was never formalised. Until recently, the Tanzania Revenue Authority (TRA) had been instructed informally by the Ministry of Finance that allowances *not* be taxed.³⁰ In June 2011, the practice of not taxing allowances was formalised when the tax law was amended by the Budget Speech.³¹ According to paragraph 78 of the 2011/2012 Budget Speech, the Income Tax Act was amended to “grant tax exemption on allowances payable to employees of the government and institutions which receives government subvention for their operations.”

This amendment of the Income Tax Act came as a surprise to some development partners. They had not been aware of the informal practice of not taxing allowances, in contravention of the legal requirement to do so. Rather, they had expected restrictions and possibly higher taxes on these emoluments given the government’s stated ambitions of expanding the tax base and reducing the risk of wastage associated with the system of allowances. Some had also expected the incorporation of allowances into the regular salaries. This would have accorded well with recommendations to make a larger share of civil servants’ income non-discretionary as well as taxable. In fact, many civil servants prefer a regular salary instead of having parts of their remuneration tied to unpredictable allowances or per diems, even if these allowances would sometimes add significantly to the regular monthly pay. Moreover, it is common practice to pay allowances in ‘brown envelopes’ when they should ideally be paid along with the salary into a bank account. Electronic bank transfers (if feasible) would, for instance, make it possible to control how many allowances one and the same person had received per day.

However, according to high ranking officials, including in the Ministry of Finance, none of these changes is likely to be implemented in the near future, mainly because taxing allowances is considered administratively too expensive compared to the expected revenues generated. According to the Ministry of Finance, converting non-taxable allowances into ordinary salary payments would result in excessive financial commitments on the part of the government. In a situation of limited funds it is easier to cut allowances than to cut fixed regular incomes. In this sense, allowances allow for financial flexibility. Moreover, taxable salaries are pensionable which would place an additional burden on institutions

30 Information provided during interviews in the Tanzania Revenue Authority (TRA). However, the information was not consistent across interviews in all institutions. For example, the Ministry of Finance claimed that all allowances were taxed.

31 The Budget Speech is a public document adopted by Parliament. Legal amendments are often listed in the speech and made legally binding by virtue of the Budget Speech.

already under financial pressure, i.e. the bigger the share of per diems and extra emoluments incorporated into the basic pay, the more expensive the total wage bill for the employer.

In addition, we were informed about practical obstacles. Civil servants normally do not submit income tax returns since tax is deducted at source by the employer and most of them still have no individual identification (ID) number.³² According to the Auditor-General, this lack of a formal ID system leaves the country exposed to tax evasion. He also pointed out that, given this situation, taxing per diems could have high discriminatory effects because some would pay the tax, while others would exploit the weaknesses in the system and avoid such payments. Altogether, the interviews made it clear that the allowances part of civil servants' remuneration is unlikely to be taxed in the near future, regardless of recommendations to the contrary by development partners.

Control systems

Formal controls have been instituted, both in government ministries and institutions and well as ex post by the Auditor-General. Additionally, the mass media and civil society act as watchdogs in order to hold the government to account.

Government auditing system

Within each single government institution there is a set of formal controls on spending, as described in the official procedures for state administrative institutions – the Standing Orders.³³ Staff must have management approval for travel and per diem reimbursement, as well as entitlement to other discretionary allowances, such as honoraria or extra duty allowances. In most cases, the manager will need additional consent from the Permanent Secretary. However, the ex post control is generally weak as to whether civil servants have actually attended the seminars they have registered for, used the form of transport reported, or have been offered payment for food and hotel and possibly also a sitting allowance by their own institution, when in reality they have also been provided the same benefits by the organisers of the events.

Theoretically, misfeasance can be sanctioned severely, according to the Standing Orders. In practice, however, hardly any cases are pursued and the PCCB is not involved unless corruption is suspected. Lack of disciplinary sanction might mean that misfeasance is not widespread. However, corroborated testimony by a wide range of respondents strongly suggests that misfeasance is indeed commonplace. Hence, the fact that few cases are pursued reflects rather that malpractices associated with per diems and travel allowances can be difficult to categorise as illegal. Furthermore, it can be difficult to provide proof, not only that a seminar or

³² During the country's socialist period, civil servants could not engage in income-generating activities. This has been allowed since the mid-1980s, but to date, there is no reporting on such activities. The process of introducing ID numbers for all citizens is expected to be completed within a few years to enable better control of extra income-generation beyond salaries and allowances.

³³ When asking for a copy of the Standing Orders at the PO-PSM we were informed that they were classified.

trip lasted shorter than the time reported, was more expensive than it should have been, or the contents irrelevant, but also that the civil servant intentionally exploited the opportunity to obtain a personal benefit. Consequently, the system of per diems seems to be an area that can 'safely' be exploited for personal benefits, without much risk of detection and sanction.

The National Audit Office (NAO), headed by the Controller and Auditor-General (CAG), represents the most important external control institution on the state administration's spending. The office is widely recognised as an independent and competent institution and its reports are often referred to in the media. Its activities and ability to act are regulated by the Public Audit Act which was significantly revised in 2008 when it substantially strengthened the NAO's political and financial independence. The reform followed an event in 2007, when the CAG managed to prevent the President from amending a CAG report. The controlling function of this institution has thus developed over several years and is much more than a formality. Every year the CAG presents the results of its audits in a report to the President. The government then responds with an action plan regarding remedies.³⁴ Quarterly meetings are held on the implementation of improvements suggested in the CAG report.³⁵ In an interview for this study, the CAG conceded that its true controlling authority still depends on political will. What we observed on the part of the executive branch is nevertheless an emerging tradition of responding to the CAG's critical comments, and increasingly an obligation to follow up on the CAG reports seems institutionalised in government structures.

When it comes to the per diem-related risk of fraud, there are regular audits that include these kinds of expense, but no systematic or formal control to ascertain whether seminars and trips are really required for job performance, or the extent to which civil servants systematically benefit unduly by manipulating the system of compensation for trip and seminars. The NAO and CAG are aware of the risks and will consider whether it is possible to conduct a more careful investigation of these forms of wastage. The government's introduction of the International Public Sector Accounting Standards (IPSAS) has secured more disclosure of expenditures and would facilitate such an investigation,³⁶ but ideally, it should be combined with performance audits. The CAG has undertaken some performance audits in recent years, but this type of audit often requires comprehensive competence on the sector or subject matter under review, and for this reason, the CAG has not yet gained much experience with this kind of approach.

³⁴ Referred to as "structured response".

³⁵ Although the Auditor-General, as per institutional checks and balances, works for Parliament, the yearly report is addressed to the President. The Constitution requires the President to submit the report to the Speaker of Parliament within five days of receipt and to respond to all comments and queries. A process has been started to review Tanzania's Constitution. The position of the Auditor-General is expected to be further strengthened as part of this process.

³⁶ The IPSA reform was supported by international development partners, the IMF, the World Bank and Norway among others, while requested by the NAO.

In order to improve its audit functions, the Auditor-General would be prepared to collaborate with private international audit companies on a comprehensive audit of the per diem system if given the opportunity (i.e. external funding). Financed by development partners, the CAG collaborated recently with international private auditors in undertaking a careful technical audit of the Tanzania Water Sector Development Programme (WSDP). While uncovering weaknesses in the water sector, this exercise was also seen as useful for building CAG capacity.³⁷

Donor control on government spending

Development partners offer funding with the specific aim of strengthening the provision of social services, government administration or sector performance. Undeniably, however, their control of the use of such funds is limited when the government is responsible for project execution.

Even if development programmes are executed by the government, donor funding may still take the character of an extra bonus in some contexts. Considered an extra source of funding the risk of ‘grabbing’ may increase (as discussed in section 2.3 above), even in countries with decades of experience with aid support. In several sectors there have been cases of big development projects where the largest proportion of funds have been spent on competence raising, personnel or administration – or just ‘other expenses’ (which is what these items are often labelled). Even in cases when there is no verifiable improvement in sector or institutional performance, it may be difficult for the donors as well as the Auditor-General to ascertain if expenses are legitimate or not. One example is described by Jansen (2009 a & b). In the period 1994–2006 Norway financed the management of a natural resource programme at a cost of approximately USD 5 million per year. A quick review of this project estimated that a substantial amount of about USD 60 million had been spent on seminars and workshops including per diems and travel expenses. The review also found that more than 30 per cent of the expenses could not be accounted for. The review led to suspicion of corruption and a worry that a significant amount of the USD 60 had unaccountably disappeared.³⁸

Nevertheless, in the spirit of the Paris Declaration, the donors encourage the use of national systems in line with the principle of alignment, as discussed in the introduction. This may have created some uncertainty as to how insistent and careful they should be in requesting their own audits. During interviews we realised that the extent of control varies significantly among the different development partners. Some agencies are seen as

37 WS Atkins International Ltd. in association with RSM Ashwir Consulting Ltd. conducted an audit for the Ministry of Water and Irrigation completed in November 2010. In a parallel exercise, the CAG issued a Special Audit and Review of the WSDP. The CAG benefited from the private sector auditors’ more comprehensive experience on technical sector audits.

38 For a review of the finances in the programme, see Cooksey et al. (2007), and Andreassen and Bhattbhatt (2007). The case is discussed also in a 2011 report for Norad’s Evaluation Department, Joint Evaluation of Support to Anti-Corruption Efforts Tanzania Country Report 6/10. The report points at the large share of funds (50-70%) spent on workshops and capacity building exercises and a risk of losses due to “corruption and mismanagement”. In footnote 89a on page 29 of that report, the Norwegian Embassy underscores uncertainties about how much money was lost. Subsequent financial audits of the programme revealed that “funds had not been utilized in accordance with the bilateral agreements” and some of the funds were repaid to Norway.

“much more lenient” than others, a reputation that may have an impact on civil servants’ attitudes to the use of donor funds.

The opportunity for instituting controls depends on the mode of transfer, i.e. whether aid is given as project/programme funding or budget support. For example, the EU tends to insist on strict audits of the programmes they finance, often using their own auditors. However, such rigid control covers only around 20 per cent of their total transfers to the country.³⁹ As much as 80 per cent is spent and controlled by government. Despite efforts to ensure compliance, the donors’ own control is far from sufficient to determine whether or not spending has been manipulated for salary top-ups through the system of per diems and allowances.⁴⁰ However, even for donor-financed projects, where strict control is feasible, the actual control can have severe weaknesses, as described in the textbox below.

Informal controls

The media and civil society organisations act as informal watchdogs on public sector expenditure and corruption. In general, the media operate freely and government censorship has been rare. The country is among the best-ranked African nations on Reporters Without Borders’ annual Press Freedom Index. Even the Daily News, a government-owned newspaper, operates independently, according to one of its editors. Nevertheless, the watchdog institutions face practical challenges, particularly in getting access to meaningful information. The Constitution (Article 18) formally guarantees citizens access to government information. However, a joint 2005 study by Haki Elimu, the Legal Human Rights Centre (LHRC) and Research on Poverty Alleviation (REPOA) found that this right is severely curtailed. Requests for public information were submitted to various public institutions to test their response, which turned out to be disappointing. Even non-controversial information was provided in only one in four cases.⁴¹ The Tanzania Chapter of the Media Institute of Southern Africa (MISA) and other civil society organisations lobby consistently for an Access to Information Act.

A restrictive attitude towards sharing information was confirmed during the field work conducted for the present report. In meetings at the President’s Office our requests for information about the per diem rates, procedures and control system were declined repeatedly, ostensibly because it was deemed classified. We were promised budget figures, but did not obtain what we requested. Nevertheless, Sikika, the Tanzanian civil society advocacy organisation mentioned above, has obtained the complete budget books informally several years in a row and prepared critical reports. Based on Sikika’s analyses the biggest “unnecessary

39 Roughly 50 per cent is budget support while about 30 per cent is sector support to infrastructure, according to the EU’s Tanzania Country Office.

40 For Norway, two-thirds of total transfers take the form of project support that can be subjected to external audits, while budget support represents the balance.

41 “Access to information in Tanzania: still a challenge”, downloadable at Tanzania Development Gateway, a pro-development Internet portal: http://www.tanzaniagateway.org/docs/Tanzania_Information_Access_Challenge.pdf.

government expenditure” is found in the area of training expenses and allowances.⁴² These critical reviews have been published without negative consequences for the organisation. The official budget books on which Sikika bases its findings are supposedly public information, yet they are made available neither on the Internet nor in print. Sikika’s formal request for access to the books has been declined with reference to the National Security Act.

Audit reports on donor-financed projects and programmes

For donors to determine whether aid has disproportionately been spent on per diem payments, government institutions and CSOs are requested to provide audited accounts and reports. During interviews in Tanzania our attention was drawn to serious weaknesses in these audits. Below we provide anonymised examples of how these weaknesses emerge.

- Although a donor might request a recipient institution to open an operational bank account to facilitate control on spending, this is not always done. In one example, when confronted with this failure the response was that “the opening of a separate bank account was not a condition in the programme agreement” in total denial and defiance of this specific item in the agreement.
- Funds for a specific purpose might have been used as a loan for another activity or project. This is not uncommon, even though it is a clear breach of agreements.
- The audits report something irrelevant, as if the auditor has misunderstood the assignment. In one case “no reportable conditions were identified during the review of the internal control structure of the project.” However, the auditor was expected to report on specific expenses, not on the requested structure of the control.
- The agreement may request “sufficient segregation of data to permit identification of individual sources of funds and disbursement on major programme activities and types of expenditure.” Nevertheless, the financial statements may be only a summary or far too sketchy to allow for detailed comparison of expenditures and approved budgets.
- The audit report fails to advise explicitly if any illegal or corrupt practices have been uncovered, even when such statements are required.
- Per diems have been reimbursed even if basic documentation or information about the trip is not provided, e.g. start and end time of travel, destination, justification, and travel approval.
- Lists of participant signatures used as proof of actual participation in training events sometimes reveal fraud. One and the same person may have a different signature every day, the same individual may sign for more than one person, one and the same name is listed several times, and/or there are fewer signatures than the number of participants receiving per diem.

Repeatedly, recipient institutions submit audit reports that make it nearly impossible for donors to know how funds have actually been spent, as if the institutions are used to ‘getting away with it’. A lack of specification in the terms of reference (ToR) for the audits may be part of the explanation. As a result, the recipient institution itself, not to mention the donor agency, is unable to determine how much it is paying in per diems. The development partners should be specific in their requirements on reporting expenses, and stipulate beforehand what reaction can be expected, for example withholding funding, if a recipient institution fails to comply. The Paris Declaration, which encourages the use of national systems, should not hinder the implementation of initiatives needed to prevent fraud, nor should it encourage leniency by donor agencies over how funds are spent by recipient institutions.

⁴² See Sikika and Policy Forum (2010).

Risks of malpractice

While large amounts are spent on seminars and workshops in Tanzania, there are weaknesses in the control of public spending, as described above. What are the risks of fraud and corruption in connection with the per diem and allowance system, given these weaknesses? We have limited hard evidence or systematic information to substantiate our findings. However, having consulted key informants and considered the regulations and practices, the following areas and situations can (quite safely) be considered at risk of malpractice and fraud:

Exaggerated payments as bonus: We obtained corroborated information from diverse sources about a rather widespread practice of offering extra duty allowances and honoraria in some ministries, as a form of bonus. Reasonably enough, staff who work overtime are paid extra, but several staff members we interviewed described the payments as a “carrot to get things done”. Staff who complete a specific assignment often expect extra payment, even though the amount may be small and difficult for the employees to predict. Hence, in many cases there are expectations of a form of bonus, even if the assignments are part of the normal job description. Also, we heard multiple donors complain repeatedly – sometimes in a resigned tone – that civil servants attending events often expect some form of payment. One of the managers we interviewed, referring to how allowances are used to augment salary said: “the staff will not do anything without an extra payment”. The per diem system seems to offer an opportunity for managers to offer ‘something extra’, which is often considered necessary to ensure delivery on important assignments.

Organising seminars and workshops opportunistically: For specific assignments, such as writing a report, it is not uncommon to establish a task force or a committee. We were informed that such groups sometimes prefer to work outside office premises. Besides, the civil servants involved may come from different ministries, and, thus, some of them would have to leave their offices in any case. Although the ministries are instructed to use government office facilities to the extent possible, in these situations there seem to be opportunities for using hotels outside the city border and thus qualify for per diem payments. While it may be legitimate to locate workshops away from duty station in order to avoid the disturbances and interruptions of daily routines, corroborated information suggests that it is often not the case. It is difficult to determine whether such arrangements are legitimate or not – in terms of being required for the specific tasks at hand. Some civil servants can easily arrange seminars for which they are offered per diems and gain a salary top-up, and there is a palpable risk that more seminars and workshops are organised than what is really needed for the performance or completion of assignments.

'Buying' loyalty: A manager's discretionary authority with regard to selecting staff for trips and participation in meetings (i.e. in effect salary top-up by means of per diems) can be misused. We learned from many civil servants – both those being favoured and those feeling treated unfairly – that some colleagues are offered more per diem days than they are entitled to, i.e. a civil servant may report five days of travelling and then be given per diems covering ten days. The extra per diem payment is believed to be a way to 'buy' loyalty by management. The assumption is that if staff have been given occasional extra payments, they would be less likely to report management failures or malpractices they might come across. In one ministry, civil servants involved were worried about taking up the issue with management or auditors given the generally weak protection of whistle-blowers. However, according to a source, the Permanent Secretary was already informed about the practice in this ministry, which clearly indicates an entrenched problem.

The higher up, the worse: The risk of malpractice associated with the per diem system seems to vary with rank in the bureaucratic system. High up in the system there is 'better' opportunity to benefit from allowances and per diems – the staff attend more seminars, participate in more committees and task forces, get higher rates, and have more discretionary authority. We heard ample testimony from multiple sources to that effect. Moreover, the budget figures, mentioned above, showed higher expenses of this sort in central level government institutions. In terms of the monetary magnitude of potential waste, the risks are more serious at central level and high up in the system – although it should be kept in mind that staff in central government institutions travel justifiably more frequently as part of their duties.

Corruption condoned: The reported tolerance of corruption, as described in the PCCB report mentioned above, leads to significant risk of malpractice and clear-cut fraud. The literature provides analyses of a patronage culture, describing how civil servants might feel obliged to use their authority to secure financial benefits for their kinship network.⁴³ Moreover, while the risk of malpractice seems much more serious at higher levels – where wage levels are higher – there is a common view among civil servants and survey respondents that corruption is a common response to low wages and the only way out of poverty. High tolerance of crime has, in itself, an impact on crime levels. A certain tolerance reduces the feeling of guilt on the part of those involved, as well as the reputational risk if caught. It makes it easier to find a partner in crime, and if caught, it is easier to get out of the situation – possibly by means of a bribe (Andvig and Moene 1991). Hence, the perception of widespread corruption impacts on the propensity to commit such offences. These attitudes and tolerance alone cause a significant problem for the state administration.

43 Smith (2003).

Tanzania Social Action Fund (TASAF) and experiences with local level governance

The risk of malpractice might be more prevalent also at higher levels within local as well as national institutions. The Tanzania Social Action Fund (TASAF) which operates a large World Bank trust fund programme investing in local development-promoting initiatives organises many seminars and workshops at district level. They complain about cases of manipulation of per diem systems for personal gain at the district level as those in position to influence the organisation of training events are at a high level (within their local government institution).

During interviews with TASAF representatives, the following areas of particular risk were listed:

officials at the district level seeks to influence the duration of training with potential benefit derived from reporting more days than are actually required; district level officials may report a higher number of participants than those who actually participated in order to pocket the extra per diem payments; funds for training activities are diverted to other activities.

These perceptions of risk are based on revealed cases of fraud. For TASAF, the problem was quite significant. In response, more authority was devolved to the village level, where those in control are the direct beneficiaries of the investment. According to TASAF, this approach has reduced problems of per diem-associated malpractices significantly – and made TASAF more popular with the villagers.

3.2 Development partners and civil society

We now considered how the donor community collaborates with CSOs, CSOs' experience of per diem-related malpractices, what they do to avoid it and how they consider this issue vis-à-vis donor agencies and governments. We subsequently address the donor agencies' systems, potential incentive problems on the part of donors, and the question of harmonisation of practices.

Civil society

"CSOs are many different things in Tanzania," according to one interviewee. There are around 5,000 of them in the country, and we cannot generalise much about their practices, potential malpractices, or strategies to prevent per diem related fraud within their operations. During interviews we were told about dormant CSOs, "just waiting for an opportunity to get funding" from the donor community, for example for organising seminars which some consider "easier to manipulate", e.g. by misreporting the number of participants or events.

We considered primarily the practices of *international* donor-financed CSOs. The risk of fraud and incentive problems associated with per diems seems to be an acknowledged problem for organisations working in Tanzania. They operate various programmes for development partners, in areas such as health, education or human rights advocacy, with outreach extending down to district levels, often by engaging local CSOs. These programmes will usually include training activities and trips for

citizens and civil servants, as well as for their own staff who are responsible for overseeing or carrying out local projects.

Nature of risks

The country office of an international CSO typically works with a number of Tanzanian partners who execute projects throughout the country. The CSO selects and funds projects upon receipt of proposals from its partners but may not be directly involved in project implementation. Normally this works well. However, some local partners tend to propose workshop programmes beyond what is necessary in the estimation of international CSOs. Some propose holding training events just outside the city limits of Dar es Salaam – for example in Bagamoyo – when there are suitable venues within the city, in order to justify the payment of per diems. We also learned from international CSOs and were shown samples of original proposals from local partners containing budgets with excessive per diem components. Such items are subject to negotiation and are often pruned by the relevant international CSO. More seriously, according to respondents interviewed for this study, there have been cases where local partners have given falsified information about how and where training seminars were organised, revealed by auditors after the fact. The international CSOs seem to have established routines to control such fraud. However, we were also informed by several sources in civil society and the donor community alike about cases where lack of donor coordination made it possible for local CSO partners to secure double funding, i.e. funding for the same activity from more than one donor. It is difficult to curb such irregularities.

With regard to participants in training sessions, international CSOs are concerned that some attend seminars only for the sake of obtaining per diem payments, not for the benefit of training itself. How do these challenges affect CSO operations and how do the organisations deal with the risk of malpractice and fraud?

Two Norwegian examples: cash versus in-kind

One example of a CSO familiar with these challenges is Norwegian Church Aid (NCA) in Dar es Salaam. It is part of an umbrella body of faith-based organisations which cooperates on many practical issues. There is no uniform, agreed per diem rate used by the CSOs registered under the NCA, but the differences between them are very small – and, in practice, the system is well harmonised. During seminars, they offer the seminar organisers (partners) bed and food and pay TZS 10,000 per day. They do not use government rates, which they consider too generous. Besides, they prefer a flat rate, regardless of rank or seniority, and take exception to the government system with differential rates for staff at different levels.

Another Norwegian CSO of relevance in this context is Norwegian People's Aid (NPA), which receives funding not only from Norway, but

also from other donors such as the USAID, the UNHCR and the WFP. They reduce some of the challenges associated with the per diem system by organising workshops providing a total package of in-kind services, i.e. accommodation and meals are paid by the NPA directly without cash payments to participants. This is considered common practice among CSOs, although some offer cash on top of the in-kind services (which in practice might mean double payment).

Information from other international CSOs indicates that payments in connection with meetings and seminars are made in cash, sometimes at a specific flat rate and sometimes based upon receipts. Some CSOs provide accommodation and meals in-kind, paying for the whole event on the basis of a total package negotiated with a venue hotel. In such cases the participants get no cash payment, which many find annoying. The CSOs recounted tough discussions with participants on this issue, and now the chosen arrangement with regard to compensation is communicated in advance to forestall false expectations. Nevertheless, few participants opt to stay away if not paid cash per diems.

CSO-initiated control of fraud

The risk of fraud and the incentive problems associated with per diems have led CSOs to introduce various formal or less formal control systems. The country office may conduct spot checks of partners' accounts. According to the NCA, "there is reason to raise an eyebrow in two out of ten cases" and to investigate the facts further. They described a system of strict controls on their local partners spending of funds. In certain complex situations they have had to hire auditing organisations to perform controls, and in cases of fraud, the NPA office had found it necessary to take over the workshop organisation.

CSOs appreciate receiving audit reports from their local partners prepared by external auditors. However, they have mixed experiences from such arrangements because local auditors are not always found to be impartial. An international CSO cannot necessarily stipulate that their local partners use particular auditors that it finds trustworthy. For the NPA, for example, such requests would not be an option since it would not be consonant with the partnership concept that the Oslo headquarters wants to promote. Dictating to a partner which auditor to use would be undue interference and contravene the spirit of partnership. To avoid fraud and manipulation the country chapter of an international CSO has to be very careful when selecting its local partners, in the absence of which risks of malpractice and fraud will remain.

The CSOs and their control of local partners' spending of the money received for training activities are additionally subjected to donor control. However, according to Save the Children which receives funding from different sources, the donors' reporting requirements differ. All of them expect a narrative on the substance of an activity and a financial report,

including audited accounts. Some donors have their own report templates with variable degrees of detailed information. All donors give feedback on the reports, either accepting them or asking for clarification, for example regarding over- or under-expenditure on certain budget items or other details. In practice, however, despite apparently similar formal control systems, their ability to detect weaknesses and fraud is perceived to vary significantly.

Lack of harmonisation among CSOs and donor agencies

Differences between per diem rates offered by civil society organisations and their development partners are seen as a challenging issue for several reasons. Sometimes it is admitted that different rates lead to ‘competition’ for participants in which the event that offers the most advantageous package ‘wins’. There is also high staff turnover in CSOs, one reason being that staff move to organisations that offer better terms, including per diems. For CSOs it is often considered a disadvantage that the donor organisations offer far more generous per diem rates and allowances than they can afford themselves. The UN rates, which are used by several development partners, are generally very high. According to the NPA, the UN High Commissioner for Refugees (UNHCR) sometimes pays four times more than the NPA, and they complain that potential participants in programmes organised by the NPA will always prefer the UNHCR.

Table 3.3 Official UN per diem rates for Tanzania, applicable to UN staff⁴⁴

Area	TZS	USD
Arusha	253,000	152
Bagamoyo	196,000	118
Dar es Salaam	321,000	193
Dar es Salaam (special hotels)	472,000	284
Dodoma UNDP	226,000	136
Elsewhere	141,000	85

Some organisations invite high-level government officials to open a seminar in order to attract media attention and publicity for the organisation. Some give these government representatives a significant inducement, while others, such as Save the Children, claim that they never offer such payment. Different practices across organisations and development partners represent a difficulty for CSOs because it implies that they have to deal with expectations of extra payment. Some dignitaries may not participate if they expect more than they are being offered.

⁴⁴ UN official website: <http://apps.who.int/bfi/tsy/PerDiem.aspx>. These are the official rates for UN employees. The rates applied to events for local participants are different, yet higher than the official government rates. However, according to the UNDP in Tanzania, the rates they use locally are confidential although there is nothing in UNDP local operating rules that so dictates.

Different per diem systems across the CSOs and donor agencies have an impact, not only on the number of participants, but also the rank or seniority of those who attend. In particular, this is an issue for training programmes targeting civil servants. The participants are usually offered per diem by those who organise the course and in some cases their expenses may also be covered by the institution they represent. Given the discretionary authority of senior staff and the incentives of extra benefit inherent in the per diem system, there is a risk that junior staff are sent to less 'attractive' workshops, based on what is offered in per diem compensation, while the more 'lucrative' events are assigned to senior staff.⁴⁵

Some CSO country offices complain that they lack the flexibility needed to handle these challenges, for example if they have a limited budget or strict headquarter instructions on how to set the rates. Several CSOs indicated that "the headquarter way of thinking" would not necessarily match or fit local expectation and norms in Tanzania.

Development partners

The general educational level in Tanzania is low and there is a significant need for building competence on most areas of governance. Training activities are clearly needed. Several development partners are more inclined than others to offer training and workshops in response to development problems. These variable inclinations on the part of donors and potential participants may suggest that too many seminars and workshops are held. Situations where per diems are offered pose a challenge for donor agencies in different ways. First, they want to make sure funds are not wasted by the government ministries and CSOs they finance. Second, they want participants to attend training activities they organise and to fairly compensate the participants for their expenses. Third, they want to avoid perverse incentive problems – such as civil servants attending training in preference to working. In practice, this is not as easy as it sounds as some participants may come primarily for the per diem payment or sitting allowance.

In donors' activity plans and budgets, workshops are considered 'an activity' and not necessarily part of the administrative investment required to reach a development goal. When completed they constitute 'an achievement' in the donor's work programme, regardless of whether the lives of poor people have been improved or not. According to a UN representative, the majority of UN funding in Tanzania is spent on training activities and workshops. Unless the training is efficient, the money will not impact on the intended beneficiaries. Efficiency can be questioned if participants attend seminars simply to get some form of payment, rather than for the contents of the course. Rigorous impact evaluations to gauge the efficiency of training programmes in terms of bringing the country closer to reaching development goals are rarely carried out, if ever.

⁴⁵ This is confirmed and discussed by Vian et al., 2011.

Preparations as well as internal controls are generally process-focused (what seminars have been held, with how many participants) instead of results-focused. 'End-of-workshop evaluations' of what participants have purportedly learned say precious little about the actual use of the new knowledge acquired and its influence on their daily work.

System and coordination

Development partners are aware of challenges associated with the per diem system, particularly because the rates they offer have generally been higher than those of the government. However, they have tried to reduce the potential distortion and harmonise their systems. In the words of one respondent: "The donor community shares the attitude that the problems associated with per diems are our responsibility and now we want to change it!" Harmonisation efforts are coordinated by the UNDP, more specifically, by the Development Partners Group (DPG) under the leadership of the UNDP.⁴⁶ As of March 2011, the development partners had agreed on a list of principles, including adherence to government per diem rules and rates for civil servants, avoidance of sitting allowances and other salary top-ups, improvement in the efficiency of training programmes and minimising the number of workshops requiring unnecessary travel. The principles were agreed to prevent development partners from providing incentives that distort behaviour with potentially negative impacts on civil service efficiency.

While several development partners do adhere to these rules, the interpretation and practices vary from one agency to another. The World Bank country office, for example, told us they are very strict on keeping to what has been agreed. The EU, "in contrast to other development partners" never offers sitting allowances for participation in EU-organised meetings. Others, including branches of the UN family, deviate informally from the agreed principles. A UN representative told us that it is difficult to make UNDP coordination (and other harmonisation attempts) work in practice:

UN organisations are now using all kinds of words to avoid the term 'sitting allowance' while in reality, they continue the practice. Very often, a cash payment of around TZS 80,000 is offered on top of 'the meeting package' – which includes accommodation and meals. In addition, they get a transport allowance – and this is an arrangement that can easily be manipulated. If they don't get paid well they just leave – even if they have arrived at a hotel and have shown interest in the topic.⁴⁷

The challenges vary across sectors, although the information we have gathered is insufficient to determine patterns. However, several representatives of development partners tell us they are still under the

⁴⁶ For more information, see www.tzdpdg.or.tz/

⁴⁷ Statement by a senior staff member of a UN organisation.

impression that the most important motivation for many participants attending their seminars is to top up their salaries.

The case of per diem compensation in Tanzania reveals the difficulty of applying the ambitions of the Paris Declaration. Development partners are expected to use government systems but they will sometimes have legitimate reasons to deviate from them if the government systems fall short. Some agencies might consider the per diems offered by government too generous while others want to offer more in order to be generous or to secure participation in their activities. Moreover, the use of government systems sometimes conflict with the purported zero tolerance of corruption. When large proportions of aid funds are extended as budget support it is more difficult for donors to control the actual use of the money, and often only belatedly. Budget support, consistent with the spirit of the Paris Declaration, allows the government to decide what seminars and workshops to organise, for which they use their own system, rules, per diem rates and controls. For the donors, it becomes difficult to document wastage and corruption associated with such training events. At the same time, Tanzania is a country in which renewed coordination efforts are direly needed. In the words of one representative of one of the big development partners: “The donors want to present Tanzania as a success story whatever the facts!”

3.3 Conclusion

Interviews in Tanzania helped us to understand the challenges associated with per diems and allowances offered in connection with seminars and workshops. We have no conclusive evidence of the magnitude of the problem, yet the size of the budget expenses for training activities, the frequency of workshops, proof that money has disappeared in some cases, and the picture portrayed by senior staff in the most relevant organisations suggest that the problem is real and substantial, and still in need of convincing, workable solutions.

The per diem problem typifies the incentive problems associated with aid. Poor performance on the part of government institutions is not likely to reduce the money flow. On the contrary, the incentives to secure personal benefits remain present and very strong. The desired focus on better service delivery may be distorted as a result, and even an apparently trivial issue, such per diem compensation, may have multiplier effects in terms of reducing civil servants' focus on performance.

Among the risks and consequences of 'grabbing' associated with per diems and allowances we have found that there is – regrettably – a generally high tolerance of such malpractices in Tanzania. The government wants to retain the system of allowances to ensure flexibility in the compensation system and to keep fixed expenses under control. The opportunity to benefit personally from this system is stronger for higher-level civil servants in government institutions, and also for centrally

located staff compared to those in the districts. The system of per diems offers managers discretionary authority. By manipulating trips, seminars or travel expenses, they have ample opportunity to decide how generous they want to be with individual staff. The more informality in this system, the higher the risk that some managers will misuse their discretionary authority for personal benefit (kickbacks, loyalty, or sex), and some managers might want to keep the system as it is, precisely because of these benefits.⁴⁸ At lower levels of the civil service, many employees would prefer to have all emoluments incorporated into a regular salary, consistent with repeated recommendations by, for example, the World Bank.

We have reported *risks* of malpractice from Tanzania, and discussed the consequences in terms of wastage, corruption and fraud. As discussed in Chapter 2, however, the consequences are not always only harmful to society. A salary top-up in the form of per diems might be the only opportunity for civil servants to earn a decent salary. We are also open to the scenario that some managers in government organisations use the system of per diems as an informal performance bonus that may actually improve staff efficiency. An extra payment may boost motivation to make extra effort. However, our main impression is that these extra payments are generally used too frequently, and this ‘inflationary’ practice has led to a situation where civil servants tend to expect ‘something extra’ simply for doing their regular job. The negative direct and indirect effects of manipulating the system seem to outweigh the potential efficiency gains.⁴⁹

The government is about to introduce a (formal) performance-based pay system which may channel attention towards priority assignments. It is difficult to predict how this would play out in Tanzania, where there is already an extensive use of informal, unsystematic and unpredictable extra payments. The reform will have to be combined with a clearer service delivery targets and a clearer expectation of achievements to have a positive impact on overall service delivery performance.⁵⁰

Development partners can contribute to reducing risks and problems by harmonising their systems, offering benefits in-kind (food and accommodation) instead of cash payments, being transparent about who is participating where and what they receive, being clearer about expected results from training in terms of better service delivery outcomes, and create opportunities for controlling

48 The findings of the present study that explanatory factors are to be found in the political economy of the country's elite and leadership are consistent with the results of Brian Cooksey's study of allowances (2010).

49 This is consistent with a report prepared by Crown Management Consultants in 2009. Based on a comprehensive survey of civil servants they found allowances to have a lower impact on motivation than previously assumed.

50 According to Cooksey (2010) a Presidential Commission was appointed in 2006 to consider weaknesses of the public service salary system: the Ntukamazina Commission. We failed to acquire a copy of the report after repeated attempts, but as far as we know – as pointed out by Cooksey (2010:4) – the report recommended a significant reduction in the budget allocations for allowances, that all allowances be made taxable, and that the number of workshops and seminars be significantly reduced.

government spending of development aid and loans. They can contribute to strengthening national systems, not only by using government rates and regulations, but also by strengthening government control systems, including the Controller and Auditor-General.

4 Malawi

The 2009 elections gave the incumbent president, Bingu wa Mutharika, two-thirds of the vote and a comfortable parliamentary majority for his Democratic Progressive Party (DPP). It was a widespread perception that the sitting president secured the landslide victory on account of the political capital he derived largely from the farm input subsidy scheme introduced in 2006 with the support of some donors (DfID, the EU and Norway) and in defiance of the advice of others (e.g. the World Bank). The electorate had severe drought and hunger in vivid memory when this scheme was launched to redress the persistent food insecurity problem. Since its inception, the subsidy scheme has resulted in bumper harvests of maize as the staple food crop, even a surplus for export. In a predominantly agrarian economy where the overwhelming majority of the population rely on agriculture for their livelihood, this was a major achievement that went down well with the electorate, notwithstanding criticism of significant corruption in the distribution of subsidy coupons for seeds and fertiliser. The weather conditions have also proved favourable in the past five years and contributed to success.

However, the mood of the country has changed dramatically since mid-2009. Owing to a series of impolitic economic decisions (e.g. administratively setting a minimum price on tobacco; and refusing to devalue the currency to enhance Malawi's competitiveness for exports on the world market) and the government's failure to address urgent challenges, exacerbated by unfavourable world market prices of key export crops (tobacco) and import commodities (fuels and fertilisers), Malawi is currently in a serious economic crisis. Being a very aid-dependent country, the discontinuation of direct budget support, the temporary suspension and subsequent reallocation of aid flows with more controls applied by major donors exacerbated the foreign exchange crunch. The country is experiencing serious shortages of essential imports (e.g. drugs, fuels and production inputs). As a result, economic growth – which has hovered impressively around seven per cent annually in recent years – is slowing down. For various reasons, the government has been unable to pay salaries on time to large groups of civil servants and long queues of vehicles have formed at filling stations.

The economic crisis has undermined the erstwhile popularity and legitimacy of the incumbent DPP government and precipitated a political

crisis. A coalition of civil society organisations sent a 20-point petition to the president, listing a series of economic and political demands that he needs to address within a stipulated time frame (Coalition of Civil Society Organisations 2011). The economic demands centre on the forex and fuel shortages, economic prudence, and the mending of relations with key donors to improve the forex situation. The political demands, on the other hand, concern human rights (especially the freedom of expression); abuse of power and corruption; the rule of law; intolerance and violence; and local government. The conflict came to a head on 20 July 2011 when nationwide demonstrations were held and met with heavy-handed police action, resulting in widespread violence and looting and the death of some 20 people. The government blamed the violence on the looters and criminal elements. It is within this context that the subsequent discussion must be considered.

4.1 Government system of per diems and allowances

While the terminology varies somewhat between the three countries, in Malawi it is common to distinguish conceptually between two types of allowances 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 and is used to attract and retain technical and professional cadres with required skills in a competitive market place. 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 the normal duty station) are generally performance-facilitating or work-enhancing. In practice, however, the distinction becomes blurred when ostensibly performance-related allowances serve essentially income-enhancing purposes, e.g. when a trip is treated as an income-generating activity (Peprah and Mangani 2010:44).

Training is a performance-enhancing activity that involves travel and participation in workshops, seminars and training sessions of variable duration and type. Within ministries, staff training is continuous, overseen by the Human Resources Management Department in the Office of the President and Cabinet (OPC). With regard to internal training the practice in the past was to choose a venue away from the normal duty station, which would trigger the payment of per diems. This practice, which was not illegal, was discontinued in 2009. Currently, the Malawi Institute of Management (MIM) – on the outskirts of Lilongwe but not beyond the city limits – is used extensively for training purposes, even though other venues are also used. A few government institutions have their own

conference and meeting facilities that are suitable. The training division has a scholarship fund for more extensive study purposes. The Eastern and Southern African Management Institute (ESAMI) in Arusha, Tanzania is often used for longer courses, and in those cases other rules apply, including a three-year bonding arrangement upon completion of training.

In the past, the system of remuneration in Malawi (regular salary plus various allowances) used to be more complex. Previously Malawi had a wide range of allowances. However, when the practice of senior civil servants resigning only to resume service on fixed-term contracts at a higher level of remuneration was disbanded in 2004, most of those allowances became irrelevant. The driving force behind the discontinuation of this practice was regular staff who argued forcefully against the unfairness of the arrangement. As it was also an expensive scheme for the government the argument met with sympathy and carried the day against the grumbling of those benefiting from it. The result was a so-called clean salary which incorporated most of the six previous allowances (housing, telephone, etc.). It was a troublesome process which has not yet been completed in all respects. For example, the government provided a housing allowance in cash or kind (accommodation in lieu of cash) and had a considerable housing stock at its disposal. However, the government wants to rid itself of its role as property owner. After the introduction of a clean salary, the remaining allowances are only those related to travel.

Review of travel-related expenditure

Significantly, travel-related allowances constituted the bulk of allowances, accounting for 76 per cent of all payable allowances during the review period (Peprah and Mangani 2010:30). Moreover, as a proportion of salaries the payment of allowances in general accounted for 29 per cent, while travel-related allowances specifically accounted for 21.9 per cent of salaries.

In view of its budgetary constraints the government has devoted attention to the appropriateness of the current system of allowances, the way in which it is practiced, and the rates applied. In 2010 a review was undertaken to assess the cost-effectiveness of travel-related expenditure to provide evidence for policy-making purposes (Peprah and Mangani 2010). This review covered all elements of travel costs in the public service, such as allowances, hotel costs, motor vehicle purchase, running and maintenance costs, as well as expenses associated with air travel and public transportation on official duty. Its focus was the central civil service, the legislature and the judiciary, but excluded parastatals. It should be noted that motor vehicle purchase and maintenance were included, which the present study does not address. For aggregate figures, the present study draws extensively on the 2010 review.

The 2010 review found that excessive amounts were being spent on travel-related allowances. Over the period 2006/2007–2010/2011, the total travel budget (the sum of domestic and foreign travel) was on average 9.2 per cent of the total national budget. However, over the same period the budget revisions increased the national travel budget to an average of 11.4 per cent of the national budget. Of this, domestic travel accounted for 10.3 per cent, while foreign travel stood for 1.14 per cent. In most years the percentage fluctuated between 9 and 11, with a high of 12.3 per cent in 2008/2009 (Peprah and Mangani 2010:23). As a share in travel-related expenses between 88 and 91.5 per cent were for domestic travel, while foreign travel ranged between 8.5 and 12 per cent during the period under review (Peprah and Mangani 2010:47).

During the same period, Malawi's national budget grew by an average of 5.7 per cent each year. The growth of the national travel budget was much higher, averaging 19.8 per cent and reaching a peak of 22.2 per cent in 2007/08 (Peprah and Mangani 2010:24). This growth suggests that the adoption of the 2006 travel policy had not been effective in containing travel costs which seemed out of control. Indeed, it could hardly have been enforced at all. Apparently, this state of affairs indicated that not all travel expenditures were genuine and necessary. Rather, they most likely resulted in part from malpractices and abuses (Peprah and Mangani 2010:27).

Some government institutions are prone to spend more on travel-related allowances than others – in absolute terms as well as in proportion to their budgets – owing to the nature of their mandates. Examples are large ministries with a high volume of transaction, a large staff compliment with an extensive geographical coverage, for example the MoAFS, the Ministry of Education, Science and Technology, and the Malawi Defence Force. Similarly, institutions with attractive staff packages, e.g. the Judiciary, the Malawi Defence Force and the Ministry of Foreign Affairs, also consume significant amounts of travel-related allowances. Institutions with considerable out-of-office activities as part of their work incur high expenditures on subsistence allowance, examples being the National Audit Office, and the National Statistical Office.

Malawi's high travel budget aggravates the country's budget deficit problem which has been over 5 per cent of GDP in recent years. The budget deficit was 4.3 per cent in 2007, 5 per cent in 2008 and 5.8 per cent in 2009. Excluding grants, the budget deficit was 17.2 per cent in 2007, 16.5 per cent in 2008 and 14.6 per cent in 2009. In addition, travel expenditure with its foreign exchange component of about 40 per cent exacerbates the country's weak foreign exchange situation (Peprah and Mangani 2010:47). The zero-deficit 2011/2012 budget has further aggravated the revenue-expenditure imbalance and created tremendous pressures to exceed budget ceilings.

The above figures show with great clarity that: (a) the proportion of the state budget spent on travel-related allowances is excessive and unsustainable and in dire need of pruning and (b) that allowances constitute a large proportion of the total emoluments of civil servants and thus takes on the character of salary supplement instead of reimbursement of expenses. Such a situation was considered untenable by the government and caused a revision of the 2006 travel policy for civil servants (Office of the President and Cabinet 2006). In that policy document the government noted the escalation of travel expenditure since the mid-1990s as well as the abuse of travel facilities and provisions. It was pointed out that excessive travel had been undertaken, that claims had sometimes been submitted without travel having taken place, and that excessive rates had been used in some cases. In other words, there had been general laxity and lapses in budget discipline. Furthermore, the independent determination of travel conditions by various government agencies, donors and CSOs had created inconsistencies. In other words, there was lack of coordination across the board. Overall, the proportion of the budget spent on travel was higher in Malawi as compared to other countries in the region (Peprah and Mangani 2010:47). Excluding vehicle running expenses, the travel budget averaged about 6 per cent of the national budget over the 2006/2007–2010/2011 period, which against a set target of 3 per cent is very high and compares unfavourably with Uganda (2 per cent) and Tanzania (1.6 per cent).

Public travel policy

To remedy the situation, the 2006 travel policy was adopted to provide guidelines, principles and controls for travel in the public service to ensure expenditure control, transparency and accountability. Towards that end, the document contained, by way of introduction, useful definitions of various allowances. It stated unequivocally that a daily subsistence allowance (alternatively referred to as DSA or per diem) is intended to cover all expenses incurred when on duty travel, including taxes and service charges when applicable. The three components of a per diem are:

- *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. However, lodging does not apply to accommodation on aeroplanes, trains, buses, or ships. Such costs are included in the transportation component.
- *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.

It was made clear that per diem payments were intended to reimburse travel-related outlays only. They were not meant as supplementary income, performance rewards or similar benefits. The document lamented that travel-related allowances had been perceived as supplementary emoluments owing to the generally low level of remuneration in the civil service, particularly at lower grades, and that such a perception might undermine commitment to the implementation of the policy (Office of the President and Cabinet 2006:4). Hence, to ensure compliance the document threatened to punish those in breach of the policy. Responsibility for the coordination of implementation of the travel policy was given to the Department of Human Resources Management and Development, including the periodic assessment of applicable rates to keep abreast of actual cost increases. However, the OPC was charged with overseeing the implementation, monitoring and evaluation of compliance, and with taking disciplinary action in cases of non-compliance. To operationalize the 2006 travel policy, the Department of Human Resources Management and Development issued a circular on 1 February 2007 specifying the rules and regulations in greater detail, including approval procedures and control measures (Department of Human Resources Management and Development 2007).

The public expenditure review of travel expenses referred to above documented that the policies instituted in 2006/2007 had evidently not been heeded, despite exhortations and threats of punishment. The principal reason was probably the persistently low overall salary levels that created a strong incentive on the part of civil servants to supplement their total emoluments by resorting to per diems and other travel-related benefits. The laxity of enforcing the regulations was also justified and condoned with reference to low salary levels.

The most recent and currently applicable rules and regulations were issued on 25 March 2011 by the Chief Secretary to the Government in the OPC to all principal secretaries and heads of department, as well as CEOs of parastatals (Office of the President and Cabinet 2011). The circular covered expenditure controls across the board – including general procurement of services and equipment – not only travel-related costs. Its issuance was no doubt spurred by the revenue crisis. The purpose of the circular was partly to enjoin controlling officers to take firm action with a view to enforcing existing policies, and partly to update the old per diem rates.

With regard to travel, the circular restricted domestic travel away from the duty station to maximum of five days per month for any civil servant. In retrospect, such a general rule appears to have constrained some government institutions in the discharge of their duties which by necessity involve above- average travel, e.g. the Auditor-General, school and business inspectorates. Exemptions to this rule are possible but are sparingly granted owing to cumbersome and time-consuming procedures.

Several respondents said they would not even be bothered to apply for exemption because they considered it a futile exercise.

The revised per diem rates as per 25 March 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 per diem is currently 4:1. When setting the rates the general rate of inflation is not a major factor. Rather, a technical committee appointed by the Human Resources Management Department makes a proposal after investigating hotel and food prices. Ultimately, the budget director determines the rates. The current per diem rates (covering accommodation and all meals) are as follows:⁵¹

Salary grade	Designation	Daily subsistence allowance	
		Old (MWK)	New (MWK)
A	Chief Secretary	15,000	25,000
B and C	Deputy Chief Secretary; Principal Secretaries	8,000	22,500
D	Directors; Heads of Department/ Division	8,000	21,000
E to F	Deputy Directors; Senior Deputy Directors	7,000	17,000
G to I	Professional/Administrative Officers	6,000	15,000
J to K	Senior Clerical Officers	3,000	8,000
L and below	Clerical Officers, drivers, security personnel, etc.	2,000	6,000

Following the issuance of the above circular dated 25 March 2011, a number of government departments made representations to the OPC to seek waivers and clarification. In response, the OPC issued on 5 May 2011 a follow-up circular with supplementary expenditure control measures (Office of the President and Cabinet 2011). The five-day ban on travel away from duty station was slightly softened to the effect that when the exigencies of service require a public servant to work and sleep outside his or her duty station beyond a period of five days per month, a 'field allowance' would be payable for each additional night exceeding the initial five days as follows:

⁵¹ The exchange rate as per 25 March 2011 was USD 1 = MWK 150 but the Malawi Kwacha has since depreciated considerably against major currencies. However, rather more important than the exchange rate is the magnitude of the per diem rates relative to actual costs in Malawi.

Field allowance	
Salary grade	Rate per night (MWK)
A	6,000
B and C	5,500
D	4,500
E to F	4,000
G to I	3,500
J to K	3,000
L and below	2,500

The exigencies of duty may sometimes require a civil servant to reside in hotels on full board in excess of the five-day maximum. Full board entails a hotel room befitting the civil servant's salary grade, breakfast, lunch, supper and one non-alcoholic drink at each meal. Acknowledging that such situations may arise, the supplementary circular allows a civil servant to continue to reside in such accommodation, in which case an allowance for incidentals is payable as shown in the table below:

Allowance for incidentals	
Salary grade	Rate per night (MWK)
A	2,000
B and C	1,500
D	1,000
E to F	800
G to I	500

The new regulations have allegedly gone a long way towards reducing the risks associated with travel allowances because many loopholes have been closed. They have brought down actual travel expenditure. Many hotels appear to adapt to what civil servants are able to pay.

Control system and auditing

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. Ultimately, the controlling officer of a ministry – the principal secretary – authorises travel and decides which allowances are payable. He or she has considerable discretionary authority which provides ample opportunity for patronage vis-à-vis subordinates. At his or her discretion travel authorisation may thus be extended as a reward to underlings for loyalty or good performance, which may not always be justifiable. Conversely, turning down a travel request may be seen as a penalty or a signal to a subordinate officer that performance is below par. The discretionary nature of the control system encourages an informal pattern of 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 may be poor. “Human beings are human beings” as one informant put it. They are inclined to exploit the shortcomings of the control system to their own advantage and obtain per diems from two sources if possible. No hard evidence is available as to the prevalence and magnitude of such malpractices. Informants could only convey their impressions in this regard without solid, reliable evidence. However, the infamous per diem scandal in the MoAFS suggests that such malpractices do indeed occur, although nobody knows their extent (see textbox below).

The upshot is that the ways in which controls are exercised depend to a large extent on the attitude of the controlling officers. Some of them apply the rules and regulations to the letter and authorise only travel and participation in seminars, workshops and training sessions that are judged to be useful or essential for the civil servants concerned. Others flout the rules or apply them less rigidly, authorise excessive travel and care little for budget discipline. It is difficult to say which posture is more prevalent but if the aggregate figures are anything to go by it is evident that many controlling officers pay scant attention to budget discipline and the applicable rules. The leadership sets the tone! Circulars from the Chief Secretary enjoining controlling officers to adhere to the rules are generally not respected.

Internal auditing systems are in place in all ministries. However, they are usually an off-line check in the control procedures. They do not play a part in the checking and approval of expenditures as they are incurred. The effectiveness of internal auditing is usually dependent on the forcefulness of the internal auditor. Even then, irregularities might be picked up only ex post, usually too long after the fact to be corrected. In principle, the internal auditor is independent of management. However, this principle is difficult to uphold. In effect, the independence and effectiveness of internal auditing rely largely on the goodwill or political will of the controlling officer, i.e. the Principal Secretary. Best audit practice is based on risk analysis when risk areas have been highlighted and subjected to continuous monitoring and action. But this approach is rarely adopted.

As the supreme audit institution, the National Audit Office (NAO) performs external audits of all government institutions. Its autonomy is critical and a recent review recommended that this be enshrined in the Constitution (Department of Public Service Management 2010), which is currently not the case. The Auditor-General is appointed for a five-year term by the President, subject to approval by Parliament. It is the prerogative of the President to remove the Auditor-General, but only upon the recommendation of a tribunal. The NAO budget is determined by the Treasury but operationally the NAO is autonomous. It reports to the Ministry of Finance but submits its report simultaneously to Parliament.

The Ministry of Finance thereafter tables the report in Parliament where the Public Accounts Committee (PAC) deliberates on its substance and may summon controlling officers to respond to audit queries. The NAO reports are thereafter tabled with PAC recommendations before the full House in plenary following which the recommendations are thereafter conveyed to the Chief Secretary. Each line ministry has a parliamentary liaison officer responsible for following up audit remarks. Recent years have seen improved compliance.

The bulk of NAO's work is conventional financial auditing. Lack of compliance with established rules and regulations is widespread in the civil service, and this is pointed out in NAO reports. Even in financial auditing it is time-consuming to detect irregularities. Besides, auditing is by necessity done by the sampling of projects or activities rather than being comprehensive. Hence, it is difficult to get a proper overview because of multiple discrete projects.

In recent years increasing emphasis has been given to performance audits. But such audits are time-consuming and resource-demanding and require a different kind of expertise. Owing to competence and capacity constraints (training is in progress), only 4-5 such performance audits have so far been undertaken in critical institutions or areas of government activity. The NAO itself makes the decisions about what to subject to performance auditing. It is conceivable that the NAO might undertake a performance audit of the per diem and allowance practices in the civil service in conjunction with private auditing companies. A request to that effect from the donor community would be considered favourably, especially if additional funding were provided to overcome the resource constraints.

As one of the branches of government parliament is charged with overseeing the executive branch. Scrutinising and approving budgets are among the key parliamentary functions. In addition, parliament also examines the reports of the Auditor-General and makes recommendations to the Chief Secretary for follow-up. However, parliamentarians are a special category of public servants, elected periodically and politically accountable to their constituencies. One might say that MPs are on five-year contracts with specified conditions of service. That contract is given by the electorate and is renewable as long as performance is deemed up to standards by the voters. MPs are often invited to and take part in workshops, seminars, and sometimes even training sessions. Consequently they travel extensively with rights to claim per diems and other travel-related allowances. However, the civil service rules do not apply to parliamentarians, whose entitlements are governed by the National Assembly Emoluments Act. The number and range of allowances are greater than those of ordinary civil servants owing to their special duties and functions: e.g. external travel; constituency allowance; pension scheme; medical insurance; compassionate allowance, etc.

Since parliamentarians are such a small and special group their per diem system is not central to the present study. However, on account of their status and frequent participation in events organised by the state, civil society or the donor community, their self-perception and behaviour are of some interest because they affect practices across the board. The MPs relationship with donors and civil society in terms of per diem payments is not an institutional matter; it is up to each individual MP to agree on terms and payment with the organisers. However, on occasion if there is a discrepancy between the package offered and the normal entitlements of MPs, a top-up may be given by the clerk of parliament.

CSOs and donors are also inconsistent and not always transparent with regard to terms and conditions when extending invitations to MPs who attach great importance to their role and feel vulnerable in terms of security. The combination of these two factors is often an issue of dispute with organisers of events. Not all hotels and lodges offer satisfactory security, in which case MPs may decline an invitation or make demands that are perceived to be unreasonable. To this should be added that MPs are widely considered by CSOs and donors alike as difficult to deal with when it comes to per diems and allowances. They are perceived to be greedy; complaints were heard that many invited MPs fail to turn up, ostensibly because the per diems were too low. In mitigation, it needs to be mentioned that all MPs are the target of numerous material demands from constituents (school fees, funeral contributions, etc.) and therefore in constant need of money.

Taken together, most of the irregularities and malpractices observed amount to bad governance, not only because public funds are wasted but also because they distort and reduce the efficiency of public administration, and ultimately cause hardship for poor citizens at the grassroots. However, the majority of the malpractices are not necessarily illegal; they are mostly on the fringes of legality. Even so, sometimes irregularities are so egregious and of such a magnitude that they are tantamount to corruption and indeed in a number of cases they are clear violations of the law. The infamous case of the per diem scam in the MoAFS is known to most Malawians because it has attracted considerable media attention (see textbox below).

Per diem scam in the Ministry of Agriculture and Food Security

Investigative journalism by a daily newspaper disclosed major fraud in the Ministry of Agriculture and Food Security, and led to the commissioning of an audit by the Secretary to the President and Cabinet. The audit report revealed that over MWK 40 million had been defrauded the Ministry in the form of bloated per diems, involving 20 civil servants. In the most extreme case daily subsistence allowances had been claimed for 1,057 days in a single budget year (cumulatively amounting to MWK 6,232,000 for one and the same person). Similarly, a Controller of Accounting Services had pocketed MWK 7,427,000 for 1,071 days. The amounts embezzled by the others involved were smaller yet sizable.

The audit report attributed the excessive payment of allowances to lapses in the internal control system. It had failed to check claims related to concurrent activities and the claimants had exploited that loophole. Moreover, sources in the Ministry had alleged that vigilant and strong administrators had been removed thus creating wide scope for malpractices and massive fraud.

Following further investigation by the Anti-Corruption Bureau, the case is currently pending before the courts. The indicted are charged with various counts of fraud in terms of the Corrupt Practices Act and the Penal Code.

Source: *Daily Times*, 10 November 2008

The Anti-Corruption Bureau (ACB) is part of the control system that comes into play when per diem and allowance abuses of significant proportions are detected, although most cases investigated and prosecuted are unrelated to per diems and allowances. The ACB has commissioned two surveys of attitudes to corruption in Malawi, the most recent one in 2010 but malpractices regarding per diems do not feature prominently, presumably because they are considered too petty to warrant attention (Chinsinga et al. 2010). The Bureau is authorised to make investigations of *prima facie* corrupt practices and to prosecute subject to approval by the Director of Public Prosecution. A difficulty facing the ACB are accusations of corruption based on political or personal grounds. Some people may want to discredit political rivals by levelling accusations of corruption against them. Others are motivated by personal grudges and want to settle old scores. Such behaviour tends to fuel a perception in society that the ACB is engaged in witch hunting. Moreover, whistle-blowers who may have genuine and incriminating information to impart in corruption cases are not necessarily helpful because they are rarely prepared to testify in a court of law for fear of reprisals. It does not seem to matter that the Corrupt Practices Act offers protection for whistle-blowers.

Though not part of the formal system of controls, the mass media (electronic and print) continue to perform important watchdog functions and reveal information to 'name and shame' culprits. But per diem issues seldom create newspaper headlines, even though attention is sometimes drawn to extravagant workshops along the lakeshore with nothing to

show for them. In rare instances cases are picked up by the ACB but mostly the information is fed to the general public whose means of sanction are few, except the withdrawal of electoral support when politicians are involved.

Although access to information on the part of mass media is critical in a democratic society, private and commercial media outlets find it difficult to get such access. An Access to Information Bill was tabled but later withdrawn by the executive. Consequently, the legal framework regulating access to information remains missing. Responses were contradictory when media representatives were asked about self-censorship with reference to the new section 46 of the Penal Code which authorises the Minister of Information to ban a publication if it is deemed to be against the public interest.⁵² Some informants claimed that self-censorship was not exercised despite this draconian section of the law. Others did concede that self-censorship is being exercised routinely. As part of normal press ethics stories are carefully checked, of course, to ensure that sources are impeccable. The new section 46 reinforces that practice and leads to extreme caution in evaluative feature articles for fear of reprisals. The impeccability and reliability of stories are also important because a libel suit could mean the economic ruin of a newspaper. Beyond the law, however, the state also has other means of gagging or muting the print media which has in fact been used, e.g. withholding state advertising.

Past and recent (mal)practices in the civil service

While the system for payment of travel-related allowances may previously have had loopholes involving risks of abuse its recently elaborated version is clear and detailed enough in terms of the conditions and rates to be applied. Still, while control procedures are in place they leave scope for considerable discretion on the part of controlling officers, ultimately the Principal Secretaries of ministries. Notwithstanding the clarity of rules and control procedures, there is ample evidence from across the board of civil servants, members of civil society, and donors that misuse and malpractice are widespread, although some is anecdotal. The exhortations on the part of the government to abide by the rules and the threats of punishment seem to be of no consequence, as reflected in the persistent over-expenditure on these types of allowances over many years as evidenced in the 2010 study by Peprah and Mangani and our own analysis of the 2011/2012 budget.

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

52 The precise wording of new section 46 is: "If the [Information] Minister has reasonable grounds to believe that the publication or importation of any publication would be contrary to the public interest, he may, by order published in the Gazette, prohibit the publication or importation of such publication (Penal Code (Amendment) Bill No. 17 of 2009, Malawi Gazette, supplement (July 3, 2009)).

attractiveness. Second, low salaries have created a general atmosphere of tolerance of malpractice and non-compliance; it has become a common practice which is not considered particularly reprehensible. Indeed, a perception has spread 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. Third, the tolerance of minor abuses and malpractices has over the years become habitual so as to form an entrenched, informal component of the system. A tacit, informal understanding has thus evolved at all echelons of the civil service that, up to a point, non-compliance is acceptable. Finally and more seriously, fuelled by greed, frequent and widespread abuse has paved the way for outright fraud on a larger scale.

Partly owing to the graduated rate structure senior civil servants may derive considerable sums of extra income by capturing allowances of all kinds, while the mass of junior staff enjoy only modest benefits. The senior echelons may in some cases earn multiples of their regular salaries in the form of travel-related allowances (Peprah and Mangani 2010:45). Many respondents have corroborated that finding and asserted that the upper levels of the civil service appropriate a disproportionate share of the total public expenditure on allowances. Still, the evidence is somewhat contradictory or inconsistent with respect to civil servants' behaviour in pursuit of per diems. One respondent said lower-level civil servants are more inclined to 'hunt for' allowances because their regular salaries are meagre: "The amount of time people spend searching for a seminar to attend is inversely proportional to their salary." By contrast, some respondents claimed that the incentive to go to seminars instead of staying in the office to work is weak; most staff are committed and the extra money earned is modest, particularly with the new regulations and the five-day ceiling on travel per month. Yet another respondent characterised the per diem problem as serious and difficult to handle. He emphasised the lax attitude towards the regulations and the poor information provided by CSOs and donors when inviting civil servants to events. Ideally, a controlling officer would want the invitation letter to state unequivocally and in some detail what expenses the organisers offer but this is rarely the case. When invitees ask organisers of events what expenses will be covered it is often misconstrued as unabashed – indeed greedy – preoccupation with per diem terms and conditions pending a decision to attend or not. However, in view of the sparse information given initially such a question could equally well be interpreted as a reasonable question of clarification on the part of the invitee. Lack of transparency on the part of CSOs and donors alike tends to create unnecessary misunderstandings and suspicion.

The forms of abuse are many and the creativity seems profuse. Although not exhaustive, the list below suggests the most common ones (Peprah and Mangani 2010:48 and respondents of the present study):

- Collecting travel allowances without actually travelling;
- Collecting allowances without actually attending meetings, workshops and training sessions;
- Collecting allowances for days in excess of the actual duration of meetings, workshops and training sessions;
- Collecting multiple per diems in a single day from different sources for the same event;
- Offering and accepting 'brown envelopes' containing unspecified amounts, ostensibly to cover incidental expenses;
- Sending excessively large delegations on trips or to attend meetings, workshops and training sessions;
- Unnecessarily attending meetings, workshops and training sessions with a view to claiming allowances, even if such attendance does not enhance work performance;
- Unnecessarily 'creating' meetings, workshops and training sessions for the sake of collecting allowances;
- Obtaining forged receipts as supporting documentation when making travel claims;
- Faking attendance lists at meetings, workshops and training sessions with a view to pocketing the surplus money;
- Selecting venues of meetings, workshops and training sessions outside the duty station city perimeters in order to justify the payment of per diems.

Some of the malpractices are clearly in breach of the regulations and are thus illegal; they are, in effect, corrupt practices, even if each one in isolation may seem trivial. Others may be considered legal in a strict sense, such as picking a venue for a seminar in order to cash in on allowances. Nevertheless, such practices are not in the spirit of the rules and constitute an abuse for two main reasons: (a) they add to the total travel-related expenditure without being beneficial to performance and skill formation; and (b) when absent from the workplace/office the opportunity cost of such unnecessary travel and attendance at meetings, workshops and training sessions may be high in terms of regular work forgone. It is very difficult, of course, to make a quantitative estimate of the magnitude of the malpractices (see methodology discussion in the introduction). Even so, the 2010 review, referring to anecdotal evidence obtained from its interviewees, puts an overall estimate of false and questionable claims at between 30 and 40 per cent of all claims (Peprah and Mangani 2010:49).

Travel-related expenses in the current 2011/2012 budget

Although very recent, the review by Peprah and Mangani (2010) is not entirely up to date. The present team has therefore undertaken an analysis of the 2011/2012 budget with respect to travel-related expenditure in an attempt to ascertain whether the recent political rhetoric to curb the over-expenditure is actually taking hold.

For most of the 26 departmental votes examined, those with a high per diem/budget ratio also had a high per diem/personal emoluments ratio. In other words, there was an expected degree of consistency; high expenditure on personal emoluments (reflecting a large staff complement) would tend to translate into much travel and high consumption of per diems. However, some departments deviate from this 'logical' pattern. They have a relatively low per diem/budget ratio but very high per diem/personal emoluments ratio. An extreme case in point is the Department of Nutrition, HIV/AIDS and NAC whose budgeted per diems are 911 per cent of personal emoluments, though only 9 per cent of the budget. This can probably be attributed to the lavish donor funding for a multitude of activities related to combating the HIV/AIDS scourge, e.g. from the Global Fund.

A look at percentage changes relative to the budget of the previous year (2010/2011) is interesting. For all 26 budget votes examined the total budget was stagnant but the per diem item went up by 13 per cent and the travel item by 19 per cent. This suggests an overall failure to control travel-related expenditure despite strongly expressed policy intentions to do so. Only ten out of the 26 votes showed a reduction in per diem expenditure. Significantly, however, key financial policy makers and implementers exhibited restraint and managed to cut back on travel-related expenditure – the Ministry of Development Planning and Cooperation by 35 per cent, the Office of the President and Cabinet by 27 per cent, and the Ministry of Finance (headquarters) by 20 per cent, albeit from a high level. They seem to have taken a strong leadership position on budget discipline. It remains a major challenge for these key departments, however, to take strong measures to reverse the worrying trend in other ministries and departments.

Of the 26 votes scrutinised 12 had increased their per diem budgets by at least 40 per cent over the preceding year, nine by over 50 per cent and four votes increasing by over 100 per cent. It is especially difficult to understand the justification for the 466 per cent increase in the Department of Nutrition, HIV/AIDS and NAC. It is comforting to note, however, that two large ministries (MoAFS and Education) seem to make efforts to keep their expenditures in check. However, although the MoAFS shows a reduction in per diem expenditure by 43 per cent, the total travel budget increased by 63 per cent. However, this seems to reflect a misallocation of transportation costs related to the farm input subsidy scheme.

A final point to be made regarding the analysis of the 2011/2012 budget allocations for travel-related expenditures is that if restraint and control is difficult at the budget stage it is likely to be even more difficult in terms of actual expenditure. On the positive side can be noted the leadership role being taken by 'heavy' ministries in exercising restraint. Whether they will

be able to impress upon the large consumers to do the same is a moot point.

Adverse consequences of travel-related malpractices

The adverse consequences of the malpractices discussed above 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 in the sense that attention is often diverted to less important concerns. Some of the adverse manifestations are listed in the textbox below.

Consequences of per diem manipulations

- Civil servants are often absent from their offices and thus neglect their regular duties;
- Allowances create powerful incentives for turning donor-funded projects into exercises of repetitive ‘capacity-building’, where most funds are spent on costly seminars and workshops of doubtful effectiveness and relevance to project output and long-term impact;
- Allowances create monetary incentives that encourage officials in higher positions to monopolise participation in training and similar events at the expense of lower level colleagues who are in greater need of training;
- Allowances are commonly paid from donor funds and thus seriously undermine the sustainability of project activities;
- Allowances are paid to civil servants for work for which they already receive a salary;
- Paying allowances contributes to lack of transparency and excessive consultation on agendas and outcomes of meetings;
- Monetary incentives encourage manipulation in elections for committee membership and opportunistic voting in favour of officialdom;
- Allowances paid from donor funds reinforce poor governance and undemocratic village traditions;
- Sitting allowances make meetings unnecessarily expensive;
- High cost limits the duration of meetings which encourages rubber-stamping of decisions prepared by the organisers;
- Conversely, by creating incentives for more meetings, sitting allowances reinforce a cultural tradition of endless talking and delay;
- At the village level, sitting allowances contribute to a suspicion of corrupt practices.

Several of these consequences were found in all the three case countries. They are largely consistent with the results of a study of per diem-related challenges conducted for the U4 (Vian et al. 2011).

There is no doubt that the adverse manifestations listed in the textbox hamper the effectiveness of the public sector in Malawi, even if it is an overstatement to claim that it has a debilitating effect. However, in a situation where the government is unable to pay salaries on time to large groups of civil servants – notwithstanding difficulties with the introduction

of a new payment system – it is arguably justified to say that the system of per diems and allowances has serious consequences.

4.2 Development partners and civil society

In addition to the public sector, civil society and the donor community are key actors in their own right, not only when acting independently. Above all, the ways in which they interact with each other and/or in conjunction with the government bear decisively on the overall functioning of the system of disbursing per diems.

Civil society

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) deserve special mention. Being grassroots-orientated they perform important functions with respect to service delivery (especially education and health) and also act as watchdogs on the government. CSO activities involve a lot of training and awareness-raising in which seminars and workshops are major ingredients. The policies and practices of CSOs in terms of per diem payment are therefore of critical importance.

It is not possible to generalise about CSO policies and practices. Some local Malawian branches of international CSOs receive instructions from their headquarters as to what rates and practices to adopt. Many international CSOs act as conduits of funds from sponsors overseas and enter into partnerships with domestic CSOs. In these partnerships a dominant partner may superimpose practices and rates on domestic partners, which is generally resented by the financially dependent subordinate. Other international CSOs devolve decision-making authority on per diem issues to their local partners who do not necessarily disclose their practices which may be generous or frugal. FBOs tend to be economical, not only as a matter of policy but also because they cannot match government rates. Domestic CSOs are usually at liberty to design their own systems and set their own rates, although with an eye on external donors who are wary of excessive expenditure.

CSO per diem policies and practices vary greatly because harmonisation is lacking among them. As an umbrella organ the Council of Non-Governmental Organisations of Malawi (Congoma) has not been able to act effectively as a harmonising agent, even though it has lamented this state of affairs and repeatedly pointed out malpractices. Congoma has neither the capacity nor the authority to supervise and control CSOs as far as per diem practices are concerned. There exists a forum for international CSOs in Malawi that meets every other month but it too has not been successful in harmonising the policies and practices of its

membership. As a result, the models of per diem payment range from paying cash to cover all expenses to the provision of a total package in kind without cash payment, save for nominal out-of-pocket allowances, and several variants in between.

Since many CSOs are dependent on donor support, their practices are often influenced by the donors' policies and preferences. Some donors such as the USAID and the EU impose rather strict conditions on the use of their funds, whereas other donors are more lenient. At any rate, the lack of CSO autonomy resulting from donor dependence means that CSO behaviour to some extent mirrors donor policies. This situation compounds any harmonisation efforts on the part of civil society.

Donor community

The donor community is as diverse as civil society when it comes to policies and practices with respect to per diems and related allowances. The precepts of the Paris Declaration have led to some efforts to harmonise, at least on paper. With reference to "grave anomalies" in the management of the daily subsistence allowance in the public service revealed by a harmonisation study in 2005, a circular letter dated 1 August 2007 (Ref: PRO/300/UNDP) from the UNDP Deputy Resident Representative (Programmes) set new maximum rates. The donors had evidently agreed to harmonise their per diem rates to be paid to public sector employees as well as civil society from their own funds.

At that point in time the donors agreed to the following daily subsistence allowances: (a) MWK 3,750 when bed and breakfast is paid for; (b) MWK 2,500 when bed, breakfast and lunch are also included; and (c) MWK 1,250 when bed, breakfast, lunch and dinner are covered (i.e. full board).⁵³ Furthermore, the donors agreed that a lump sum of MWK 6,000 would be payable in frequently used locations such as Blantyre, Machinga, Mangochi, Mzuzu, Salima and Zomba where there are approved hotels, and MWK 3,800 where there are no approved hotels. The letter contained a list of approved hotels. This lump sum incorporated all expenses. The lump sum form of payment would apply only in circumstances when the organisers found it impracticable to arrange for accommodation.

Following a meeting of donors' heads of mission on 17 December 2008 a revised and more detailed set of principles was agreed to and communicated to the Chief Secretary as per a letter dated 24 December 2008, signed by nearly all donors to Malawi. The rationale of the harmonised principles was to reduce transaction costs by eliminating "protracted and tedious discussions project by project." The principles are listed in the table below.

⁵³ The exchange rate as per 1 August 2007 was USD 1 = MWK 136.

It turns out that these efforts have been half-hearted. Despite formalised agreement, the agreed policies are not adhered to in practice. Apart from differences of view between government and donors, the reasons for lack of harmonisation within the donor community are multiple. First, agencies compete among themselves with a proclivity to hoist national flags or other symbols. Per diems and allowances are used as competitive instruments. Second, some agencies are 'poorer' than others and consider high rates unaffordable, especially if their programmes comprise sizable seminar, workshop and training components. Third, some agencies or embassies are bound by instructions from headquarters and find it difficult to harmonise locally. Fourth, a few agencies prefer to operate independently and not to harmonise as a matter of principle. Fifth, some donors deliberately refuse to disclose what they offer when inviting key participants (e.g. Principal Secretaries) to events, possibly as a negotiation chip to make the event in question more attractive. Finally, the perennial turnover problem at agencies and embassies adversely affects their institutional memory, which effectively leads to 'amnesia' about previous agreements. These points suggest that the harmonisation principle of the Paris Declaration is more rhetoric than a living reality.

It also appears that the government accords low priority to these issues judging by the delayed response. On 5 November 2009 (Ref: 443.10) – about ten months after the previous letter to the Chief Secretary inviting his comments – a reminder was sent by the German chair of the donor group, Ambassador Rainer Müller. We are not aware of any record of response from the Chief Secretary. Apparently, the only response was, in effect, the new rules and regulations contained in the circular of 25 March 2011 referred to above. In several respects, that circular deviates significantly from the principles and rate structure set by the donors.

During fieldwork in Malawi we were told that a meeting between the Government of Malawi and the Heads of Mission was scheduled for 24 August 2011 with a view to discussing harmonisation of policies and principles between the donors and Malawi. The issues of contention between the GoM and the donors have been threefold: (a) the donors take exception to the differential per diem rate structure by salary level that the government insists upon; (b) the donor community finds the government's new per diem rates too high; and (c) while the government prefers cash payment of per diems, the donors are inclined towards the provision of accommodation and meals in kind.

Principle number	Item	Principles to be applied	Practical aspects
1	General	The necessity to organise an event must be obvious and justifiable.	In case of doubt donor's agreement must be sought in advance.
2	Venue	Events shall be located in the city/district/area where the majority of participants are resident to minimise costs.	Exceptions to this principle must be duly justified in writing and agreed with the donor in advance.
3		Whenever possible the organising institution shall use its own or government or donor venues/offices/meeting rooms to minimise costs.	Exceptions to this principle (e.g. high-profile workshops) must be duly justified in writing and agreed with the donor in advance.
4		The selection of the venue for the meeting including accommodation must follow normal procurement rules.	Exceptions to this principle must be duly justified in writing and agreed with the donor in advance.
5		The hiring of meeting/conference facilities must be supported by an original invoice.	No pro-forma invoices, etc. are acceptable for reimbursement.
6	Participants	Only persons considered necessary for the successful outcome are to be invited.	In case of doubt donor's agreement must be sought in advance.
7		Only participants duly invited (or delegated) and actually present are eligible for reimbursement.	In case of doubt donor's agreement must be sought regarding the acceptability of sending persons other than the invited one.
8	Allowances	Daily subsistence allowance shall be paid only to participants coming from a distance so far away that a return home for the night cannot normally be considered reasonable.	In case of doubt what can be considered reasonable agreement with the donor needs to be sought in advance.
9		Daily subsistence allowance shall cover the costs of food and accommodation. It shall in no case exceed the limits set in the UNDP letter of 1 August 2007.	Donors may opt to pay less than the allowance contained in the UNDP letter of 1 August 2007.
10		No sitting allowance <i>per se</i> shall be paid.	
11		No distinction shall be made between staff categories in the payment of allowances.	
12		Daily subsistence allowance will not be paid in advance.	Exceptions are acceptable when trips abroad are concerned.
13		The allowance can only be paid on the basis of a daily attendance sheet.	Donors are encouraged to use attendance sheets containing a declaration that no other per diems will be claimed for the same day.
14		Fees for the workshop facilitation by civil servants are not acceptable.	
15	Meals	If organisers provide meals daily subsistence allowance will be reduced in accordance with the UNDP letter of 1 August 2007.	
16	Accommodation	Whenever possible, particularly in hotels, accommodation shall be paid by the organiser directly to the hotel, and not to the participants.	If organisers provide accommodation daily subsistence allowance will be reduced in accordance with the UNDP letter of 1 August 2007.
17	Transport	Transport needs to be organised with a view to minimising costs, maximising the sharing of vehicles and the use of public transport.	The names of all passengers, number plates of vehicles and mileage must all be documented. Reimbursement will only be effected on the basis of authentic documents.
18		In case the use of private vehicles is to be reimbursed a clear set of rules needs to be established and agreed in advance.	A rate per kilometre needs to be established and agreed in advance. The rate should reflect the fuel prices but not the type of vehicle.

In late 2011 the donor community agreed to amend slightly their rules and regulations as well as to adjust upwards the rates in view of increasing costs since 2007/2008 at market prices.⁵⁴ Allegedly, expected price hikes for 2011–2013 were also factored into these new rates, presumably based on some extrapolation of inflation rates or cost of living indices. The applicable principles for the implementation of the system – identical to those adopted in 2008 – were reaffirmed.

The specific new per diem rates, however, were agreed as follows: (a) MWK 6,500 (a 73 per cent increase) when bed and breakfast is paid for; (b) MWK 4,000 (a 60 per cent increase) when bed, breakfast and lunch are also included; and (c) MWK 1,500 (a 20 per cent increase) when bed, breakfast, lunch and dinner are covered (i.e. full board). It was furthermore agreed that a lump sum of MWK 11,500 (an increase of 92 per cent) would be payable in Lilongwe, Blantyre, Zomba, Mangochi, Salima, Kasungu, Liwonde, Karonga and Mzuzu where there are approved hotels as listed in the circular, and MWK 6,000 (an increase of 58 per cent) elsewhere. The circular contained a list of approved hotels, in which some were highlighted in bold. These relatively more expensive hotels are only to be used as a venue when other hotels are fully booked, and only with a written justification and prior approval. This lump sum incorporated all expenses (accommodation and all meals). The lump sum form of payment would apply only in circumstances when the organisers found it impracticable to arrange for accommodation.

With regard to transport, a new element was introduced. Based on approved official maps indicating distances, 14 litres of fuel per 100km will be reimbursed at the prevailing retail price. In cases where no receipts can be produced – which are often the case in these times of fuel shortage and a parallel market for fuels at unofficial prices – participants will be reimbursed MWK 700 for every 50km travelled. Also, participants are encouraged to pool the use of motor vehicles to reduce transport costs.

The donors reaffirmed their commitment to non-graduated per diem rates by salary category of staff: the agreed rates are applicable without distinction to all staff categories across the board from support staff to senior professionals. This departs from the principle of graduated rates applied by the civil service and has been a bone of contention between the donors and the government all along. Furthermore, the government rates of 25 March 2011 are much higher than the adjusted donor rates. Again, there is a discrepancy between donor and government policy.

It is commendable that the donor community has once again been able to harmonise its per diem policy and thus acted in the spirit of the Paris Declaration. However, it has failed to apply another Paris Declaration

⁵⁴ The late-2011 circular from the donor community – presumably issued by the UNDP although it has no identifiable author or date of issue – is entitled Development Partners' Harmonisation of Daily Subsistence Allowance (DSA) and Transport Reimbursements for Implementing Partners. The exchange rate in mid-December 2011 was 1 USD = MWK 164.

principle of alignment with the government system. It appears that the positions on two issues are too far apart. First, whereas the donors are averse to differentiated per diem rates the government prefer to apply that principle. Second, the donors find the recent government rates too high and unaffordable for the state.

4.3 Conclusion

This Malawi country case study has documented that the past and current system of per diem payment represents major problems. First, in the aggregate the system is unsustainable given the country's revenue base, which is aggravated by the withholding/suspension or reallocation of aid attributable to shortcomings of governance. Second, the built-in incentives and the ways in which the system is practiced – regardless of control procedures – leads to distortions and inefficiencies in the public service. Third, civil society is also affected by the per diem culture and has shown little ability to harmonise practice. Fourth, the donor community, although rhetorically concerned about the per diem problem, has demonstrated scant commitment to the harmonisation principle of the Paris Declaration as evidenced by its inability, in effect, to harmonise policies, and especially practices. Through this behaviour the donor community appears to be part of the problem rather than the solution. Fifth, there is a schism between the thinking of the donor community and that of the government with respect to per diems and travel-related allowances that remains to be bridged. The late-2011 amendment by the donor community of its per diem policies and the adjustment of the rates in line with rising real costs, have not obliterated the main issues of dispute.

The main driving force underlying the malpractices is the generally low salary level in the civil service, which, in turn, creates incentives for 'allowance-hunting' and a lax ethos surrounding these issues. The other aspect of the problem is related to controls. On paper, a proper control system does exist but widespread abuse shows that it is not effective, or that the controlling officers are complicit in the malpractices, unwittingly or not. Whenever malpractices are detected either by supervisors and controlling officers, by the internal audit system, by the Auditor-General, or exposure through in the mass media such as in the scam in the MoAFS, the culprits are not sanctioned appropriately. At best, they may be made to repay the money falsely claimed. Only rarely are they dismissed or taken to court. Without penalties and disciplinary action commensurate with the offence there is no deterrent. Thus, by default the malpractices are allowed to continue.

The laxity of controls, despite formal procedures and rules, and the condoning of malpractices by supervisors and controlling officers is tantamount to an unsound institutional culture that has evolved over the years. It seems entrenched in a structure that has its material base in low salaries and serves as a basis for the perpetuation of widespread abuse.

Above all, this informal institutional culture is not conducive to curbing malpractices. As long as this informal culture of condoned abuse persists – dubbed a chronic ‘perdiemitis’ disease – no amount of rhetoric or exhortation and no tightening of formal rules and regulations will make an appreciable dent in the problem.

5 Ethiopia

Ethiopia is a federal republic with nine ethnically based states. The country faces tough challenges in terms of poverty reduction and development (World Bank 2011). Ethiopia is also an aid-dependent country, its top donors being the International Development Association (IDA), the United States, the European Union (EU), the United Kingdom, the African Development Bank and the Global Fund. The Ethiopian economy has grown by an average of 11 per cent over the last five years, resulting in the highest rate of improvement of average rural welfare so far. Simultaneously, the period has been characterised by record-high inflation with an average of 19.2 per cent measured by the consumer price index. Inflation began to rise in 2004/2005 and peaked in 2008. General prices, including food prices, more than doubled between December 2005 and December 2010. The reason for the high inflation rate is the donors' cut in general budget support following the 2005 political crisis, which compelled the government to adopt a deficit budget and increase the money supply; coupled with the global increase in oil, fertiliser and food prices. While the government intervened with stringent monetary and fiscal policies to calm inflationary pressures in 2009, the currency devaluation and salary increase of civil servants in the beginning of 2011 contributed to pushing inflation back into double digits (Ethiopian Economic Association 2011). Ethiopia is ranked number 116 on Transparency International's global corruption index for 2009 (2010), which suggests endemic corruption. There have been corruption scandals within the banking sector, as well as in land distribution and administration.

Ethiopia has no minimum wage regulation or compulsory national standard for paying the workforce. The salaries in the public, private and other sectors such as civil society vary significantly. Salaries of professionals in foreign institutions such as embassies and branches of international organisations, as well as in some CSOs, are significantly higher than those in both private and public sectors. Ethiopian public salaries are comparatively low, which has made it difficult to attract competent professionals to important positions. This is a recurring issue in the donors' dialogue with the government.

In 2005, the opposition achieved its greatest victory so far under the multiparty system, winning one-third of the seats. However, claiming that

electoral fraud had deprived them of a majority, opposition elements demonstrated in the streets. State security forces used excessive force against the protestors, killing 200 and arresting over 30,000 people, causing donors to suspend general budget support (Human Right Watch 2010). Despite donor concerns over the ‘political capture’ of their funds, within months even larger amounts of aid were again flowing into to the country, under the newly conceived Protection of Basic Services programme (Human Rights Watch 2010). In the 2010 elections only one opposition candidate secured a parliamentary seat (in a 547-seat parliament). On account of the increasing repression during the election year, Freedom House (2011) downgraded Ethiopia to the status of ‘not free’. In 2008 and 2009 the federal parliament enacted laws severely curtailing media freedoms as well as restraining CSOs and donors from engaging in political activities, including human rights promotion.

5.1 Government system of per diems and allowances

This section describes the government system of per diems and allowances and the ways in which it is implemented. Particular attention is devoted to the large discrepancy between the current applicable rates and the real costs incurred by civil servants. A sub-section discusses the controls and risks of malpractice.

Government system and rates

According to the Council of Ministers’ Directive on Daily Allowances to Government Employees of 1993 the official per diem rate of the Ethiopian government is differentiated by salary level. Per diems are tax exempt. According to the 1993 directive, per diems are paid to those who travel outside their regular duty station (their home village, towns and cities) to another place of work, and who stay there for a day or more. The per diem is meant to cover meals and accommodation expenses. Of the total daily figure, 10 per cent is for breakfast, 25 per cent for lunch, 25 per cent for dinner, and 40 per cent for accommodation. There is also a hardship allowance, if the place where the official is temporarily deployed is considered hazardous or arduous. For those who are not provided with vehicles and thus use mass transportation, travel costs are reimbursed upon submission of original receipts. In 2001, the Council of Ministers amended the 1993 directive in terms of which the official per diem rates were set as shown in the table below (Revised Council of Ministers’ Directive on daily allowances to government employees 2001).

Table 5.1 Official per diem rates for civil servants 2001

Salary level (monthly)	ETB
Up to ETB 300	35
ETB 301 to 600	47
ETB 601 to 900	58
ETB 900 and above	70

Higher officials, such as ministers, receive a double per diem rate plus accommodation when they travel outside Addis Ababa and their expenses may be based on hotel receipts. Furthermore, in contrast to the modest per diem rates for local travel, the per diem rates for foreign travel are far beyond the amount needed to compensate for travel expenses (Council of Ministers' Directive on the determination of the daily allowances for foreign business trip 2008). Lastly, the federal states apply different per diem rates based on their own rules and regulations.

The study team was not able to obtain budgetary data for analysis of the government's per diem/allowance expenditure at the federal level. The team was advised by the Ministry of Finance and Economic Development (MoFED) that budget data on per diem/allowances exist only at project level. Consequently, we have not been able to provide figures/estimates of total expenditures on per diems/allowances. This fact reveals a serious lack of knowledge and control regarding the allowance issue that severely hampers any attempt to understand the magnitude of the problem. However, two aspects of the government's per diem practice are significant for understanding their implications in terms of total expenditures. The first concerns the informal practice of inflating the number of days through budget manipulation. The second aspect concerns the rates applied in donor-funded projects, which is the topic of the next section.

The 2001 per diem rates 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 of ETB 70. While real costs are difficult to establish due to lack of systematic data collection, there is uniform agreement among government officials, donors and civil society representatives alike that the rates are grossly inadequate. Considering the high inflation rate throughout the past decade, the rates from 2001 obviously do not reflect current costs. Hence, civil servants would not be satisfactorily compensated if the existing government rates were strictly applied. Owing to the low rates, an informal practice has therefore been allowed to develop, whereby managers inflate the reported number of days that staff travel beyond the actual number in order to compensate for their real expenses. Even though the practice is formally illegal, it is generally accepted that management manipulate the number of days as a matter of administrative routine, based on personal discretion. For example, the Ministry of Health openly admitted that per diems for twice the number of days are claimed when sending staff on travel. This practice is even encouraged by managers and finance officers. The management determines the rate and number of days beforehand, which allows staff to arrange for accommodation with, for instance, their relatives or friends at the travel destination. Thus, the government in effect bases its low per diem calculations on staff securing accommodation through private networks. However, according to MoFED, the government intends to improve the system "very soon", by increasing

the rate by more than 60 per cent. Many sources confirmed that the government has expressed its intention to increase the per diem rate, possibly up to ETB 200, and that this adjustment is expected to occur within a short period of time.

It is worth noting that sitting allowances are generally not given to civil servants. However, embassy personnel, academics and government employees confirm that the phenomenon of sitting allowances is believed to be emerging in Ethiopia, although primarily in connection with donor funded projects.

Travel and workshop-related allowances for donor-funded projects (Channel 1 projects)

Ethiopia has two different per diem systems: (a) the government system and (b) the so-called Channel 1 projects. The latter are donor-funded, though government-executed projects. The latter is the dominant mode of donor support to the government in Ethiopia, in contrast to general budget support which features prominently in Tanzania and until recently in Malawi. MoFED is responsible for development cooperation and the regulation of per diems for Channel 1 projects. The Ministry is in charge of programmes funded by both multilateral agencies and bilateral donors. While MoFED is the formal project owner of Channel 1 projects, some programmes, such as the Democratic Institutions Programme, are administered by foreign institutions. The Ministry issued a directive in 2008 (Ministry of Finance and Economic Development Directive on the channel and budgetary projects expenditure payment system 2008) that stipulates per diem rates for projects implemented jointly by donors and the Ethiopian government (see table 5.2). The per diem rates for staff attached to donor-funded projects are twice as high as the government scale, and are differentiated by educational qualification, duration of service and the nature of the contract.

Table 5.2 Per diem rates for Channel 1 projects

Salary level (monthly)	ETB
Up to ETB 300	80
ETB 301 to 600	96
ETB 601 to 900	115
ETB 900 and above	138

Nonetheless, regardless of the 2008 directive, different forms of per diem payment exist within the system, and the rates vary between and within projects. The rates are usually determined through negotiation between the government and donors on a case by case basis. The Protection of Basic Services Project has 11 donors, and its total budget for the period 2009–2013 is estimated at USD 3.36 billion.⁵⁵ While the government administers the bulk of these funds, there are considerable differences in per diem systems, even if the financial sources of each project are the

55 Total project cost includes funding from World Bank and other sources. The committed amount for projects in the pipeline is indicative and may be modified during the project preparation (World Bank 2009).

same. For government-administered World Bank-funded projects, the per diem rate for seminars and trips was raised recently, from ETB 120 to 208. For nationally-executed UN-financed projects, the government applies the UN rate of ETB 150 (regardless of salary level) as stipulated in the UNDP Project Implementation Manual. If meals and accommodation are fully provided by the UN, 20 per cent of the per diem rate is paid to cover incidentals. When a CSO hosts an event and the UNDP foots the bill, the latter also uses the agreed-upon government project rates. However, for high-level meetings, the UN uses other rates. For EU-funded projects the rates vary from one project to another, although the range is not wide. The rates are determined through negotiation at the time the project was initiated. The EU procedure requires annual work plans, in terms of which the rates may be revised. While the Ethiopian government has authority to determine these allowances, EU approval is needed. According to MoFED (2011), the applicable rate is usually set in-between the rate preferred by the EU and that preferred by the government, as the EU favours higher rates. The African Development Bank does not define rates or allowance conditions for the projects it funds and leaves the decision to its implementers (i.e. the government). Despite the 1993/2001/2008 directives, there is thus great variation in per diem rates and allowances across different government institutions.

Several examples illustrate these diverging practices. Both the Federal Ethics and Anti-Corruption Commission (FEAC) and the Office of the Federal Auditor-General (OFAG) use higher per diem rates than the regular government rates. For the auditors of OFAG the minimum rate is ETB 140, as a result of OFAG bargaining for better rates. It was argued that as auditors need to stay away for longer periods of time to perform their duties, there was an urgent need for an increase. However, when OFAG arranges training sessions, the full board option is normally preferred, whereby all expenses except incidentals are covered.

The Ethiopian government often requests donors to facilitate recruitment whereby contract staff are hired on donor terms of service. Due to low government salaries various public institutions also ask donors for funding to attract experts. The allowance package for contract staff employed on donor-funded projects usually includes higher per diem rates than those of the government. This practice often leads to situations in which two persons working on the same project are entitled to different rates. For instance, if two health extension workers cover 500 households each, they may be paid differently if they are employed by different partners. When the EU pays contract staff, the rates may even be higher than those of the local managers. Ethiopian nationals recruited as UN volunteers may be entitled to more than three times the per diem rate of government staff. An example was given of a UN volunteer (UNV) deployed at the Human Rights Commission. His per diem rate was ETB 700 as compared to ETB 208 for regular project staff.

The variation in per diem rates and systems makes donor-funded projects more attractive, as they increase the total remuneration package of government staff. Nonetheless, the Federal Ethics and Anti-Corruption Commission (FEAC) claims that while the diem rates on donor-funded Channel 1 projects are higher than the ordinary government rates, they remain insufficient. The donors are generally dissatisfied with the project-specific rates, which are ultimately decided by the government. It has become increasingly difficult to persuade people to travel and attend activities even at project rates. However, the expected new government guidelines are expected to include a revision of Channel 1 rates as well as the ordinary government rates.

Controls in central government institutions

Civil servants, donors and civil society alike consider the Ethiopian public management system to function rather well, notwithstanding capacity constraints. There is a separation between managers and finance officers. While a manager may decide on a mission, its participants and the number of days of travel, the finance officer has discretion to decide the amount of per diems to be paid (by inflating the number of days). The government has also instituted reforms to improve its expenditure controls. Reforms include the introduction of an IT system as well as identity numbers to solve the problem of ghost workers in the public sector. The Inland Revenue Authority (IRA) has also issued several directives to prevent abuses. For example, all hotels need to obtain authorisation from the IRA to print official receipt pads. In the past, any hotel could keep duplicate receipt pads with ample opportunity for fraudulent collusion with project managers. Furthermore, a requirement has recently been introduced for all companies to acquire a cash register, which is electronically linked to the IRA. When a payment is made it is recorded instantly with the tax authorities. These attempts to close loopholes and avoid fake receipts are considered effective, although some loopholes persist. Ministries have also made attempts to streamline procedures. The Ministry of Health bases its reporting mechanism on the Health Management Information System which standardises and integrates activities. The Ministry has internal audits and various control mechanisms, such as requiring double or triple signatures when money is withdrawn from a bank account. There is also increasing awareness about the opportunity to manipulate transport costs and procedures have been adopted to determine costs based on distance travelled and transport accessibility in different areas.

OFAG, which monitors government expenditures, submits its audit reports to the parliamentary Public Accounts Committee, while its consolidated report is presented to parliament in plenary. According to OFAG, the House of Representatives often requests special audits. While OFAG holds annual meetings with regional audit offices, it does not supervise them, as the regional offices are independent and report to their respective regional parliaments. The parastatals are audited by private

audit firms. OFAG conducts performance audits, which has been carried out e.g. in the telecommunications industry, utility companies, as well as in the HIV/AIDS and gender sectors. Altogether, 10-12 performance audits were carried out in 2011 and a further 36 such audits are planned. However, due to staff shortage, the office takes a long-term view of these audits. OFAG usually conducts the performance audits on its own, but sometimes external experts, such as engineers, are brought in. While public institutions should in principle be audited by the Auditor-General, private audit firms also have clients in the public sector on account of the Auditor-General's limited capacity. OFAG bases its auditing of travel on the 2001 regulations. Per diems and allowances are considered a 'risk area' where irregularities are likely to be detected. There are several methods to detect irregularities and fraud, such as inspecting attendance lists from workshops, seminars and training sessions to ascertain whether there are discrepancies between those attendance lists and the payment documentation. Random audits by OFAG also contribute to better control. While OFAG is generally perceived as reasonably well-functioning with a good track record, its capacity is constrained, largely due to staff shortages attributed to low pay. The difficulty of conducting performance audits can also lead to failure of detecting manipulation. Finally, when OFAG detects manipulation of per diems, it appears to lack the clout to ensure that its reports are followed up by corrective action. The FEAC also has a fairly good reputation, but questions are being raised as to whether the agency is sufficiently independent, especially its ability to prosecute high level politicians. The FEAC has a forum for the media and CSOs and communicates to the newspapers on a weekly basis.

Insufficient checks and balances, and weakened watchdogs

The ruling party is centralised and, in effect, its partial amalgamation with the state is considered a source of inefficiency. It is being alleged that most of its activities are financed by the state, although these claims are difficult to substantiate. Furthermore, the parliamentary opposition is extremely weak (one MP only) and a strict party whip keeps MPs in line and thwarts free deliberation in parliament. Nevertheless, the issue of low per diem rates has been raised by several groups in parliament.

Civil society is also weak. This weakness is in large measure attributable to deliberate government policies and laws to restrain the ability of civil society to voice criticism against government and hold it to account. The Ethiopian Charities and Societies Agency has been established to implement the new laws and monitor civil society activities. Foreign agencies are not allowed to engage in political matters anymore, including human rights issues. Local CSOs that receive more than 10 per cent of their funding from foreign sources are precluded from addressing political matters. As a consequence, the ability of civil society to function as a watchdog is severely curtailed. While malpractice regarding per diems and allowances has hardly been reported in the media, corruption cases in other areas, e.g. regarding land issues, is commonly given

coverage. This may suggest that the abuse of per diems is not considered a big problem, but there could be other explanations. There are severe restrictions on media freedom in the country, and the number of newspapers has been drastically reduced due to new information and terror laws. There is only one privately owned daily newspaper, and limited political space for independent media. Furthermore, journalists are excluded from many government activities, and access to information is a challenge. While media people are invited to many workshops, they claim that they are not allowed to accept per diems except when taking part in training activities, thus recognising the problematic effects this kind of payment may have on their integrity.

Donor control of government spending

For the purpose of the present study, donor control of funds provided for government-executed programmes may be divided into two: (a) project finance generally; and (b) per diems specifically. Donor control must be seen in light of the Paris Declaration in terms of alignment and harmonisation. First, general budget support has been suspended as a result of the political crisis in 2005. Instead, donors provide project and programme support with government execution. The larger donors such as the EU, the UN and the World Bank base their support on programme documents, annual work plans and quarterly budgets. Project activities are planned through consultative processes involving stakeholders at the central and regional/provincial levels, agreed by MoFED. The government implements these projects, and reports to the donors on a quarterly basis. According to one donor representative Ethiopia is “a country where we feel we have implemented the Paris Declaration wholeheartedly. Whatever we finance is the initiative of the government.” If accurate, this implies that even when civil servants opt to work on donor-funded projects they still respect government priorities.

Through the Protection of Basic Services Programme, the government, donors and CSOs jointly control projects through a body that monitors, tracks and approves expenditures. Monitoring is undertaken by project staff and UNV Implementation Support Officers. Each donor may also monitor and inspect accounts on site. The audits submitted to the donors every year are mostly prepared by private audit firms. The UNDP’s control system is based on spot checks at least annually and officers visit the institutions, review financial reports to check that procedures are followed, and control documentation. The UNDP also conducts evaluations at the outcome level. There are varying opinions among donors about their own control systems and those of others, which mostly function at the federal level, whose accounting and control systems also vary. According to several respondents, the UNDP is perceived to be lenient. The World Bank and the EU are considered stricter on controls, but apply higher per diem rates. At the lower levels of government, there are fewer controls of expenditure, both by central government and by donors. One example is the World Bank, which allegedly use government

systems for control of project performance and financial reporting. However, a major problem is to ensure that project funding does not dissipate in corruption, election campaigns or military operations. The World Bank considers the risk of such misuse to be significant given the lack of government control on spending. Several institutions do not produce official reports on impact, and criticisms have been raised regarding the quality and follow-up of impact evaluations whenever they have been conducted.

Secondly, while the per diem rate for Channel 1 projects is to be decided by the government, Ethiopia is the worst country case reviewed in terms of donor commitment to harmonisation of per diem rates. This may partly be explained by the donors' preoccupation with inducing the government to increase its rates. Nonetheless, the donors appear ambivalent towards MoFED's attempts to harmonise Channel 1 per diem rates. MoFED is concerned with avoiding friction arising from discretionary variation of rates for meetings, workshops and training sessions, arguing that "if all rates were similar, there would be no distortions". Under such a system, staff on donors' payroll and government personnel who travel together would receive the same per diems. The government is, furthermore, conducting a study on the price levels of different cities and towns regarding hotels, food, restaurants, etc., as well as the various donor rates, to prepare for further harmonisation.

One ministry attempting to harmonise rates is the Ministry of Health, which has altogether more than 50 donors. To harmonise and align donor practice, the Ministry has developed manuals based on one plan, one budget and one reporting procedure. The plans are sector-based, from the district to the national level. The Ministry considers the variation in rates to be institutionally damaging, and tries to convey this message to its development partners. An example of harmonisation is found in health sector planning. The Ministry invited all relevant development partners to a facilitation workshop and although each donor had its own modality of payment, the Ministry proposed a rate based on the donors' average rate. Donors, in turn, proposed amendments and requested advice from their headquarters. However, while the donors accept the principle of harmonisation, the Ministry's experience is that in practice they prefer their own systems: "In the discussion of the plan mechanisms all agree until we come to the financial part". The Ministry sees harmonised and aligned rates as a necessary part of building a sustainable system.

According to MoFED, harmonisation would be relatively easy if the donors were able to agree among themselves on a single rate. The Ministry argued that harmonisation should be done in phases, by first harmonising donor rates and then aligning these with government project rates. However, MoFED considers the harmonisation of government rates and donor funded project rates unfeasible, owing to the extra burden it would place on the government budget. Among the donors there are

different perspectives on whether harmonisation could and should be achieved, and it has not been a priority. The UN is harmonising internally within the UN family as well as with the government, but has not taken the lead in harmonising with other aid agencies, as opposed to in Tanzania and Malawi. Other donors consider the adoption of uniform rates difficult, as they have their own mandates and use their own systems. The EU, for example, is directly linked to Brussels. According to a representative of a major development partner, harmonisation “has never been considered or discussed over the last five years”, and he did not consider harmonisation a viable option.

Risk of abuse and malpractice

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. Below we discuss some of the most common risks of malpractice.

Manipulation of budgets: Several OFAG reports raise concerns about the widespread manipulation of per diems. Manipulation of the number of travel days is anticipated and budgeted for to create consistency between budgets and actual expenditure, and the incentive to manipulate the number of travel days is strong. While many consider this to be an administrative issue, there are several consequent implications and distortions. First and foremost, it creates a culture of condoning breaches of government rules and regulations, which normalises illegal behaviour. A practice of “cheating and lying consistently to the government” throughout public institutions is thus evolving. Several of our interviewees expressed concern that illegal practices of manipulating travel reports and expenses might have long-term consequences, to the extent that such a culture would become entrenched and not disappear even if the rates were increased to realistic levels. Corruption was believed to become more severe when people had lied for longer periods of time, effectively institutionalising reprehensible behaviour. Egregious examples include a civil servant in the Ministry of Justice who was paid per diems for 300 days in one year, and public officials meeting for a week yet claiming per diems for a month (at the local level).

Shopping around for monetary benefit: If civil servants receive per diems for an inflated number of days they may gain from travelling. Inflated numbers of per diems may provide an unofficial, ‘hidden’ financial gain. To the extent people who travel do not draw only on their salaries to subsist, but rather live on inflated per diems, there may be an incentive 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. However, even when the inflated per diems are considered inadequate to cover actual costs, civil servants may prefer to remain in their offices although a seminar or workshop could have been useful.

'Buying' loyalty: Managers have significant room for personal discretion in the current informal arrangement. While this discretionary practice is sometimes considered an informal bonus system, the discretionary authority may have a negative influence on the work environment when it leads to personal favouritism and the 'buying' of loyalty. This phenomenon is considered a problem at all government levels. If a letter of invitation stipulates a high per diem, a manager can make choices based on personal favouritism (or opt to go him/herself). Several sources perceive per diems as instruments to favour those who are loyal to the party and the state, thus strengthening an already authoritarian political system. Managers may also command personal loyalty from their staff by cultivating such patron-client relations.

High levels, high rates: Civil servants who are managers or in high-level government positions receive higher per diems, and are more likely to be invited to donor meetings with higher than average donor rates and make rewarding foreign trips. Civil servants in the upper echelons of the state thus 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. If donors are aligned with government priorities, this effect may entail that the most competent staff are found in priority areas. Nonetheless, the variation in rates creates tension and institutional inefficiency due to the grievances of staff not being able to take advantage of donor-funded projects. The difference between government rates and donor-funded project rates are considered a "huge challenge" by representatives of several ministries, and overall institutional performance is reduced owing to the negativity that follows when contract staff are paid higher salaries than, for instance, government managers. Managers are also assumed to seek donor-funded projects, as these add to their discretionary power.

Inadequate per diem rates: According to the FEAC, civil servants who do not receive sufficiently inflated per diems to match the real costs of travel often avoid travelling. Even when civil servants are offered per diems for extra days or are travelling on donor-funded project rates, it has become increasingly difficult to induce staff to travel. The FEAC estimates that only 40-60 per cent of invitees will actually attend training sessions. The problem of civil servants' reluctance to travel to the districts and for training has a number of ramifications. It weakens control of project performance and increases the risk of corruption, as district staff are not being trained in financial reporting and control of expenses. The lower tiers of government are especially affected and thus considered more prone and able to manipulate the resources at their disposal.

Forged receipts: According to auditors interviewed and our local team member who runs an auditing company, receipts for transport and other services are often forged. It is possible to obtain blank receipts at bus

stations 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. There have also been incidents of collusion between managers and hotels. However, the government has tried to address this problem through stricter regulation and control by the Inland Revenue Authority, as discussed above.

5.2 Development partners and civil society

Donors operating in Ethiopia are more restrained in dealing with civil society organisations than their counterparts in the other two countries under review, owing to the law barring CSOs that receive more than 10 per cent foreign funding from engaging in politics. The government has nonetheless signalled that it is open to donor engagement on issues construed to be political (e.g. human rights) when funds and activities are channelled and coordinated through government institutions. While several of the large donors channel most of their financial support through the government, donors do engage with and support civil society to varying degrees, through both international and local CSOs. The number of civil society organisations has been drastically reduced as a result of the new civil society act. The Ethiopian Charities and Societies Agency is still in the process of re-registering CSOs active in the country, which made it difficult to ascertain their present number.

Per diem rates and systems

Donor collaboration with the Ethiopian government has been outlined above. However, the donors also operate outside the government framework, either on their own or in collaboration with CSOs. While many donors do not organise workshops themselves, they often approve CSO budgets that include workshops or seminars, and cooperate with many different executing agencies. Among donors there is a multitude of per diem systems and rates ranging from federal to community level, targeting different groups. In the case of the UNDP, all activities with CSOs and government institutions are governed by the Programme Implementation Manual (PIM). The UN also negotiates prices, for instance, with hotels. Furthermore, the UN has its own conference centre and catering services in Addis Ababa to bring down costs. While donors pay more generous per diems/allowances than the government, the amounts are generally not perceived to be excessive. The World Bank is an exception in this respect (see table 5.3 below). The provision of sitting allowances for attending workshops and seminar was neither considered common nor positive by respondents.

When donors in Ethiopia support workshops and seminars through CSOs, the latter usually set the per diem rates. Important to note in this regard is that for many CSOs the bulk of their work is to provide training and arrange seminars and workshops at central and district levels, implying that costs for seminars and workshops make up a large share in their total budgets. While the rates vary between organisations, CSOs

tend to pay higher rates than the government, while international CSOs usually pay more than their domestic counterparts. While some perceive CSO rates to be generally lower than those of donors, others claim that international CSOs in particular tend to pay more. Some CSOs have offered a per diem rate as high as ETB 1,400, and it is claimed that even staff of small CSOs may be better paid than a minister. There is a wide variation and great uncertainty surrounding the rate levels. CSO arrangements differ depending on their budgets and autonomy from funding sources and their headquarters. Donors usually accept the organisations' per diem systems, or at least adapt somewhat to CSO practice. While some local branches of international CSOs are allowed to set their own rates and regulations, others receive instructions from their headquarters abroad. When workshops are organised by the government and the per diems are covered by participating CSOs, invitees receive different rates depending upon the organisation that invited them.

The CSOs administer their per diem systems in the following ways:

- Covering expenses for activities organised by the government, by giving the government a lump sum (often together with other CSOs);
- Organising meetings on behalf of the government and paying government rates to participants;
- Paying travel and accommodation for participants based on receipts, and giving a flat per diem rate for food only;
- Funding local partners based on the per diem rate of the partners, even though this may be higher than the CSO's own rate;
- Organising food and accommodation for their participants, and giving them a small lump sum for incidentals;
- Allowing participants to be governed by the same rules as CSO staff, based on self-organised accommodation reimbursed against receipts below a set ceiling, and an additional fixed per diem rate for meals and incidentals;
- Providing a stipulated per diem rate supposed to cover all costs, whereby participants do not need receipts.

Table 5.3 Examples of per diem rates and systems for donors/CSOs

	Per diem rate (ETB)	Full board in addition	Full board as alternative
UNDP	150	No	Yes (plus 20 per cent for incidentals)
World Bank	422 (USD 25)	Yes	N/A
CCRDA	300	No	No
PANE	200	No	No

Some CSOs systematically collect price information to set their per diem rate. In general, Ethiopian CSOs appear to apply stricter rules and lower rates than their international counterparts. This may be explained by their

more restrained financial resources. Many of the Ethiopian organisations also register complaints from participants/staff that rates are too low to compensate for actual costs. When arranging activities centrally, some CSOs only provide tea and lunch. Others prefer to operate at district level to keep costs low. The Consortium of Christian Relief and Development Association (CCRDA), an umbrella association of CSOs engaged in relief, rehabilitation, and diverse developmental activities, has its own conference/workshop facilities, including a cafeteria, which it rents out to other organisations in order to generate income. A decent accommodation standard is a consideration for many CSOs, to prevent participants or staff from falling sick due to malaria, typhoid or other diseases.

It has been argued that the yet limited practice of providing sitting allowances began with CSOs. The practice of donors or CSOs giving 'brown envelopes' with amounts above the official per diem rates to participants at their events, ostensibly to cover incidental expenses, is perceived to have become more common. However, the perceptions differ widely as to the amounts these envelopes contain, ranging from rather insignificant sums to the equivalent of a month's salary. Perhaps the most important aspect of this practice is that it fuels suspicion and creates expectations.

Coordination between donors and CSOs

Few efforts are being made to harmonise rates among donors and CSOs. Similar to the lack of harmonisation on donor funded Channel 1 projects, there is little or no harmonisation among donors regarding their own operations and practice vis-à-vis CSO partners. However, there have been attempts by a few CSOs to collect information about the per diem system and rates used by other domestic and international CSOs to ensure that their rates are reasonable. Although some CSOs view uniform rates positively, harmonisation is thought to be difficult to achieve in practice. Significantly, the CCRDA, which is the biggest umbrella organisation for CSOs, is of the opinion that each organisation should seek to be competitive when it comes to salaries (including per diems), the quality of programme activities or the relevance of the issues they are raising, to attract young and aspiring professionals or community participants. A CCRDA representative argued that: "The only way to compete with donors is by becoming more attractive [to the participants]." Furthermore, the present economic context is considered to make the establishment of a formal, uniform rate difficult due to the high inflation rate and serious budget restraints in many organisations.

Controls

Mostly, private audit firms carry out audits of CSOs and submit them annually to the donors. In general, there seem to be modest experience or awareness among donors about widespread abuse of per diems and allowances. This stands in contrast to the experience of Ethiopian CSOs.

The UNDP bases its control system on the Harmonised Approach to Cash Transfers (HACT), according to which implementing partners are required to submit quarterly reports and project accounts are audited at least once. Before embarking on a project, CSOs must submit a budget with breakdowns, and if the per diem rate is higher than stipulated by the PIM, it is rejected (although the UNDP does not tend to interact directly with CSOs). So far, all UNDP development projects have reportedly received satisfactory audits. The UNDP also makes spot checks and impact evaluations, which they generally consider satisfactory. The EU control system has detected problems in reports regarding attendance, as more participants have signed attendance lists than actually attended meetings. Embassy personnel have explained that they 'trust' the control routines of the CSOs they are supporting, and discuss irregularities when meeting implementing partners. Donors are aware of the potential for manipulation of travel costs by CSOs. However, the procedures and controls to prevent malpractice vary. Control systems to avoid forgery of attendance sheets are seen as particularly important, yet they differ considerably.

The strictest and most comprehensive routine the team found is that used by the Ethiopian umbrella organisation, the CCRDA. Initially, the CCRDA sends an invitation letter, which specifies the costs covered by the organisation. To make sure they only pay participants who actually attend a workshop, attendance lists must be signed both in the morning and evening. Participants also need to sign upon receipt of their per diems. If a person is absent one day he or she is not paid. If participants come from rural areas, the CSO pays an advance, as participants often have no funds upon arrival. The remaining per diems are settled on the last day, after checking the attendance list. If a participant claims anything extra, documents are cross-checked for possible duplication. However, many organisations are more generous on rates and more lenient on controls, which create opportunities for malpractice. Furthermore, reimbursement procedures for transport costs differ. Whereas some CSOs collect information about transport prices based on calculations on kilometres travelled or the fuel price, other reimburse upon original receipts.

The Ethiopian government has established its own control system and enacted laws regulating CSOs through the newly established Charities and Societies Agency. CSOs are required to submit annual audited accounts. The agency is not mandated to control or interfere with the per diem systems of the CSOs directly, but oversees activities and controls administrative and operational costs at an aggregate level. A directive stipulates that a 70/30 per cent distribution between operational and administrative costs must be observed, thus indirectly placing constraints on the amounts available for per diems. The agency admits that it is

difficult to determine what to define as operational as distinct from administrative costs, and lack of manpower and sufficient training hampers the Agency in making field inspection trips to perform its control functions. It is, nonetheless, considered strict and able to act authoritatively when detecting malpractices or non-compliance with the new regulations.

Risk areas of malpractice or abuse

Notwithstanding systems of control the risk of abuse and malpractice is significant by donors and CSOs and in the interaction between them. We have identified a number of risks as enumerated below.

Opportunistic organisation of seminars: Seminars and workshops have become important activities for donors and CSOs, and some respondents expressed concerns as to whether a disproportional part of aid monies is spent for such purposes. These activities are largely driven by new issues emerging on the development agenda, causing the whole sector to jump on the bandwagon and organise related activities. Sometimes CSOs compete for the same participants. Owing to organisational self-interest/survival, donors and CSOs may inflate the number of seminars and workshops beyond the number necessary, in order to meet their targets, spend their budgets and be considered relevant in order to secure further funding. In extreme cases, seminars are created opportunistically for the sole purpose of attracting donor money.

Exaggerated per diem payments: Closely linked to the risk area above are organisers (usually outside government) applying higher rates than others, sometimes even outbidding each other. According to key informants, government officials and community representatives are inclined to opt for attending activities that pay best. Exaggerated payments, higher than the amount needed for reimbursement of actual cost, are an important aspect of malpractice and abuse of aid money. A high-level government official provided one example: "When I was working in the Supreme Court, if the USAID invited me, I would be much more willing to go there rather than to a government activity." It has been corroborated by multiple respondents that people participate in workshops and seminars irrespective of content, again questioning the effect such workshops might be expected to have for the attendants. The World Bank is considered by other donors to be particularly eager to attract people by using financial incentives in addition to offering high-quality workshops that look well on a CV. Furthermore, Ethiopian organisations admitted that they deliberately target funders who pay higher per diems, in order to attract participants. A consequence of this practice is that civil servants attend similar types of seminar time and again, which is a waste of human and financial resources. Another implication of using higher rates than warranted might be the development of a culture by which participants expect to be paid for being trained as if free training did not provide enough benefit. This

phenomenon is experienced elsewhere as well, including in Malawi and Tanzania. Also in Ethiopia have there been cases of community representatives refusing to attend a workshop unless they were paid extra, probably a result of the practice of some organisations and donors paying excessive allowances. There is general scepticism to the practice of offering 'brown envelopes'. While some donors believe that attendants ask for their contents in advance because they want to know whether there is a financial reward, this perception can also be based on a misunderstanding as the participants need to ensure that they will actually have their costs covered. Furthermore, giving participants per diems in advance or at the beginning of a workshop/seminar provide an opportunity for collecting payment, and then absconding to do other things.

Manipulation of budgets: Varying per diem and allowance systems create opportunities and incentives for manipulation of budgets by CSOs. According to an auditor interviewed and the local team member who runs an auditing firm, this form of manipulation has been observed in final reports regarding attendance. Either more participants have been registered on paper than those actually attending or the number of days has been inflated. Miscellaneous expenses have also been recorded, but not accounted for. While some consider the manipulation of budget expenditures a common practice, others do not see it as a significant problem. However, the fact that some have experienced systematic abuse illustrates the risk involved, and that control systems are important for disclosing abuse and malpractice (and not encouraging it). Manipulation of per diems based on fake names or the manipulation of days or receipts often benefit the organisers. An auditor gave the team examples of managers who have forged attendance lists by using each of their fingers to create smudged fingerprints on attendance lists, stating that "in such cases, one can be sure that the per diem rates would be high, reflecting a handsome income for the manager." When irregularities of some magnitude are detected, it is often a matter of group collusion.

Forged receipts: Related to the risk of budget manipulation are forged receipts from managers or participants. Regarding participants, the major risk is transport. Participants may produce receipt for double the real transport costs and/or claim there was no public bus transport when it was not the case. Based on his own long experience, an Ethiopian CSO representative estimated that 50 per cent of all participants produce false receipts when attending events outside Addis Ababa. Forged bus receipts can be bought at bus stations, and examples were given of participants openly writing receipts in front of the organisers. Participants may stay with friends or relatives while still producing receipts for accommodation. Nonetheless, some auditors discourage the practice of the event organiser settling the entire bill for accommodation and meals with the hotel, because such a situation would provide ample opportunity for fraud by the organiser. Collusion between hotels and seminar organisers could

lead to serious wastage if aid money thus ends up enriching a few individuals.

5.3 Conclusion

The Ethiopian case shows how difficult it is to establish a functioning per diem system in a situation of soaring inflation and severe budgetary constraints. The government is hesitant to tie the per diem rate to an inflation index for two main reasons: (a) the inflation indices are unreliable and based on a national aggregate; and (b) Ethiopia runs a budget deficit economy and the government prefers flexibility in the system. Therefore, it has allowed an informal practice of civil servants manipulating the number of days spent on travel to secure (partially) adequate compensation for staff. Nonetheless, this informal practice has a number of adverse ramifications. First, it contributes to creating a culture of increasing tolerance of malpractices and corruption in a country that most of our respondents perceive as less corrupt than the average on the continent. Second, the discretionary powers of managers enable them to build staff loyalty and patronage networks, which may strengthen the authoritarian, dominant party system. The distortionary effects and malpractices are, however, mitigated by organisation-specific factors. The quality of leadership or management of institutions is important, as well as institution-specific control systems. Nonetheless, donor attention to the distortions caused by variation in their per diem rates seems to be lacking, and there are few signs of efforts to harmonise rates in the near future, neither on donor funded Channel 1 projects nor in general. This is so despite the fact that the Ethiopian government encourages the donors to harmonise their Channel 1 rates, due to the institutional inefficiencies, staff discontent and project bias they create. The donors are, however, encouraging the government to raise its current rates which are considered detrimental to institutional performance. Moreover, some donors and CSOs remain prone to using per diems as an economic incentive to secure good attendance at their own activities, which may have severe long-term effects. The unawareness of donors and international CSOs regarding existing and potential abuses of their per diem and allowance systems and the distortionary incentives they create, combined with insufficient controls, may lead Ethiopia onto a path which will be hard to depart from later, as experienced in Malawi and Tanzania.

6 Comparative perspectives and analysis

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? Below we review the information derived from the country cases in a comparative perspective.

This study shows how a fairly limited area of state administration can reflect a microcosm of a country's history, politics and level of development. Formally, the system of travel allowances, its rates and control functions are similar across these 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 crime in Ethiopia than in Malawi. And in Tanzania some irregularities or petty corruption among civil servants is more or less condoned.

Even an apparently trivial administrative issue such as the per diem system seems affected by the political environment. The connection between politics and travel compensation is not necessarily straightforward, however. Tanzania emerges as the country with the most significant pro-democratic developments over the last few years, 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 such practices. Almost everybody benefits, albeit differentially, in a system where irregularities are endemic. 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, although not to the same extent. The autocratic tendencies of President 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. This finding contrasts with the general perceptions of corruption in Ethiopia. Transparency International's Corruption Perception Index found Ethiopia

to be 'more corrupt' than Malawi, and no better than Tanzania. Apparently, the means and methods of corruption differ in the three countries. In Ethiopia the most serious risks of corruption are associated with construction contracts, land allocation and administration, closely linked to political power centres. Although petty irregularities are comparatively fewer, there is also an emerging trend among participants at training events to expect some kind of extra payment for attendance, particularly if financed by donors. In other words, in Ethiopia there is a discernible move towards a situation similar to that of Tanzania and Malawi. Several respondents attribute this development to interaction with lenient donors, combined with a general trend in society towards more emphasis on personal enrichment stemming from the introduction of a market economy.

6.1 Official systems for civil servants

Across the three countries, the formal systems of travel-related allowances have the same basic structure and elements. In each country there are official rates; some opportunity for cashing in the balance between actual expenses and rates paid; manager who approve trips or seminar; and unit-specific controls of financial decisions, including the reimbursement of travel expenses. Moreover, in all three countries we have been amazed at how much the per diem system matters to the 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.

In all three countries there is a *de facto* opportunity to benefit more in donor-financed programmes. Furthermore, every country exhibits significant awareness, even frustration, about ways in which the system of per diems is being practiced. Many civil servants believe that their colleagues and those higher up in the system benefit more than they do themselves. This feeling of unfairness can have an adverse impact on the work environment. Moreover, the notion that it might be possible to gain extra benefits tempts some civil servants to seize the opportunities that present themselves to secure some extra benefits for family and kin. In all three countries these phenomena were common; the system of per diems and allowances was often seen as a source of extra payment for civil servants.

Summary of forms of per diem manipulation and abuse

- Collecting travel allowances without actually travelling;
- Collecting allowances without actually attending meetings, workshops and training sessions;
- Collecting allowances for days in excess of the actual duration of meetings, workshops and training sessions;
- Collecting multiple per diems in a single day from different sources for the same event;

- Handing out 'brown envelopes' containing unspecified amounts, ostensibly to cover incidental expenses;
- Sending excessively large delegations on trips or to attend meetings, workshops and training sessions;
- Unnecessarily attending meetings, workshops and training sessions and claiming allowances, even if such attendance does not enhance work performance;
- Unnecessarily 'creating' meetings, workshops and training sessions for the sake of collecting allowances (the most extreme cases being 'dormant' CSOs looking for easily manipulated funding opportunities);
- Obtaining forged receipts as supporting documentation when making travel claims, especially for transport;
- Faking/forging attendance lists at meetings, workshops and training sessions with a view to pocketing the surplus money;
- Selecting venues of meetings, workshops and training sessions outside the duty station city perimeters in order to justify the payment of per diems;
- 'Buying' of staff loyalty by supervisors;
- Inflating budgetary provisions in project proposals/programme budgets (to create consistency between budgets and actual expenditure);
- Offering extra duty allowances and honoraria in some ministries, as a form of bonus or salary top-up;
- Diverting funds for training activities to other activities;
- Collusion between organisers and hotels to report higher prices, and share the surplus;
- Using cheaper accommodation than reported (including the use of forged receipts), such as small hotels or pensions or staying with friends or colleagues, to pocket the savings;
- Providing official or unofficial sitting allowances;
- Inflating the number of seminars and workshops beyond the necessary number due to organisational self-interest/survival, in order to meet targets, spend budgets and be seen to be relevant in order to secure further funding.

However, 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. Without a manager's approval of manipulated travel reports (which is seen as a pragmatic solution to get real expenses covered in spite of low rates), many civil servants prefer to stay in their office since a trip would entail expenses they would have to carry personally. In Tanzania, by contrast, payments appear over-generous compared to average salary levels. Clearly, a share of the relevant allowances should be incorporated into the regular salary. However, there is significant resistance to this, partly because of the concomitant extra tax burden and partly because of the consequent reduced flexibility of government expenditure. We suspect, furthermore, that some of the political economy problems discussed in Chapter 2 are part of the explanation. Malawi, unlike Tanzania, has managed to incorporate a range of allowances, excepting per diems, into a 'clean salary'. Some challenges associated with a liberal system of per diem compensation remain. Per diems are sometimes misused by offering staff extra payment even if no trips have been made. However, Malawi has taken an important step in reducing per diem irregularities.

Controls

The risk of fraud depends on controls as well as the intrinsic motivation of civil servants. The formal travel control system is similar in the three countries. There are unit-specific controlling officers, Permanent/Principal Secretaries or Finance Officers who approve spending based on budget provisions. Manager support is required and the employees provide receipts and documentation. All countries have an Auditor-General. This institution seeks to strengthen its role in both Tanzania and Malawi with increasing readiness to collaborate with donors. In Ethiopia, the function is more established with a larger number of performance audits and more frequent collaboration with donor agencies. Whether this practice helps in clamping down on corruption is uncertain, in view of the problem being rooted in political institutions. Yet, Transparency International in Ethiopia describes this supreme audit institution as fairly independent and strong.

Access to information for civil society and ordinary citizens is critically important to enable them to assess the value for money in government investments and service delivery, including acting as watchdogs with regard to per diem expenditure. This is difficult in all three countries. Even the study team found it difficult to obtain information from government institutions. There are no explicit access to information laws in the countries concerned and even where citizens are granted a legal right to be informed (i.e. separate legislation), they are often met with references to national security as grounds for avoiding disclosure of sensitive (and not so sensitive) information.

Forms of manipulation, irregularities and fraud

As pointed out in Chapter 2, it is conceivable that per diem manipulation can have a performance-enhancing effect if used strategically as an informal bonus system. We did hear testimony about situations – particularly in Tanzania – where managers complained that staff would not do anything unless they were given extra pay. However, instead of performance-based benefits offered fairly and predictably, we got the impression that the travel-related (often irregular) benefits are distributed selectively according to unspecified criteria, e.g. loyalty and seniority. Tanzania has several categories of allowance to offer staff to compensate for an extra work load. Travel-related expenses could be manipulated on a discretionary basis.

Risks of clear-cut fraud were identified in all three countries. The risk most frequently mentioned was the manipulation of the number of days. Staff attending a seminar lasting five days might claim per diems for ten days. This form of irregularity or fraud could happen without the manager's knowledge. In Malawi, attempts are being made to reduce this problem by introducing a ceiling on travel days per month. In practice, this approach has a downside as many civil servants need to travel more than five days per month to do their job properly, but it seems to have had

some effect in curbing misuse. In Ethiopia, respondents were more open about the practice of misreporting the number of days of travel since this was an officially condoned pragmatic solution to getting around the very low per diem rates. The number of days for which staff are compensated when travelling is based on a discretionary decision by the financial officer of the ministry concerned.

Organising seminars and trips primarily for the sake of obtaining per diems is another form of risk, although a bit more difficult to hide. Generally, in all countries, we got the impression that managers are quite well informed. Very few managers interviewed conceded lack of control and information concerning the problems we addressed. As an example, one manager in Malawi told us that he would visit some seminars unexpectedly to count his staff to see if they were actually present. However, the tendency to pay travel allowances as extra benefits is known to the executive more often than not.

The propensity of managers to misuse their power to demand kickbacks and other benefits was mentioned by some respondents. We obtained some reliable information on how this differs across countries and organisations. In all three countries, the per diem system associated with foreign trips is far more generous, and this alone is likely to induce some politicians and civil servants to prioritise trips abroad over domestic travel.

Among senior staff and politicians, there may be complex relationships between hotel owners and those who organise training events and trips. Hotel managers who know that events will be organised at their hotels will sometimes increase the hotel rates. Although we were informed about such risks, including in interviews with hotel representatives, we have no documentation of collusion with civil servants, i.e. that extra benefits were shared with decision-makers in the state administration. A thorough political economy analysis would be required to fully understand the allocation of benefits and the effects on per diem systems and budgets for training sessions.

6.2 Development partners

The three countries are all highly aid-dependent. The presence of donors and aid money are part of the reason why there is wastage associated with the per diem system. One might have expected one and the same development agency across all countries to apply similar standards, approaches and systems. However, the ability of agencies to coordinate among themselves differs across the three countries and so does the dialogue between the governments and development partners.

Tanzania has the most long-standing experience with donor dialogue, but collaboration is not without challenges. It is “like an old marriage that has turned sour,” in the words of one observer. The government promises response to and implementation of the many reforms promoted by the

development partners, yet in practice and repeatedly, progress towards a more efficient and accountable state is extremely slow. As pointed out for decades by aid critics, incentives to improve performance tend to be weak if such improvements imply a risk of reduced support from the donor community. In response, the development partners make some attempts to introduce performance-based aid and lending, i.e. more money is offered upon documented progress on certain indicators. How this works in practice varies across sectors and donor agencies, yet there are trends in the direction of demanding clearer results on performance indicators.

In Malawi a tense relationship between the government and development partners has developed, largely as a result of the President's intransigence over issues of accountability and human rights. Direct budget support has been discontinued. Instead, aid funds have been reallocated to programmes and sectors where donors can exercise stricter control, including on per diem issues.

In contrast to Tanzania and Malawi, where development partners consider the government per diem rates to be too high, donors in Ethiopia try to persuade the government to increase its rates. The World Bank, the EU and the UN negotiate with the government to encourage more spending on civil servants' per diem compensation, while the government is concerned about the long-term budgetary consequences of higher fixed expenses. In response to the low rates, development partners negotiate on a case by case basis more generous rates for the projects and programmes they finance, and in some projects they seek to set a high rate simply to ensure performance.

National systems

The present report has considered the system of per diems in light of the Paris Declaration. In some donor agencies, the commitment to use national systems may have generated a lax attitude to maintaining their own controls in respect of the specifics of the government's expenses in aid-financed projects and programmes. Audit reports may suffer from severe shortcomings, which render the donors unable to determine how much money has actually been spent on travel-related activities. Although it might be tempting to keep starting new projects, their long-term success may depend on the donor agencies' control systems and their willingness and ability to dig deep when fraud is suspected.

Donors have repeatedly failed to honour their commitment to align their practices with recipient government rates and rules and to harmonise among themselves. In Ethiopia, we found that one and the same development partner could apply different rates for different projects within one ministry. While the development partners consider the government rates to be unacceptably low, selectively higher rates has the effect of inducing government staff to prioritise donor-financed projects

and programmes to the detriment of government-funded endeavours. Indirectly, higher per diem rates on donor-funded projects thus seem to impact on priorities within government institutions. On account of this practice, development partners exert a certain informal influence on project management in spite of their commitment to respect government system and decisions.

We were told about competition between development partners in this respect, although not necessarily between events. More often, potential participants are ‘spoiled’ – in some countries they have become used to being offered extra payment for attendance – by means of higher per diem rates, per diems on top of what they receive from government and sitting allowances, in the absence of which they are disinclined to attend. Such perceptions and attitudes on the part of potential participants may affect their motivation to participate: “they don’t have to learn because they already get something out of it in terms of money”.

Some development partners admit that they offer ‘something extra’ to secure attendance at their events, simply in order to meet the requirements in their own work programme (which may list the expected number of participants and the number of training events). Within the donor agency, the longer-term impact of their training events does not seem to be among the performance indicators. Thus they end up focusing on trivial facts, such as the number of events and participants as well as their ‘end-of-course’ test scores. On the part of civil servants, if paid to come, they attend an event *for the donors*, not for themselves and their institutions.⁵⁶ Longer-term results in terms of better service provision cannot be taken for granted if both parties involved are focused on a short-term objective. Whether aid-funded training activities actually make a difference in government decision-making is a moot point. Stringent impact evaluation of such events is sorely lacking.

This posture by donors contributes to explaining why they continue to offer something extra, in contravention of their own principles, including the Paris Declaration. Repeatedly we got the impression that the development partners fail to see the implications of these mechanisms and understand why they should harmonise practices with regard to the seemingly trivial matter of per diem reimbursement. Failure to harmonise is probably a main reason why irregularities persist.

Moreover, the donors are not always transparent with respect to the per diem conditions they actually offer. What the UN offers to reimburse national civil servants is confidential, according to the UNDP in Tanzania. We were given the rates informally from other sources and we know that the UN-determined rates can be significantly higher than government rates, although it is also being claimed that several UN agencies use

⁵⁶ For discussion of how payments may distort intrinsic motivation, see Frey (1997).

government rates.⁵⁷ We were dismayed, nevertheless, that some development partners – purportedly promoting transparency, anti-corruption, efficient administrative systems, etc. – do not wish to provide information about all aspects of the per diem system used in collaboration with the government.

6.3 Understanding per diem irregularities and fraud

What explains the risks associated with the per diem system? Let us return to the analytical discussion in Chapter 2: what mechanisms explain persistent manipulation of per diem allowances? The table below summarises *some* of the findings in the present study, first through a comparison of the case countries, and then, a general overview of problems identified, mechanisms at play, and a suggested approach to reducing the problem.

Aspects considered	Tanzania	Malawi	Ethiopia
<i>Approach to avoiding per diem over-spending</i>	Few efforts. Budget cuts for travel expenses, but not for training. No cut in rates.	Introduction of 'clean salary'. Reduction of number of allowances.	Strict control on expenses. Active Auditor-General, covering matters such as travel compensation.
<i>What problems seem to persist?</i>	Extra payment expected. Low risk for those involved. Larger incentives at higher ranks.	Lack of control on spending. Various per diem related fraud. Larger incentives at higher levels.	Low rates and difficult to travel without manipulating the system. Larger payments at higher salary levels.
<i>What explains persistence?</i>	Low political willingness to combat the problem. Managers condone irregularity. 'Windfall attitude' to aid money.	Collective action problems. Irregularities and manipulation condoned with reference to low salaries. Travel expenses used as informal bonus system.	Reluctance to spend state revenue. Party control.
<i>Collaboration with development partners on the matter</i>	Extensive collaboration, but limited impact. Principles of coordination and harmonisation have not been respected.	Several attempts of harmonisation, which have not worked in practice to date.	Development partners try to raise government rates. Dialogue on rates in each single project/programme.

57 In addition to different levels, the Tanzanian system used a flat rate for international trips (same rate for all destination countries), while the UN rate differs across countries and cities.

<i>Risks for development partners</i>	Reduced likelihood of reaching development goals. Wastage of aid funds. Escalating problems of corruption and rent-seeking. Reputational risk (unless the problem is seriously addressed).		
<i>Overarching recommendations</i>	Per diem manipulation should be described as fraud and a form of crime – and addressed more forcefully by government and development partners. Development partners should investigate incentive problems within their own systems, in addition to advising the governments.	Continue the process of controlling per diem manipulation. The introduction of a 'clean salary' and budget and travel restrictions are not enough to change the culture of condoning this kind of fraud. Control and alternative ways of offering 'something extra' (performance bonus?) may facilitate the process.	Adjust government rates and make sure they cover actual expenses. Allow better access to information on budget and government expenses. Counteract increasing trend of offering (and demanding) sitting allowances or excessive payments. Donor harmonisation of rates to prevent allowance demands to escalate.
	Same rates for all government staff. Rigorous, independent impact evaluation of training programmes. More openness about rates and allowances, budgets and actual expenses. Better control, including on budget support. Revealed cases of fraud should lead to disciplinary sanction.		

As described with keywords in the table above, the factors listed in Chapter 2 are all relevant for explaining why per diem irregularities persist. The country case studies provide examples of:

- *A collective action problem* – observed in cases when no manager or institution has an incentive to change (adverse) behaviour. Everybody benefits, why should not we as well?
- *Principal-agent problem* – when management has incomplete information about staff decisions and choices. However, in most cases, the problem observed is entrenched and condoned and the theories of incomplete control cannot explain the whole picture. Allowances benefit those at the top level of governance system. Who then would be a benevolent principal? The taxpayers in the

countries that offer aid?

- *Patronage* – civil servants are eager to secure benefits and positions for allies and obtain monetary benefits that can be shared with family, kith and kin. The meagre civil servant salaries contribute to explaining the problem, although the ‘grabbing’ of benefits is seen a function of relative position both at a personal and institutional level, the higher up the hierarchy the greater the benefit.
- *Aid/windfall revenues* have an impact on attitude to spending. If we spend more with limited impact, we will receive more. There are higher expectations of obtaining some extra payment if projects are donor-financed, even if administered by government institutions. The attitude seems also to affect some development partners whose propensity to address suspected fraud in aid-financed programmes and projects appears low.
- *Political economy* incentive problems are probably the main reason why problems persist. Unless those with sufficient authority introduce better systems and demand integrity, nothing will change. In the long run, their failure to do so can only be explained by the benefits they obtain through institutionalised, entrenched weaknesses.

Given the three case studies, we cannot place per diem abuse in the framework of one of these theories alone – and the risks should not be referred to as subjected to one of these factors only. Even if travel reimbursement is supposed to be a simple administrative routine, the challenges associated with the abuse are complex and depends on a number of factors and mechanisms. Nevertheless, this set of explanatory factors can be a useful terminology for characterising the problem, make the debate more nuanced, and thus, the policy initiatives more targeted.

7 Recommendations

All the three countries visited have implemented formal systems for reimbursing travel expenses and concomitant control mechanisms. Those systems are similar to what we find elsewhere in the world, including in donor countries (Davies 2002 and OECD 2011). However, they vary somewhat in design and above all how scrupulously they are enforced.

The present study has taken a qualitative approach and cannot, therefore, report conclusively or exhaustively on practices and the magnitude of problems or wastage. Rather, it seeks 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, such loss figures would not be likely to capture the many forms of *indirect* adverse effects caused by civil servants' strong preoccupation with personal emoluments to the detriment of providing services; by managers who 'poison' the work environment by allocating 'lucrative' trips and seminars unfairly; by seminars organised with the primary intention of obtaining extra payments; and by donor agencies who accept extensive training programmes whose beneficial effects in terms of improved work performance are in doubt.

We hope this report will contribute to generating a better understanding and awareness of the many challenges encountered – in all functions and forms. We are convinced that it is possible to exercise better control of large-scale per diem manipulation and contain abuse. But it clearly depends primarily on political will to arrive at well-designed systems to that end. However, even the best designed systems have loopholes which can be exploited for personal benefit. This applies to less grave grey zone practices as well as outright fraud of some magnitude. In other words, the challenges discussed in the present report concern both structure and agency. The structures are the systems put in place with attendant control mechanisms, including the built-in incentives that often tend to militate against compliance. The agency or action of individuals operating within a given structure is induced by the incentives to bend rules and cheat, largely driven by low regular salaries which are common in all three countries. We have found that overall, although with some ambiguities and exceptions, that Ethiopia, Malawi and Tanzania have all adopted reasonably well designed 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 slippery slope. It is comparatively easy to improve or perfect existing systems within a reasonable time frame 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 down that slippery slope is a management responsibility – on the part of governments as well as development partners. 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. In this chapter we make some suggestion where we see scope for reform that might significantly reduce risks of abuse.

From the perspective of the development partners, we hope this report will contribute to developing better policies and practices at the international level, e.g. through the OECD/DAC. For many years there has been 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. In this regard, the Paris Declaration gives only general guidance, not operational advice adapted to specific situations. The risks associated with per diem compensation and its potentially distortive consequences have to be taken more seriously and addressed head on. Another ten years of failed harmonisation on this matter would not only reduce confidence in the donor community, it could also prove very expensive in terms of wasted donor funds.

This chapter discusses reform under the following four headings:

1. Keep per diems for reimbursement of expenses only;
2. Promote better control systems;
3. Secure value for money in programmes for purposes of training and awareness-raising;
4. Address challenges from the perspective of the development community.

In addition, comments are offered in two tables:

- Table 7.1 lists the different forms of compensation.
- Table 7.2 lists recommendations for addressing the main risks referred to in the case country chapters.

7.1 Use per diems for reimbursement of travel-related expenses only

- The purpose of the per diems should be to *reimburse travel expenses only*. Extra emoluments to boost civil servant motivation or secure them a decent wage should not be offered via the travel compensation system. In cases when the travel compensation system serves as an informal bonus or salary top-up, a more comprehensive civil service compensation reform should be considered instead. This is underway in Tanzania, but is unlikely to curb the problem as long as the wide range of tax-exempt allowances remains intact. An information campaign might be warranted to communicate the sole purpose of the travel compensation system: reimbursement of expenses incurred when on official mission outside normal duty station.
- Even with clear rules, the travel compensation system may take different forms. Basically, there are five alternative models, each with its advantages and shortcomings, as set out in Table 7.1. Despite the risk of fraud and distortive impact on work motivation, we most strongly recommend the *continued use of per diem payment*, possibly combined with reimbursement of specific expenses upon submission of original receipts. The reimbursement should preferably be transferred electronically to the employees' bank accounts (not cash payment in envelopes) if the banking systems make it feasible. This 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 across the country concerned. As far as possible, the standardised per diem rates should reflect the (average) true costs, adjusted periodically for inflation. In Ethiopia, the rates are far too low and should be raised. In Tanzania the rates are generous compared to salary levels and create incentives for staff to attend seminars and travel excessively. The actual expenses may vary across regions and cities. If so, the per diem system for one and the same country should include 2–3 different rates for hotel expenses (low, medium, high).
- Per diem rates should not be differentiated by staff seniority or salary level, unless for some exceptional reason some staff categories incur different travel expenses. Given the fact that all the three countries visited have adopted per diem systems that differentiate by rank of staff, this recommendation may appear to violate the principle of alignment to domestic country systems. However, as discussed in the introduction, alignment should not be uncritical and mechanical. We do not see that differentiation is justifiable. Regardless of rank staff stay in similar hotels and eat similar meals. Hence, differential per diem rates are not warranted. Rank is reflected in the salary system and need 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. Malawi has introduced a ceiling of five travel days per month to forestall excessive travel. To some extent this rule may constrain necessary travel for certain types of work that are inherently travel-intensive. On the other hand, it is not unreasonable to set a limit for attending training events and similar activities. This would curb rent-seeking without impacting adversely on work-related travel and could be signed off by human resources staff who in any case should keep a record of staff training.
- There should be *full transparency about the rates provided*. There is no justification for keeping any feature of the system and the rates confidential, neither for governments nor for CSOs and development partners. 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 general public.

Table 7.1 Advantages and shortcomings associated with different forms of travel compensation

Form of compensation	Advantage	Shortcoming
Per diem/cash payment	<ul style="list-style-type: none"> • Efficient and simple; • Preferred by management and employees; • Applicable to any situation where travel expenses have been incurred. 	Can be manipulated for personal gain.
Per diem/ cash payment + reimbursement of hotel expenses upon receipt	Same as above	<ul style="list-style-type: none"> • Can be manipulated for personal gain; • Risk of fake receipts.
In-kind	Food and accommodation are offered (no expenses to be reimbursed).	Limited flexibility for those who prefer to choose hotel and restaurant.
In-kind + small amount of cash for incidentals	<ul style="list-style-type: none"> • Same as above; • Takes into account the fact that those on travel may have extra/ unexpected expenses; • No need to administer reimbursements upon receipts; • Low risk of manipulation for personal gain. 	<ul style="list-style-type: none"> • Limited flexibility is still an issue; • A lot to organise and in many cases, not a practical option; • Risk of fake receipts.

In-kind + full per diem	Employee's incentive to travel/ attend seminars is excessive	<ul style="list-style-type: none"> • The whole per diem can be pocketed because accommodation and food are already offered. • Maximum distortive effects (limited motivation to stay in office)
-------------------------	--	---

7.2 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 will never be cost-efficient. For these reasons, *there will always be a modicum of risk* of mismanagement and fraud even in a well-run bureaucracy. Nevertheless, a well-designed control system contributes significantly to reducing risk and sends unequivocal signals that adherence to the rules is expected. Besides, it contributes to reducing concerns that colleagues might benefit unfairly from extra emoluments. Obviously, all departments and organisations should have a system of control with respect to the reimbursement of travel expenses. In this study, we found the rules and regulations to be overall fine in all three countries, including the control mechanisms – though with some reservations. The practice varied significantly, however, which tells us that solutions will 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 the external oversight. In all of the three countries visited, the Auditor-General is prepared to embark on an aid-financed audit of irregularities and fraud in the travel compensation system. Ideally, the programme should include collaboration with private auditors or experts from sister institutions in other countries. Collaboration of this sort already exists in some countries, involving several development partners, yet this is an area where development partners could contribute more to strengthening the relevant country systems.
- The efficiency of control systems depends on *access to reliable information*. The difficulty of obtaining official information significantly hampered our work for this study. In all three countries our requests for

data were rejected or not responded to, albeit variably so.⁵⁸ In Tanzania, government institutions tended to 'pass the buck' and refer to other institutions or sources where relevant information would be available. None of the three countries has an access to information law (although all of them have scattered legislation of this sort). Access to reliable information in understandable form is essential for ordinary citizens to trust the government's public finance management. Moreover, such access is vital for the mass media and civil society to enable them to serve as watchdogs. In the absence of hard data, the observed performance of an institution's service delivery may justify addressing the risk of internal inefficiencies. The distortions caused by per diem abuse can be severe enough to prevent an institution from fulfilling its role in society.

- International civil society organisations who act as conduits of funds to sister organisations should *vet their local partners* carefully before entering into partnerships so as to ensure they have the requisite managerial skills, including accounting. Such a procedure is largely practiced already but needs to be made more effective with a view to reducing risk even further. A careful vetting process would help to inject trust into the partnership and forestall irregularities.
- *Whistle-blower protection should be significantly improved* in all three countries. Speaking out about mismanagement involving colleagues usually places a heavy burden on civil servants. In fact, the troubles would often be greater for the whistle-blower than the culprits. As a result, people with incriminating knowledge would tend to keep mum. All countries should do more to protect whistle-blowers who report mismanagement and reveal irregularities and fraud.
- *Deliberate attempts to defraud one's employer institution should be referred to as a form of theft.* Instead of condoning reprehensible practices by using euphemistic or excusing terminology (such as a '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 some form of disciplinary sanction and prosecution if the case is grave. A less euphemistic terminology could contribute to discouraging tolerant attitudes to per diem irregularities and fraud.

7.3 Secure value for money in training and awareness activities

- Capacity-building is an integral part of any reform intended to strengthen institutional quality. In developing countries, where the need for enhanced competence is palpable, civil servants and CSO staff alike are routinely invited (or sent) in large numbers to training session and awareness-raising seminars. Development partners are quick to suggest capacity-building as part of a strategy to improve

⁵⁸ In every country we asked for data in different government institutions. Among the excuses for rejecting access was 'national security' in Tanzania and 'protection of the public interest' in Malawi. In Ethiopia we were told that we would be given the requested information, but the data were simply not made available.

service delivery, and in some programmes *training makes up the bulk of the budget*. As discussed above, such training and awareness programmes provide ample opportunity and risk of *per diem mismanagement and fraud*. For that reason (and others), it is important to question whether or to what extent such programmes give value for money. Do the donors really assess whether all these training activities are justified?

- The importance of capacity-building combined with comprehensive administrative efforts associated with large-scale training will tend to leave the organisers, development partners 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 and needs to be ascertained. Value for money is not just a question of cost-efficient training (and the ability to prevent *per diem* abuse). Above all, it is a question – in line with the Paris Declaration’s principle of managing for results, of *the extent to which training makes a difference in terms of service delivery*.
- For several reasons, 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 sophisticated (or not so sophisticated) end-of-workshop surveys of what participants claim to have learned during 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. There is variation of evaluation across sectors. For example, in the health sector many useful impact evaluations have produced solid results. However, *low expectations of results and vague reporting requirements without rigorous impact evaluation divert attention away from value for money concerns*. As a result, organisers of training sessions and awareness-raising campaigns are allowed to assess the effectiveness of their programmes merely on the number of training events and participants instead of real impact.
- Turning attention to impact on service delivery and institutional performance in other ways is relevant in this context because the current practice of simplistic assessments provide development partners with incentives to merely counting participants and courses (which may depend on the *per diem* rates offered), instead of the quality of service delivery. For this reason, rigorous impact evaluations of training programmes and awareness-raising activities should be undertaken in order to possibly reduce the volume of activities of that

nature and thus *curb propensities to offer or condone generous per diem disbursements*.

- It is acknowledged that conducting rigorous evaluations based on quantitative methods and involving randomised control groups akin to quasi-experimental designs is difficult. What is practically feasible in a given programme context will depend on available time and other resources. Reliable results might be obtainable only in a fraction of the cases. However, impact evaluation is an area where significant methodological advances have been made in the last decade. Initiatives for better impact assessment, such as J-PAL and projects financed by 3ie,⁵⁹ have encouraged the donor community to enhance its competence and willingness to conduct independent impact evaluations. All projects will not have to be evaluated in the same manner. Even pragmatic or simpler approaches will contribute to drawing attention to the ultimate impact on service delivery, rather than focusing on training by itself as the ultimate achievement. 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. *Even if the methodology of impact evaluation is challenging, there is no shying away from making serious attempts to undertake such evaluations.*
- In line with the Paris Declaration's *principle of ownership*, initiatives to document better the impacts of donor-financed training programmes may well be handled by local research institutions. If so, it is important that they are sufficiently independent and have the required level of competence. Alternatively, they could collaborate with researchers from other countries to develop the relevant skills and conduct impact evaluations.

7.4 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 resources towards that end to ensure that the analyses would be profound enough. Such analyses would provide a useful backdrop to addressing a host of development challenges, including those associated with per diem compensation.
- The findings of this study make it difficult to draw firm conclusions with regard to the Paris Declaration precept of alignment to recipient government systems. Given the very different challenges identified within three similar systems, we realise that *one solution will not necessarily fit all circumstances*. The Paris Declaration is a useful referent, yet the country context will have to guide the dialogue and the interpretation of the Declaration's principles.

59 See <http://www.povertyactionlab.org/> and <http://www.3ieimpact.org/>

- With regard to *alignment to government systems*, this report has identified a couple of difficulties. First, differentiated per diem rates by seniority or rank of civil servants are hard to accept for most development partners. Unless a domestic system for travel compensation conforms to the real purpose of the system (reimbursement only), the development partners should be cautious about aligning. Instead, they should carefully consider the arrangements and make a choice based on what may be deemed a pragmatic solution that both parties can live with. Second, in all three countries, the per diem rates applied by the government differ substantially from those of the development partners. In Ethiopia the government rates are far below what the donors offer while in Malawi it is the other way around. In Tanzania the situation is more complex and opaque. Practices on the part of the development partners are inconsistent. It seems difficult to even out the differential of per diem rates. There is thus a stalemate and by default differential rates continue to be applied.
- In accordance with the Paris Declaration *the donors should harmonise their travel compensation systems*. In Malawi this has been achieved recently. The agreed system provides a list of wise principles and guidelines for its implementation. The donors to Ethiopia and Tanzania cannot boast similar successes. Donor coordination has been tried many times in Tanzania with apparent success but enforcement has been half-hearted. For example, sitting allowances have been offered when such practices have been disapproved. Similarly, higher per diem rates have been disbursed. Even the maximum distortionary combination of in-kind provision of accommodation and meals with per diem in cash has been applied in some cases. In the past, some donors to Malawi have veered from the agreement achieved in 2007. It remains to be seen whether the 2011 agreement will be respected. Their repeated failure to harmonise effectively suggests that the development partners might embody incentive problems that undermine compliance with the agreed upon principles. The difficulty of harmonisation needs to be brought up to the international level, such as the OECD/DAC. Continued harmonisation failure is no longer acceptable.
- The donor community should examine and reflect on procedures and policies 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 in so far as 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 agree to the principles of harmonisation and alignment while deviating from them at the first opportunity? Moreover, several respondents point out that embassy and donor agency staff are

themselves not immune to the incentives inherent in the travel compensation system. 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.

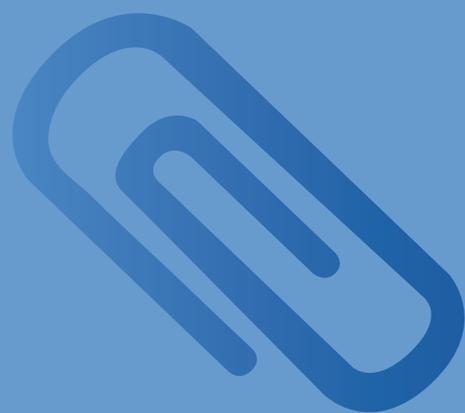
Table 7.2 Overview: some of the problems identified, mechanisms at play, and suggested approach*

Problem identified	Difficulty/mechanisms	Recommendation
Per diem systems are inefficient in reimbursing for legitimate travel expenses.	System misused for extra benefits; the rates are set too low or are too generous; lack of transparency makes fraud possible at low risk.	Rates should be based on surveys of real expenses. Independent control on expenses and participation in seminars.
Informal bonus system.	System misused for salary top-ups and extra benefits. Inefficient as an informal performance bonus given its unpredictability and unfair allocation.	Maintain separate systems for travel compensation and performance bonus.
Distortionary effects	Too many meetings and seminars. Staff not in office to do their job. Motivation for service delivery disturbed. Staff loyalty is 'bought' (rendered less critical).	Independent impact evaluation on government-managed as well as donor-organised projects and programmes, not only end-of-workshop surveys, but rigorous impact evaluations to determine effect in terms of better decisions and services.
Fraud and corruption	This form of 'grabbing' is largely condoned. Theft by civil servants and CSOs or their partners reported in all three case countries, but rarely described as theft or crime.	Per diem fraud should be described (explicitly) as a form of crime when such terms fit the case. Control systems should be applied consistently. Whistle-blower protection should be improved in all case countries.
Control mechanisms fail	Government control systems fail if higher echelons and their cronies are beneficiaries. Their benefits may hinge on secrecy of what they are actually receiving from the system of per diems and allowances.	Promote transparency and collaborate with civil society on demand for good governance / democracy initiatives. Auditors-General should be allowed to operate independently and provided with the relevant competence. Donors can express expectations on the role of parliament in the system of checks and balances. Financial support to sectors and institutions where fraud persists can be withheld.

Aid money windfall effect	Aid money may encourage opportunistic behaviour and short-sighted decisions. Well-known incentive problems associated with aid come very much to expression as one of the explanatory factors underlying per diem fraud.	Introduce elements of performance-steered development collaboration. Stricter donor control on aid-funded projects and programmes. Follow up on weaknesses in the audit reports from government institutions and CSOs.
Donor coordination fails	Repeatedly, development partners fail to coordinate their per diem systems and offer different terms for participants at the events they organise. They have different headquarters' instructions, different budgets, and different interests in paying participants to attend their events.	Increase transparency about the rates offered. Stick to agreed principles of coordination and make no promises that cannot be kept. The challenge of coordinating per diem systems and the dialogue with governments and CSOs should be addressed at the OECD/DAC level.

*Note: This table includes only a selection of issues addressed, and should not be read as a summary of challenges and recommendations.

Annexes



Annex 1: Terms of reference

A study of allowances and per diem in sub-Saharan Africa

1. Background

The last decade has seen a rapid increase in many African countries regarding the amount of money which is allocated for allowances and per diem in connection with seminars and workshops.

These Terms of Reference (TOR) are based on a pre-study of allowances in sub-Saharan Africa (September 2010) commissioned by the Evaluation Department of Norad. A main issue in the pre-study was the use of allowances and per diem in connection with seminars and workshops. Participation in seminars and workshops permit government staff, NGO staff and civil society employees to upgrade their skills and increase the skills of others through training and capacity-building.

The pre-study suggests that although there are many positive effects of money provided for seminars and workshops, there are also many negative impacts on public finance, civil service incentives and the quality of service delivery. How common are the problems with allowances and per diems in connection with seminars and workshops identified in the pre-study in African countries? Can the positive aspects of allowances and per diems be retained while minimising the downside? Who are the key external and local actors, among donors and government driving the allowances and per diem phenomenon? How important are political factors for understanding allowances and their reform?

The pre-study found that both government and development partners are responsible for the proliferation of allowances and per diems, yet no way of controlling them successfully has been found to date, suggesting that the underlying causes of the phenomenon are not being addressed, or that they are resistant to change.

2. Purpose

The purpose of the study is to:

Update our present understanding of the origins and consequences of allowances and per diems in connection with seminars and workshops

with information from three selected countries; Ethiopia, Malawi and Tanzania.

Assess the effects of allowances and per diems on development programmes, national budgets and civil service incentives.

Recommend ways in which donor organisations and governments can raise the level of debate on the allowances and per diem issue and promote a collective approach to addressing this issue.

3. Scope of Work

The scope of work is derived from the background and statement of purpose mentioned above. The focus of the study is allowances and per diem paid in connection with seminars and workshops in three African countries; Ethiopia, Malawi and Tanzania. Since there is a limited amount of literature about the subject of this study, much primary data will have to be collected in the countries selected. This will imply that the study team will have to obtain information from the main actors involved in the allocation and use of allowances and per diems in connection with seminars and workshops, i.e. the donors, national and international NGOs, and, to the extent possible, from the government at various levels as well as the people themselves who participate in the seminars and workshops.

The study will cover the period from 2000 to 2010.

4. Main Tasks

The following tasks refer to the individual country studies:

Country background

Summarise the main political and economic features of the selected countries in terms of:

Structure of the economy, GNI trends and poverty levels.

Political stability and conflicts

State performance and the quality of governance

Development partners, international NGOs and national NGOs

- Describe some of the main types of events for which allowances and per diems are used.
 - List the main categories of seminars and workshops (capacity-building, training, advocacy...) paying allowances and per diems.
 - List the main sectors involved (HIV/AIDS, MCH, governance, agriculture...)
 - Assess the practical relevance and usefulness of the main categories of seminars and workshops listed above.
- Describe the allowance and per diem system used by various multilateral and bilateral donors and international NGOs when organising seminars and workshops.

- Assess the success of past and current attempts, if any, to coordinate the rates and modalities of allowances paid by aid agencies, the UN system, international NGOs and any other important actors.
- To the extent possible, examine budgets and financial statements for randomly selected projects funded by development partners, to assess the extent to which allowances and per diems figure in project expenditure.
- Discuss the effects of using different systems, rules and rates for seminars and workshops among the government, donors and international NGOs.
- Document formal discussions between host governments and development partners on allowances issues and trends.
 - Assess the impact of any collective action by donors on allowance issues.
 - Comment on the degree of cooperation, dialogue or conflict in the exchanges between the two sides.

Central government

- Summarise current official rules, regulations and rates for per diems and allowances in connection with seminars and workshops.
 - Assess the extent to which government budgets capture spending on allowances and per diem by development partners, international NGOs, and other major sources of external financial assistance
 - Data permitting, compare budgeted with actual expenditures on allowances and per diem
 - Data permitting, document trends in the actual spending of allowances and per diem over the last decade
- Comment on the transparency of allowances and per diems in budgets.
 - If possible, discuss the extent and quality of internal and external audit functions.
 - Report – from documents and literature – any documented instances of malpractice and sanctions for the misuse or abuse of allowances and per diems.
- Cite evidence concerning the impact of allowances on the total wage bill.
 - Estimate the gap between basic incomes and ‘basic needs’ for central and local government workers using poverty indicators and Household Budget Survey expenditure data as available.

Identify and assess possible impacts of allowances and per diem – intended and unintended

- Who promote the use of allowances and per diem in connection with seminars and workshops and which mechanisms are used for this purpose.
- Assess whether there is evidence that allowances are being used strategically to obtain political advantages.
- Consider whether the current system of allowances and per diems leads to rent-seeking of different kinds, citing examples.
- Cite possible examples (if any) of ‘whistle-blowing’ related to the abuse of allowances or the management of workshops, etcetera, and describe the outcomes.
- Review whether the allowances and per diem issue has been discussed in parliament or in parliamentary committees, and to what effect.
- Record whether allowances and per diem are an issue around which trades unions, civil society organisations or other groups organise and lobby.
- Narrate the concerns with allowances and per diem and provide examples.

General

- If possible identify all organisations holding meetings during the past six months in a small sample of representative local hotels. Classify the information by type of organisation and type of meeting. Comment on the findings.
- Compare the findings from the case studies with current international best practice and thinking on allowances and per diems in the fields of public expenditure and human resource management.

Miscellaneous

The consultants may propose additions to this scope of work.

The consultants are *not expected* to attempt the following:

1. Undertake original analysis of allowances in government budgets unless budgets are available in a user-friendly format that allows for relatively rapid secondary analysis.
2. Measure the impact of allowances and per diem on service delivery.

Recommendations

Recommendations should address the constraints faced by government officials, donors, politicians and civil society. The consultants will preface their recommendations by a frank assessment of the likelihood that key players among, the donor community, in government and in civil society are motivated to implement them.

If possible, the study should suggest some ways to improve transparency in the payment of allowances and per diems.

5. Methodology

- The study will be based on a review of the relevant national and international literature. The attached pre-study on 'Allowances in sub-Saharan Africa' will provide some basic references as a starting point for the review. The study will also be based on the collection on primary data collected from various sources.
- Ethiopia, Malawi and Tanzania have been selected as country cases for this study. According to the pre-study there is limited literature about allowances and per diem in connection with seminars and workshops in many African countries, including Malawi and Ethiopia. Therefore much primary data will have to be collected from these countries. This will involve field work in the countries. Less primary data needs to be generated in Tanzania. The case of Tanzania, presented in the pre-study along with other available studies on this topic from Tanzania, will be used as a basis for the report. For Malawi the study on 'Public Expenditure Review of Travel Expenses', which will be finalized towards the end of 2010, will be part of the background information for the report.
- The consultants will undertake semi-structured interviews with selected, aid agency staff, government officials, the media, private audit companies and international and local civil society managers and staff receiving financial support from external sources of all kinds. In their inception report, the consultants will propose a check list of issues and questions for different groups of respondents.
- The actual mix of research techniques should be flexible, allowing the consultants to respond to the situation they find on the ground. Group discussions, visits to training and capacity-building venues, spot checks on hotels and other facilities hosting meetings, interviews with journalists and newspaper editors, media trawls, are all encouraged if they add significant value to the results obtained.

6. The consultancy team

All members of the team are expected to have relevant academic qualifications and evaluation experiences. In addition the evaluation team should cover the following competencies:

The team leader should be a social scientist with experience in leading multi-disciplinary evaluations and have advanced knowledge and experience in evaluation principles and standards in the context of international development.

The consultancy team requires the following mix of expertise: public finance, public administration, institutional governance, political economy, accounts and auditing.

Prior knowledge or work experience in countries included in the study is recommended.

It is recommended that the same core research team undertake all the country studies, rather than different consultants for different countries.

The proposed team must cover following language skills:

- Team leader and team members:
 - English – Written, reading and spoken

Tendering firm

The tendering firm is expected to have experience with delivering multi-disciplinary evaluations contracted preferably through competitive procurement process during last three years.

7. Budget and deliverables

The project is budgeted with a maximum input of **30 person weeks**. The **Deliverables** in the consultancy consist of following outputs:

- Work-in-progress reporting **workshop** (maximum 1) in Oslo, arranged by the EVAL on need basis.
- **Inception Report** not exceeding 20 pages shall be prepared in accordance with EVAL's guidelines given in *Annex A-3 Guidelines for Reports* of this document.
- **Draft Final Report** for feedback from relevant stakeholders and EVAL. The feedback will include comments on structure, facts, content, and conclusions.
- **Final Evaluation Report** prepared in accordance with EVAL's guidelines given in *Annex A-3 Guidelines for Report* of this document. The report produced shall be no more than 70 pages (20 pages for each of the three countries reports and 10 pages for the summary report) excluding annexes.
- **Seminar for dissemination** of the final report in Oslo or in the case countries, to be arranged by EVAL. Direct travel-cost related to dissemination in the case countries will be covered separately by EVAL on need basis, and are not to be included in the budget.

All presentations and reports are to be submitted in electronic form in accordance with the deadlines set in the time-schedule specified under *Section 2 Administrative Conditions in Part 1 Tender specification* of this document. EVAL retains the sole rights with respect to all **distribution, dissemination and publication** of the deliverables.

Annex 2: Persons consulted

Tanzania

Andreasen, Arthur, Certified Public Accountant, International Manager
Barriere-Constantin, Luc, UNAIDS Country Director, United Nations
Biseko, Denis, Senior Public Sector Specialist, World Bank
Bofin, Peter, Consultant
Cedergren, Magnus, Economist, Embassy of Sweden
Cooksey, Brian, Consultant
Gonza, John Makongolo, Director of Economic & Research, TUCTA
Haili, Heikki, Minister Counsellor, Deputy Head of Mission, Embassy of Finland
Heide, Morten, Councillor, Embassy of Norway
Kabundunguru,
Mathias, Policy Development Division, DPD Office
Kalage, John, Director of Programmes, Implementation, Save the Children
Kamagenge, Amadeus,
Training Research & Participation Specialist, Tanzania Social Action Fund
Kiliba, Mick, Management Service Division, PO-PSM/DMS office
Kinwasi, Edmund M., Director of Administration and Human Resources (DAHR), Ministry of Education
Kiria, Irenei, Executive Director, Sikika
Kristensen, Kirza, Country Expert, EU Delegation
Lee, Steven, Senior Governance Expert, UNDP
Likwelile, Servacious, Deputy Permanent Secretary, Ministry of Finance
Lusesa, Maternus Jeronimo, Manager Human Resources, Tanzania Revenue Authority
Lyatuu, Gertrude. Assistant Resident Representative & Team Leader, Energy & Environment, UNDP
Makunde, Rachel, Programme Manager for Maternal, Newborn and Child Health, Save the Children
Manyama, Amon, Senior Assistant Resident Representative, UNDP
Maro, Ichikael, Assistant Editor, Daily News (daily newspaper)
Matafu,
Jennifer, Senior National Programme Officer, Local Governance Country Team, DPD Office
Mazalla, Anna, Diversity Management Unit, PO-PSM/DDMU office
Mlata Mussa, Programme Manager, Child Rights & Governance, Save the Children

Mosha, Tina, Norwegian Church Aid
Msigwa, Aloyce, Administration and Human Resources Management,
PO-PSM/DAHRM Office
Muhoji, Nyakimura, Establishment Division, PO-PSM/DE Office
Muhongo, Sospeter, Professor, University of Dar es Salaam
Mukandala, Rwekaza Sympho Professor, University of Dar es Salaam
Mungunazi, Emmanuel A., Economist, World Bank
Mwamwetta, Omar, Finance Manager, Norwegian People's Aid
Mwijarubi, Mkama, Communications Officer, Twaweza
Nelsson, Adam, Country Officer, World Bank
Nkya, Happiness S., Deputy Director, Domestic Revenue Department,
Accounting Operations
Shitindi, Eric, Permanent Secretary, Ministry of Labour and Employment
Strinic, Dragana, Programme Director, Save the Children
Ulanga, John, Executive Director, Foundation for Civil Society
Utouh, L. S. L., Auditor-General, Office of the Controller & Auditor-
General

Malawi

Banda, Grace N., Acting Head of Health Programmes, Christian Health
Association of Malawi (CHAM)
Beza, Vilengo, Partner, Deloitte
Bisika, J.J., Director for Education and Technology, Ministry of Education,
Science and Technology
Bottoman, James, General Manager, Capital Hotel, Lilongwe
Chavula, Hope, Malawi Confederation of Chambers of Commerce and
Industry
Chiluzi, Rexie L.H., Assistant Auditor-General
Chinoko, Peter Ngulube, Diocesan Secretary/Executive Director, Catholic
Commission for Justice and Peace (CCJP)
Chiputula, Richard S., Director of Programmes, Malawi Economic Justice
Network (MEJN)
Chirambo, Masuzgo, Finance Manager, Save the Children
Goneso, Rodney, General Manager, Crossroads Hotel
Kabambe, Dalitso, Budget Director, Ministry of Finance
Kachinjika, Chikondi, Financial Controller, Parliament of Malawi
Kaluzi, Simekinala, Programme Officer, Council of Non-Governmental
Organisations of Malawi (Congoma)
Kaminjolo, Christopher, Acting Bureau Secretary, Anti-Corruption Bureau
(ACB)
Kaphiri-Nkhoma, Joanna, Deputy Country Representative, Norwegian
Church Aid, Lilongwe
Korsieporn, Pinit, Food and Agriculture Organisation (FAO)
Representative
Kubalasa, Dalitso, Executive Director, Malawi Economic Justice Network
(MEJN)
Kumwembe, Bright B., Director of Administration and Finance, Ministry of
Agriculture and Food Security

Kumwenda, Albert, Manager - Advisory, KPMG
 Kuyewawa, Cecilia, Producer 'Day Break Malawi', Capital FM
 Ligomeka, Brian, Editor, Blantyre Newspapers Ltd. (Daily Times)
 Mafubza, James, Operations Analyst, United Nations Development Programme (UNDP)
 Mapemba, Renard H.E., Deputy Clerk of Parliament
 Mbowe, Appolenia, Senior Economist, Poverty Reduction and Economic Management, World Bank
 Mgaoma, Felix, Acting Director, Human Resources Management Department, Office of the President and Cabinet
 Mwasikakata, Michael, Deputy Labour Commissioner, Ministry of Labour
 Mwamlima, Harry, Director of Poverty Reduction and Social protection, Ministry of Planning and Development
 Mwenelupembe, Joel, Partner, KPMG
 Njala, Charles, Assistant Auditor-General
 Njobvuyalema, Joseph R. Hon. Member of Parliament, (Lilongwe Mapuyu South Constituency), Chief Whip, Malawi Congress Party
 Ntonga, Alfred, Deputy Chief Executive Officer/Editor-in-Chief, Nation Publications Ltd.
 Nyirenda, Michael, Programme Officer, Royal Norwegian Embassy
 Olsson, Jan Håkon, Deputy Head of Mission, Royal Norwegian Embassy
 Osman, Alaudin S., Managing Director, Capital FM
 Sendeza, J.M., Hon. Member of Parliament (Lilongwe South West Constituency), Malawi Congress Party
 Tembo, Peter, Senior Accountant, Anti-Corruption Bureau
 Tholo, Douglas, Senior Human Relations Management and Development Officer, Anti-Corruption Bureau
 Zirikudondo, Elias D. Labour Commissioner, Ministry of Labour

Ethiopia

Abate, Giroum, Editor, Capital (weekly newspaper)
 Admassie, Yeraswork, Associate Professor, Department of Sociology, Addis Ababa University
 Ambachew, Sara, Administrative Assistant to the Head of EU, Delegation of the European Union to Ethiopia
 Asaye, Eijegsew, Programme Finance Officer for UN Agencies and Regional Cooperation Department, Ministry of Finance and Economic Development
 Ashenafi, Gizaw Beyea, Programme Officer, Royal Norwegian Embassy
 Bekele, Eshetu Executive Director, Poverty Action Network in Ethiopia
 Berhanu, Kassahun, Associate Professor, Department of Political Science and International Relations, Addis Ababa University
 Bezabih, Abebe, Finance Officer, Federal Ethics and Anti-corruption Commission
 Beyene, Belachew, Head, National Authorising Office, Ministry of Finance and Economic Development

Chekol, Tadilo Assistant to Deputy Federal Auditor General, Office of the Federal Auditor General
Darge, Tigabu, Finance Director, Ethiopian Human Rights Commission
Dejene, Asrat Financial Officer, Ethiopian Chamber of Commerce and Sectoral Associations
Eriksson, Izabela, First Secretary, Democracy and Human Rights/Gender Advisor, Embassy of Sweden
Gebeyehu, Mekonnen, General Manager, Mekonnen G. Audit Service
Helland, Johan, First Secretary, Embassy of Norway
Kebede, Dawit, Programme Manager, Norwegian Church Aid
Mamo, Dereje, Director, Policy and Planning Directorate, Ministry of Health
Mekasha, Wendm, Programme Officer, World Bank
Mekonnen G/Wolde, Tewodros, Junior Research Fellow, Ethiopian Economics Association
Mengistu, Assefa, Programme Manager, Save the Children Norway
Mengistu, Mesfin, former Member of Parliament and former Head of Public Accounts Committee
Muntean, Vitalie, Deputy Country Director, United Nations Development Programme
Nebebe, Admasu, Director, UN Agencies and Regional Economic Cooperation Directorate, Ministry of Finance and Economic Development
Negash, Fesseha, Senior Planning Officer, Federal Ethics and Anti-corruption Commission, Finance and Economic Development
Refera, Tafese, Head, Communication and Information Management Department, Christian Relief and Development Association
Tadesse, Mesfin, Coordinating Head, Public Relations, Charities and Societies Agency
Teklemariam, Getachew, Editor, Fortune (weekly newspaper)
Tsfaye, Wondu, Project Director, Ethiopian Nurses Association
Teshome, Abraham, Owner, Abraham Teshome & Co
Werku, Abeba Zenebe, Accountant, Christian Relief and Development Association
Woldehawariat, Shimelis, Procurement Specialist, World Bank
Yimer, Eyasu, Executive Director, Transparency International
Zewdie, Ephraim, Economist/PFM Specialist, Operations 1, Delegation of the European Union to Ethiopia

Norad

Jansen, Eirik G., Senior Advisor, Evaluation Department, Norwegian Agency for Development Cooperation
Maal, Bodil, Senior Adviser, Department for Economic Development, Energy, Gender and Governance, Norwegian Agency for Development Cooperation
Skancke, Gunvor, Assistant Director, Civil Society Department, Norwegian Agency for Development Cooperation
Skarpeteig, Margot Igland, Senior Adviser, Health, Education, Research Department, Norwegian Agency for Development Cooperation

Also consulted

Stevens, Mike, Consultant (formerly World Bank PSM specialist)
Torsvik, Gaute, Professor, Dep. of Economics, University of Bergen
Wadstein, Susanne, Director of Organisational Development, Sida
Wiking, David, Team Director, Sida
York, Nick, Deputy Director, Evaluation Department, DfID

Annex 3: Referenses

- Andreasen, A. F. and K. K Bhattbhatt (2007), *Management of Natural Resources Programme, Tanzania - Financial Review of 5 Projects under MNRP, Report prepared for the Ministry of Natural Resources and Tourism and the Royal Norwegian Embassy, Dar es Salaam: Royal Norwegian Embassy.*
- Andvig, J.C. and K.O. Moene (1990). *How corruption may corrupt. Journal of Economic Behavior and Organization, 13: 63-76.*
- Chinsinga, B., H. Kayuni and S. Konyani (2010), *Governance and Corruption Survey 2010, Zomba: Centre for Social Research, University of Malawi.*
- Coalition of Civil Society Organisations (2011), *Uniting for Peaceful Resistance against Poor Economic and Democratic Governance: "A Better Malawi Is Possible". Concerns and Demands from the Civil Society Organisations and Concerned Malawians, Lilongwe, mimeo.*
- Cooksey, B. (2010), *Allowances in Tanzania, A study conducted for Norad, mimeo.*
- Cooksey, B., L. Anthony, J. Egoe, K. Forrester, Kajembe, B. Mbano, I. von Oertzen, S. Riedmiller (2007), *Management of Natural Resources Programme, Tanzania TAN-0092: Final Evaluation, Oslo: Norwegian Agency for Development Cooperation, (Norad Collected Reviews 1/2007).*
- Council of Ministers (1993), *Council of Ministers' Directive on the Daily Allowance of Government Employees, Addis Ababa.*
- Council of Ministers (2008), *Council of Ministers' Directive on the Determination of the Daily Allowances for Foreign Business Trips, Addis Ababa.*
- Council of Ministers (2001), *Revised Council of Ministers' Directive on the Daily Allowance of Government employees, Addis Ababa.*
- Crown Management Consultants (2009), *Tanzania Public Service Situation Analysis: Towards a Revised Public Service Pay Policy, Dar es Salaam: Crown Management Consultants, Ltd.*
- Daily Times Reporter (2008), *'ACB Arrest Three More in K40 Million Scam', Daily Times, 10 November, Blantyre: Blantyre Newspapers Limited.*

- Davies, M.D. (2002), *The Administration of International Organizations: Top Down and Bottom Up*, Aldershot: Ashgate.
- Department of Human Resources Management and Development (2007), *Travel Policy for the Public Service* (Ref. No. HRM/ALL/08/17), Lilongwe: Government of Malawi.
- Department of Public Service Management (2010), *Institutional Review Report for National Audit Office*, Lilongwe: Department of Public Service Management.
- Economist Intelligence Unit, *Ethiopia*, (<http://country.eiu.com/article.aspx?articleid=908447275&Country=Ethiopia&topic=Summary&subtopic=Basic+data&subsubtopic=Basic+data>, (accessed 02.10.2011).
- Ethiopian Economics Association (2011), *Report on the Ethiopian Economy. Financial Sector Developments in Ethiopia: Performance, Challenges and Policy Issues*, Addis Ababa: Ethiopian Economics Associations/Ethiopian Economic Policy Research Institute.
- Fjeldstad, O.H. (2003), 'Fighting fiscal corruption: lessons from the Tanzania Revenue Authority', *Public Administration and Development*, vol. 23, No. 2.
- Fjeldstad, O.-H., E. Ngalewa and L. Katera (2008), *Citizens demand tougher action on corruption in Tanzania*, Dar es Salaam: Research on Poverty Alleviation, (REPOA Brief).
- Freedom House, Country Report: *Ethiopia* (<http://freedomhouse.org/template.cfm?page=22&year=2011&country=8036>, (accessed 02.10.2011).
- Frey, B. S. (1997), *Not just for the money: an economic theory of motivation*, Northampton, M.A.: Edward Elgar Publishing.
- Government of Malawi (2011), *GDP Flash - Second Edition*, Zomba: National Statistical Office.
- Human Rights Watch (2010), *Development without Freedom: How Aid Underwrites Repression in Ethiopia*.
- Jansen, E.G. (2009a), *Monitoring Aid: Lessons from a Natural Resources Programme in Tanzania*, Bergen: U4 Anti-Corruption Resource Centre, (U4 Practice Insight 2009:1).
- Jansen, E.G. (2009b), *Does aid work? Reflections on a natural resources programme in Tanzania*, Bergen: U4 Anti-Corruption Resource Centre, (U4 Issue Paper 2009:2).

- Kolstad, I. and V. Fritz (2008), *Corruption and Aid Modalities, Bergen: U4 Anti-Corruption Resource Centre, (U4 Issue Paper 4).*
- Ministry of Finance and Economic Development (2008), *Ministry of Finance and Economic Development Directive on the Channel and Budgetary Projects Expenditure Payment System, Addis Ababa.*
- Office of the President and Cabinet (2006), *Travel Policy for the Malawi Public Service (Final Draft), Lilongwe: Office of the President and Cabinet.*
- Office of the President and Cabinet (2011), *Expenditure Control Measures (Ref. 15/15/1), Lilongwe: Government of Malawi.*
- Office of the President and Cabinet (2011), *Supplementary Expenditure Control Measures (Ref. No. 15/15/1), Lilongwe: Government of Malawi.*
- OECD (2005 and 2008), *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, Paris: Organisation for Economic Development and Cooperation, <http://www.oecd.org/dataoecd/11/41/34428351.pdf> (accessed 18.01.2012).*
- OECD (2011), *Staff Regulations, Rules and Instructions Applicable to Officials of the Organisation, Paris: Organisation for Economic Development and Cooperation at <http://www.oecd.org/dataoecd/30/11/47834682.pdf>.*
- OECD/DAC (2011), *Aid Statistics, Recipient Aid Charts, Paris: Organisation for Economic Co-operation and Development (http://www.oecd.org/countrylist/0,3349,en_2649_34447_25602317_1_1_1_1,00.html#E), (accessed 02.10.2011).*
- Peprah, I. and R. Mangani (2010), *Government of Malawi: Public Expenditure Review of Travel, (Study Funded by DFID Malawi), Lilongwe: Government of Malawi.*
- Policy Forum (in collaboration with Twaweza) (2009), *Reforming allowances: A win-win approach to improved service delivery, higher salaries for civil servants and saving money, Dar es Salaam: Policy Forum (Policy Brief No. 9).*
- Sikika and Policy Forum (2010), *Unnecessary expenditures: a brief on the government's initiative to refocus expenditures, Report Volume 2, Dar es Salaam: Sikika and Policy Forum.*
- Smith, D. J. (2003), 'Patronage, per diems and the 'workshop mentality': the practice of family planning programs in Southeastern Nigeria', *World Development*, vol. 31, no. 4.

- Therkildsen, O. and P. Tidemand (2008), *Staff management and organisational performance in Tanzania and Uganda: public service perspectives*, Copenhagen: Danish Institute for International Studies.
- Transparency International (2011) *Annual report 2010*, Berlin: Transparency International.
- Transparency International (2010), *Global Corruption Report 2009*, Berlin: Transparency International.
- Vian, T., C. Miller, Z. Themba and P. Bukuluki (2011), *Perceptions of per diems in the health sector: Evidence and implications*, Bergen: U4 Anti-Corruption Resource Centre, (U4 Issue 2011:6).
- World Bank (2010), *Ethiopia Protection of Basic Services Program Phase II Project*, <http://web.worldbank.org/external/projects/main?Projectid=P103022&theSitePK=40941&pagePK=64283627&menuPK=228424&piPK=73230>, (accessed 02.10.2011).
- World Bank (2011), *Country Data: Malawi*, Washington D.C.: World Bank.
- World Bank (2011), *Data: Indicators* (<http://data.worldbank.org/indicator>, (accessed 02.10.2011).

EVALUATION REPORTS

7.99	Policies and Strategies for Poverty Reduction in Norwegian Development Aid	3.07	Evaluation of the Effects of the using M-621 Cargo Trucks in Humanitarian Transport Operations
8.99	Aid Coordination and Aid Effectiveness	4.07	Evaluation of Norwegian Development -Support to Zambia (1991 - 2005)
9.99	Evaluation of the United Nations Capital Development Fund (UNCDF)	5.07	Evaluation of the Development -Cooperation to Norwegian NGOs in Guatemala
10.99	Evaluation of AWEPA, The Association of European Parliamentarians for Africa, and AEI, The African European Institute	1.08	Evaluation: Evaluation of the Norwegian Emergency Preparedness System (NOREPS)
1.00	Review of Norwegian Health-related Development Cooperation 1988–1997	1.08	Study: The challenge of Assessing Aid Impact: A review of Norwegian Evaluation Practise
2.00	Norwegian Support to the Education Sector. Overview of Policies and Trends 1988–1998	1.08	Synthesis Study: On Best Practise and Innovative Approaches to Capacity Development in Low Income African Countries
3.00	The Project "Training for Peace in Southern Africa"	2.08	Evaluation: Joint Evaluation of the Trust Fund for Environmentally and Socially Sustainable Development (TFESSD)
4.00	En kartlegging av erfaringer med norsk bistand gjennomfrivillige organisasjoner 1987–1999	2.08	Synthesis Study: Cash Transfers Contributing to Social Protection: A Synthesis of Evaluation Findings
5.00	Evaluation of the NUFU programme	2.08	Study: Anti- Corruption Approaches. A Literature Review
6.00	Making Government Smaller and More Efficient. The Botswana Case	3.08	Evaluation: Mid-term Evaluation of the EEA Grants
7.00	Evaluation of the Norwegian Plan of Action for Nuclear Safety Priorities, Organisation, Implementation	4.08	Evaluation: Evaluation of Norwegian HIV/AIDS Responses
8.00	Evaluation of the Norwegian Mixed Credits Programme	5.08	Evaluation: Evaluation of the Norwegian Research and Development Activities in Conflict Prevention and Peace-building
9.00	"Norwegians? Who needs Norwegians?" Explaining the Oslo Back Channel: Norway's Political Past in the Middle East	6.08	Evaluation: Evaluation of Norwegian Development Cooperation in the Fisheries Sector
10.00	Taken for Granted? An Evaluation of Norway's Special Grant for the Environment	1.09	Evaluation: Joint Evaluation of Nepal's Education for All 2004-2009 Sector Programme
1.01	Evaluation of the Norwegian Human Rights Fund	1.09	Study Report: Global Aid Architecture and the Health Millennium Development Goals
2.01	Economic Impacts on the Least Developed Countries of the Elimination of Import Tariffs on their Products	2.09	Evaluation: Mid-Term Evaluation of the Joint Donor Team in Juba, Sudan
3.01	Evaluation of the Public Support to the Norwegian NGOs Working in Nicaragua 1994–1999	2.09	Study Report: A synthesis of Evaluations of Environment Assistance by Multilateral Organisations
3A.01	Evaluación del Apoyo Público a las ONGs Noruegas que Trabajan en Nicaragua 1994–1999	3.09	Evaluation: Evaluation of Norwegian Development Cooperation through Norwegian Non-Governmental Organisations in Northern Uganda (2003-2007)
4.01	The International Monetary Fund and the World Bank Cooperation on Poverty Reduction	3.09	Study Report: Evaluation of Norwegian Business-related Assistance Sri Lanka Case Study
5.01	Evaluation of Development Co-operation between Bangladesh and Norway, 1995–2000	4.09	Evaluation: Evaluation of Norwegian Support to the Protection of Cultural Heritage
6.01	Can democratisation prevent conflicts? Lessons from sub-Saharan Africa	4.09	Study Report: Norwegian Environmental Action Plan
7.01	Reconciliation Among Young People in the Balkans An Evaluation of the Post Pessimist Network	5.09	Evaluation: Evaluation of Norwegian Support to Peacebuilding in Haiti 1998–2008
1.02	Evaluation of the Norwegian Resource Bank for Democracy and Human Rights (NORDEM)	6.09	Evaluation: Evaluation of the Humanitarian Mine Action Activities of Norwegian People's Aid
2.02	Evaluation of the International Humanitarian Assistance of the Norwegian Red Cross	7.09	Evaluation: Evaluation of the Norwegian Programme for Development, Research and Education (NUFU) and of Norad's Programme for Master Studies (NOMA)
3.02	Evaluation of ACOPAM An ILO program for "Cooperative and Organizational Support to Grassroots Initiatives" in Western Africa 1978 – 1999	1.10	Evaluation: Evaluation of the Norwegian Centre for Democracy Support 2002–2009
3A.02	Évaluation du programme ACOPAM Un programme du BIT sur l'« Appui associatif et coopératif aux Initiatives de Développement à la Base » en Afrique de l'Ouest de 1978 à 1999	2.10	Synthesis Study: Support to Legislatures
4.02	Legal Aid Against the Odds Evaluation of the Civil Rights Project (CRP) of the Norwegian Refugee Council in former Yugoslavia	3.10	Synthesis Main Report: Evaluation of Norwegian Business-related Assistance
1.03	Evaluation of the Norwegian Investment Fund for Developing Countries (Norfund)	4.10	Study: Evaluation of Norwegian Business-related Assistance South Africa Case Study
2.03	Evaluation of the Norwegian Education Trust Fund for African the World Bank	5.10	Study: Evaluation of Norwegian Business-related Assistance Bangladesh Case Study
3.03	Evaluering av Bistandstorgets Evalueringsnettverk	6.10	Study: Evaluation of Norwegian Business-related Assistance Uganda Case Study
1.04	Towards Strategic Framework for Peace-building: Getting Their Act Together. Overview Report of the Joint Utstein Study of the Peace-building.	7.10	Evaluation: Evaluation of Norwegian Development Cooperation with the Western Balkans
2.04	Norwegian Peace-building policies: Lessons Learnt and Challenges Ahead	8.10	Evaluation: Evaluation of Transparency International
3.04	Evaluation of CESAR's activities in the Middle East Funded by Norway	9.10	Study: Evaluability Study of Partnership Initiatives
4.04	Evaluering av ordningen med støtte gjennom paraplyorganisasjoner. Eksempelfisert ved støtte til Norsk Misjons Bistandsnemda og Atlas-alliansen	10.10	Evaluation: Democracy Support through the United Nations
5.04	Study of the impact of the work of FORUT in Sri Lanka: Building Civil Society	11.10	Evaluation: Evaluation of the International Organization for Migration and its Efforts to Combat Human Trafficking
6.04	Study of the impact of the work of Save the Children Norway in Ethiopia: Building Civil Society	12.10	Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative (NICFI)
1.05	–Study: Study of the impact of the work of FORUT in Sri Lanka and Save the Children Norway in Ethiopia: Building Civil Society	13.10	Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Brasil
1.05	–Evaluation: Evaluation of the Norad Fellowship Programme	14.10	Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Democratic Republic of Congo
2.05	–Evaluation: Women Can Do It – an evaluation of the WCDI programme in the Western Balkans	15.10	Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Guyana
3.05	Gender and Development – a review of evaluation report 1997–2004	16.10	Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Indonesia
4.05	Evaluation of the Framework Agreement between the Government of Norway and the United Nations Environment Programme (UNEP)	17.10	Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Tanzania
5.05	Evaluation of the "Strategy for Women and Gender Equality in Development Cooperation (1997–2005)"	18.10	Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative
1.06	Inter-Ministerial Cooperation. An Effective Model for Capacity Development?	1.11	Evaluation: Results of Development Cooperation through Norwegian NGO's in East Africa
2.06	Evaluation of Fredskorpset	2.11	Evaluation: Evaluation of Research on Norwegian Development Assistance
1.06	– Synthesis Report: Lessons from Evaluations of Women and Gender Equality in Development Cooperation	3.11	Evaluation: Evaluation of the Strategy for Norway's Culture and Sports Cooperation with Countries in the South
1.07	Evaluation of the Norwegian Petroleum-Related Assistance	4.11	Study: Contextual Choices in Fighting Corruption: Lessons Learned
1.07	– Synteserapport: Humanitær innsats ved naturkatastrofer: En syntese av evalueringsfunn	5.11	Pawns of Peace. Evaluation of Norwegian peace efforts in Sri Lanka, 1997-2009
1.07	– Study: The Norwegian International Effort against Female Genital Mutilation	6.11	Joint Evaluation of Support to Anti-Corruption Efforts, 2002-2009
2.07	Evaluation of Norwegian Power-related Assistance	7.11	Evaluation: Evaluation of Norwegian Development Cooperation to Promote Human Rights
2.07	– Study Development Cooperation through Norwegian NGOs in South America	8.11	Norway's Trade Related Assistance through Multilateral Organizations: A Synthesis Study
		9.11	Activity-Based Financial Flows in UN System: A study of Select UN Organisations
		10.11	Evaluation of Norwegian Health Sector Support to Botswana
		1.12	Mainstreaming disability in the new development paradigm

Norad

Norwegian Agency for
Development Cooperation

Postal address

P.O. Box 8034 Dep. NO-0030 OSLO

Visiting address

Ruseløkkveien 26, Oslo, Norway

Tel: +47 23 98 00 00

Fax: +47 23 98 00 99

No. of Copies: 400

postmottak@norad.no

www.norad.no

