

## Benefits and drawbacks of per diems: Do allowances distort good governance in the health sector?

Per diems, or daily allowances, are an important mechanism for reimbursing work-related expenses, encouraging participation in professional development activities, and motivating under-paid employees. Yet, sometimes employees may abuse per diem policies by falsifying travel reports or inflating workshop budgets for private gain. In addition, the possibility of earning per diem can have a distorting impact on programme design, management decisions, and how employees spend their time. Drawing on a focus group and interviews with experienced development professionals, this U4 Brief explores the benefits and drawbacks of per diems, especially their potential negative impact on development goals.

### What is per diem?

When people travel for work, they are generally entitled to reimbursement for travel-related expenditures on meals, accommodation, and incidentals. One mechanism for paying these expenses is through per diem. The term *per diem* is Latin for “by the day”, and refers to prospectively determined daily allowance paid by an employer, development agency or client, to cover approved employee expenditures. Sometimes referred to as Daily Subsistence Allowance,<sup>1</sup> the allowance is always calculated based on number of days, and may be paid in advance or after expenses have been incurred. In some organisations, itemised receipts are not required for per diem allowances. At other times, the policy may separate hotel expense from meals and incidentals, reimbursing daily hotel expense based on actual receipt (up to a set maximum level), while the portion of the allowance meant for meals and incidentals is justified by the number of days of travel without regard to actual expenditures. Organisational policies generally explain eligibility, calculation of per diems, and procedures for payment.

### Benefits of per diem

Per diem payments serve two official functions in organisations: covering work-related expenses and encouraging professional development. In addition, they may also be an important means of providing financial incentives to employees to increase job satisfaction.

### Covering work-related expenses

Employees should not have to pay out-of-pocket for reasonable expenses incurred whilst travelling on official business. Sometimes these expenses are predictable, in which case it is more efficient for accounting systems to reimburse employees based on prospectively-determined per diem amounts, rather than actual expenditures. Reimbursing expenses through the use of per diem payments also increases efficiency by controlling the maximum amount employees can spend, thus preventing lavish spending on high priced hotels or meals.

### Encouraging professional development

People are more likely to attend optional trainings or meetings at which they will learn new professional skills if they are reimbursed for the expenses required to attend these meetings. Organisations or donors who wish to support professional development in the work force may be willing to pay per diems to encourage attendance at trainings, workshops, and conferences where information is shared and knowledge can be gained.

### Providing incentives

In some countries, employees are poorly paid. Low salaries translate into low levels of motivation to participate wholeheartedly in efforts to achieve organisational goals. Moreover, in countries hard hit by the AIDS pandemic, people with jobs often have the added burden of caring for orphans. These employees may rely on per diem payments to supplement their income. Getting a per diem allowance can help to increase their motivation and help them to make ends meet.

### Problems with per diems

Reimbursing work-related expenses and encouraging professional development are important staff benefits and a key component of human resource management policies. However, per diems can also produce



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negative incentives and provide opportunities for abuse. One writer (Jack 2009) called per diems “a form of institutionalised, legal time-wasting that is endemic ... and an unwelcome global phenomenon legitimised by donors and international organisations alike”. Another international development blogger (Grepin 2009) observed that some staff attend meetings in languages they cannot understand for the sole purpose of earning per diem, suggesting that development aid is being wasted or may not be having the intended impact. Whilst providing incentives to motivate employees is a worthwhile goal, per diem does not directly confront the problem of low wages and may actually have a negative impact on development by falsely inflating the need for travel or re-directing employees’ time towards less productive activities. Some of the disincentives of per diems include:

#### **Determining work plan and strategy based on per diem maximisation**

Some people exploit the system. They may decide to hold a meeting or training programme in a distant location, so that all attendees have to travel to the meeting and can therefore get per diem. They justify this by arguing that people can focus more if the meeting is off-site, but does location really improve quality or outcomes of meetings? Some evidence suggests that residential training programmes are no more effective than non-residential programmes, yet residential programmes may cost a lot more due to the expenses of accommodation and allowances. One study in Zambia showed that residential training in Integrated Management of Childhood Illness cost twice as much as non-residential training, yet skills and knowledge of participants tested at three and six months after training were about equal (Mukuka 2004).

#### **Going to the field or a meeting, even if there’s no need**

Per diems provide a positive incentive to go to the field, especially if payments are in hard currency. People might even go to the field when it isn’t necessary. In many cases, it is clear that the travel is inspired by the desire to gain income, as personnel even forego meals in order to save their per diem money. One international consultant described such a situation: “The local research institution pays very low salaries, and the only way the local team can make any money is through the per diems. They need the per diems so badly that they won’t use them on food or won’t eat adequately, so I ended up using our project funds to provide meals for them most days” (focus group participant).

#### **Sending the wrong people for training**

Opportunities to gain per diem, especially within hierarchical organisations, create incentives not to delegate appropriately. Whilst a junior staff member might be the ideal person to attend a skill-based training, her supervisor may choose to attend the training instead. The person who could have used the training is denied the opportunity to improve her skills, whilst the person who does

attend may not contribute to or benefit from the experience because she lacks the right prerequisites. Ultimately, programmes could fail because of ineffective training.

#### **Slowing down government operations**

Just as per diems encourage senior managers to attend trainings instead of sending their subordinates, the lure of per diem revenue encourages high level government officials to attend meetings and conferences rather than fulfilling administrative tasks which would require time at their desks. As the senior officials attend meetings to gain per diem, tasks such as approving budgets, signing contracts, or supervising personnel are delayed or neglected. An official in Ethiopia claimed that donor organisations were out-bidding each other, paying higher and higher per diems and drawing staff away from their jobs (Grepin 2009). As one official from an international charity remarked, “It was impossible to set ambitious targets [for work] as staff were on modest salaries that could only be improved with per diems paid for each official trip and meeting” (Jack 2009).

#### **Changing norms and decreasing intrinsic motivation**

Another problem with per diems is that beneficiaries start to demand to be paid for any type of training or meetings, regardless of whether the employee incurred expenses. A Tanzanian doctor reported being paid an allowance to attend a meeting which was only a short walk from her office because the organisers believed no one would attend the meeting if they were not paid (Jack 2009). The need to pay per diems to ensure attendance at meetings or trainings can especially disadvantage smaller non-governmental organisations which cannot afford to do more than reimburse actual expenses. One organisation working in Southern Sudan encountered negative reactions from participants who demanded per diems. A focus group participant explained: “It reached a point where in the evaluation form space for ‘How do you think we can improve the course?’ all people would say is ‘We need sitting allowance. It is unfair to bring us all this way; we have left our families and no sitting allowance’”.

Intrinsic motivation falls, and people are increasingly motivated financially. They may feel envious, or unfairly treated, when they see what others are earning in per diems. One international consultant has seen this happen in her work, stating “I found that we had a hard time getting local researchers to focus on the work. They were much more interested in ... their per diems. I left thinking they were not very interested in the study at all”. Related is the issue of the use of “top ups” to reward staff for performing tasks outside their daily work. Willingness to include top-up payments as an incentive in projects has increased in many countries, due to the inability of wages to keep pace with inflation and pressure from competing donor agencies eager to achieve results – and willing to pay to get them.

### **Favouring certain types of work over others**

Given a choice, many people will apply for assignments for which there are per diems involved, and especially those tasks with the highest per diems. One example is National Immunisation Days in Nigeria, where health personnel at all levels tried to become involved because they would be able to gain from per diems. These pressures can result in more human resources being committed to the task than can be used effectively and efficiently.

### **Fostering dependence**

As government workers seek more revenue from allowances, they may favour programmes directed by external agencies, which sometimes pay higher rates than government. Even where donors set rates that do not exceed government rates, the revenue from allowances still fosters dependence. As a result, civil servants have less incentive to advocate for a living wage or fairer compensation package from their own government.

### **Creating pressure and opportunities for fraud**

The enticement of per diem also creates pressure for fraud and kickbacks of per diem revenue. In some cases, people falsify records or receipts in order to gain more per diem. They may claim more days of travel than they actually incurred – as in the case of a government official in Malawi who reportedly collected over 1,000 days of per diem allowance in one year. Participants in a U4 anti-corruption workshop in Malawi also described other examples of per diem scam: for example a government official who did not even bother to attend the trainings at all, instead sending his driver to collect per diems and sign on his behalf. Other participants noted that some managers who select staff to attend international trainings expect the staff member to share or “kickback” a portion of the per diem. A third type of fraud mentioned was where attendance lists are falsified and allowances “skimmed”. Participants are asked to sign a statement that they received their allowance, but the amount is not listed on the form when it is being signed. This allows the training organiser to pay the participant less than the official amount. For example, participants may be paid \$30 in per diem, but the amount written in later is \$40, allowing the organiser to skim \$10 per participant. Sometimes whole workshops are faked, as happened in Malawi. The workshop never occurred, but the government official tried to charge training expenses to the budget. The scam unravelled when some personnel in the office refused to sign a sheet certifying that they had received per diem. Stories such as these abound, but it is not clear to what extent such practices are viewed as justified.

### **Institutional capture**

Policies and procedures of government agencies may be affected by the incentives of per diems. On the one hand, the influence of per diems can result in policies which increase costs without benefits. For example, the National AIDS Committee (NAC) in

Cameroon created a policy requiring sub-grantee organisations to invite NAC experts to all trainings and pay them generous honoraria and per diems. This allowed the NAC experts to gain personally from the donor funding they were asked to administer. On the other hand, government decisions meant to curb negative effects of per diems may also have unintended consequences. For example, the government of Lesotho was concerned that officials were abusing travel budgets for private gain. To control these abuses, the government made drastic cuts to budget requests (with the rationale that if you do not have a budget you cannot abuse it). Donors will undoubtedly step in to finance trainings and attendance at meetings, since participating agencies now cannot afford to pay from their own budgets. The result could be less government ownership of priority-setting and human resource development, with little change in the frequency of the abusive practices themselves.

### **Discussion**

The first question which must be asked is whether this a problem worth addressing, and if so, how does it relate to good governance? Some people believe that the negative impact of allowances needs to be considered in relation to other development problems. According to this argument, while per diem policies may create distortions and change attitudes of health workers, rather than trying to address the problem of the “per diem culture”, we can make greater progress in development by addressing poverty or improve health service delivery. Others believe that problems with abuse of vehicles, financial fraud, or other types of mismanagement may be more serious impediments to good governance than the per diem problem, and therefore demand priority attention. As one development professional said, “I do not think [the issue of allowances] is bad governance or corruption. It is a management, and probably a donor-initiated problem. Country nationals have just perfected the ‘per diem game’”.

To the extent that per diems are perceived as a necessary part of doing business, these arguments may be an attempt to rationalise existing practices and avoiding change. More empirical research may be needed to sort out the facts. If negative impacts of per diem practices can be established, this evidence could convince professionals in this field that change is needed. Such studies may include assessing the scope and nature of problems arising from per diem policies in different countries, and measurement of the cost and impact of policies on health systems and health programme outputs.

For people who are already convinced that this problem is important, questions still remain. Three sets of issues could benefit from further debate, including the purpose and value of incentives, donor coordination in per diem policies, and per diem fraud control.

### **Purpose and value of incentives**

In most countries, per diem amounts go well beyond the purpose of reimbursing actual work-related expenses. In fact, per diems are a form of salary support. Is it wrong for development agencies to want to give these types of incentives to poorly paid employees? What other options exist? Is it possible to set per diem levels and define policies which will create incentives without the negative effects? The size of the per diem in relation to the employee's daily wage seems to be an important factor, and should be studied further. When a person is given the opportunity to earn a per diem that is equivalent to two weeks' or two months' salary, it is a very powerful incentive. Greater transparency and accountability is needed to assure that these powerful incentives are managed in ways that best promote the public good.

### **Donor coordination**

Part of the problem is that we seem to be in a per diem "arms race", where external donors bid up allowances in an attempt to get key decision makers to prioritise the donor's activities. In some cases, national governments contribute to the "per diem race" by setting unrealistically high allowances. Is it possible for donors and government agencies to coordinate their allowance policies and de-escalate this race? Previous attempts to align procedures have failed. Someone always seems to break rank, thus further undermining trust between donors in the field. However, we do not know at this stage whether coordination of per diem policies will reduce negative impacts. These are important questions for analysis and discussion.

One way to promote donor coordination is to share best practices in administration of per diems to avoid perverse incentives. For example, a faith-based organisation in Cameroon developed procedures which required employees who were paid externally-funded per diems to return the excess amount (over actual expenses) to the project budget account. The administrator was able to get people to follow the new policy through strong leadership and transparency in showing how the "excess per diem" revenue was funding the expansion of programme activities. After three months, the people working on the project began to see the results they were able to accomplish and became committed to the programme because of these results. Per diems were no longer an issue.

Documentation of similar experiments with the management of per diem incentives could help

spread the adoption of more rational policies. Donor organisations could benefit from guidance on how to set levels of per diems to avoid per diem escalation.

### **Fraud control**

Whether per diem policies change or not, the problem of fraud should be addressed. Guidance is needed on how to create procedures to prevent and detect common types of fraud in cost-effective ways. Investment in fraud control often pays for itself (Vian 2009). Actions to control per diem-related fraud should be part of a comprehensive strategy for financial fraud control in health programmes.

### **Conclusion**

Policies to pay per diems and allowances in developing countries can sometimes create distortions in time and resource allocation, and may provide pressures and opportunities for fraud. More work is needed to understand the complex interactions between per diem payments, motivation, governance and programme management. Qualitative research to explore how recipients and payers of per diems perceive the benefits and possible negative incentives would be a helpful first step in understanding the potential impact of per diem policies and practices on aid effectiveness and development. It could also help us identify appropriate and sustainable remedies to the problem. ■

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### **Endnotes**

- <sup>1</sup> See, for instance, the International Civil Service Commission materials (2009).