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**Technical Paper on modalities of operationalization of Staff Revolving Fund,**

**(**Established by Council in November 2018)

***THEME: COMESA - Towards Digital Economic Integration***

*AM/2019*

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**TECHNICAL PAPER ON MODALITIES OF OPERATIONALIZATION OF STAFF REVOLVING FUND,**

(Established by Council in November 2018)

# SUBMISSION

This paper seeks to obtain consideration by the Inter-Governmental Committee to **operationalize** the Staff Loan and Advances Revolving Fund **established and approved by Council in November 2018**.

It is being submitted at this **extra-ordinary meeting of Council, based** on the following: -

1. Lack of fund to pay for staff loans and instead use of Reserve Fund, is one of the Basis for a qualified opinion by COBEA;
2. Need for COMESA Secretariat to achieve regulatory compliance, before the commencement of 2018 COBEA Audit; and
3. Need to address this recurrent audit finding.

It achieves alignment of current instruments, as follows: -

1. Staff Rules 35 and 44 establishes a contractual right to staff loans and advances; and
2. Staff Revolving Fund is established for the financing of these staff loans and advances. This avoids Reserve Fund being deprived of funds which are held in staff loans and advances.
3. Prior to 2014 Edition of Financial Rules, the Secretary General was able to utilize prior year accumulated fund to pay for staff loans and advances – as staff loans and advances were considered as “*unforeseen and unbudgeted expenditure purpose.”* The Secretary General did not require prior approval of the Bureau to utilize the Reserve Fund. These funds were returned to the Reserve Fund, as and when receipts were obtained.
4. Financial Rules (2014 Edition): Introduced a prior approval requirement of the Bureau and or Council to utilize Reserve Fund

Council in November 2018 approved the establishment of staff loan revolving fund for purposes of providing loans permitted under Staff Rule 44. The Secretariat was directed to submit modalities on its establishment and operations at the next meeting of Council.

This paper invites the Council, in line with its mandate under Article 170 (Financial Regulations), to specifically consider and approve the following modalities: -

1. Initial amount of US$350,000 (i.e. 4% of annual staff emoluments) for Staff Loans and Advances Revolving Fund established by Council in November 2018 and its backdating to 01 January 2018, as staff loans and advances availed under the contractual framework were financed by the Reserve Fund. It should be noted that provision of staff loans and advances is under contractual obligations of COMESA Secretariat.
2. Reserve Fund, as the source of the transfer of US$350,000 into Staff Loans and Advances Revolving Fund.
3. Ratification of amounts held as staff loans and advances for 2018.
4. Maintaining interest rate at 3% per annum. This is supported by LIBOR per annum which is currently at 3.00544% per annum.
5. Reference to LIBOR per annum (365 days)[[1]](#footnote-1) - as the interest rate to be charged on staff loans, whose repayment period exceeds 6 months, varied by the loan repayment period adjusted for reduced and or increased period.
6. Financial Rules governing the Staff loans and advances Revolving Fund, as per Annex I.

# PART I: BACKGROUND

# Introduction

Article 7 (Organs of the Common Market) establishes the COMESA Secretariat as an Organ of the Common Market.

Pursuant to its functions under Article 17, the COMESA Secretariat serves as the principle executive organ of the Common Market. Article 17 (1 - 2) designates the Secretary General, as the Secretary General of the Common Market and its Chief Executive Officer.

Article 17 (3) stipulates that in addition to the Secretary-General, the Secretariat shall have “two Assistant Secretaries-General who shall be appointed by the Authority, and such other staff of the Secretariat as the Council may determine.”

The following provisions under the Treaty sets out the contractual framework for Secretary General; Assistant Secretary Generals; and staff of the Secretariat: -

* **Article 17(4):** *The terms and conditions of service of the Secretary-General and the Assistant Secretaries-General shall be determined by the Authority. The terms and conditions of service of the other staff of the Secretariat shall be determined by the Council.*
* **Article 17(5):** *In appointing staff to offices in the Secretariat, regard shall be had, subject to the paramount importance of securing the highest standards of integrity, efficiency and technical competence, to the desirability of maintaining the principle of equal opportunities and an equitable distribution of appointments to such offices among citizens of all the Member States*.

**Article 17 (6):** *In the performance of their duties, the Secretary-General and Assistant Secretaries-General and the staff of the Secretariat shall not seek or receive instructions from any Member State or from any other authority external to the Common Market. They shall refrain from any actions which may adversely reflect on their position as international officials and shall be responsible only to the Common Market.*

**Article 17 (7):** *Each Member State undertakes to respect the international character of the responsibilities of the Secretary-General, Assistant Secretaries-General and the other staff of the Secretariat and shall not seek to unduly influence them in the discharge of their responsibilities.*

# Staff loans and advances

### 2.1 Staff contractual framework

Recognizing the legal framework set by the Treaty, the Council has enacted two sets of Rules, being Executive Rules: applicable to Secretary General and Assistant Secretary Generals and Staff Rules and Regulations: applicable to all staff of the COMESA Secretariat.

Staff Rules and Regulations also apply to Secretary General and Assistant Secretary Generals, unless specific provisions exist in Executive Rules.

Each Employment contract, which is signed between the Secretary General, as Contracting Authority and an Individual, as an Employee

Staff loans and advances, are available to staff of COMESA Secretariat. This is consistent with international character of COMESA Secretariat. Staff of the COMESA Secretariat are provided by the Host Country and Member States of COMESA.

### 2.2 Welfare purpose of staff loans and advances

Availing of loans and advances to COMESA Secretariat staff is consistent with international character of COMESA Secretariat. Staff Rules and Regulations specifically outline the following worthy purpose, which may justify a staff loan and or advance approved by Secretary General and or as delegated by Secretary General: -

| Basis | Purpose | Specific circumstances, where financial assistance has been granted |
| --- | --- | --- |
| Staff Rule 35 (1) (Salary advance) | Proceeding on leave | Financial assistance, whilst proceeding and or on leave. COMESA Secretariat does not provide leave grant for professional staff, unlike other RECs’ Only transport is paid to facilitate home leave. |
| Staff Rule 35 (3) (Salary advance) | Exceptional and compelling | 1: Funeral for family members [not covered by dependency provisions under Staff Rule and Regulations], e.g. parents and other close family members |
| 2: Region, still faces high-levels of HIV & Pandemic, requiring staff to take over support of children, other than own and or adopted children. Support include: -   * Education * Medical |
| 3: Where a staff, has more than 4 children, biological or adopted, financial assistance towards: -   * Education * Medical cost |
| 4: Top up, where a staff exceeds, entitlement   * Education allocation for a year: * Professional staff per child per year up to 4]: US$4,950, with staff paying 25%. * General staff per child per year up to 4]: US$2,880, with staff paying 25%. * Medical cost reimbursement for a year * Professional staff per year family]: US$3,750, with staff paying 20%. * General staff per year family]: US$3,750, with staff paying 20%. |
| Other financial assistance requests linked to payment of cash allowances, e.g. housing allowance. |
| Staff Rule 44 (Loans) | Housing | **1: For Local staff:** Linked, with housing allowance as a number of rented properties require the following: -   * Security deposits * Advance rental payments |
| **2: For Local staff:** Financial assistance is granted towards building and or construction of house. |
| **3: For international staff**: Linked, with housing allowance as a number of rented properties require the following: -   * Security deposits * Advance rental payments |
|
| Transport | Financial assistance towards purchase of a vehicle |

*Control 1: Monthly net basic pay not to fall under 30%, after loans and advances deduction.*

*Control 2: Maximum advance granted not to exceed two months basic salaries (Staff Rule 35(2))*

### **2.3 Average amounts held as Staff Loans and Advances (2016 to 2018)**

A review of accounts indicates the following closing balances: -

|  |  |  |  |
| --- | --- | --- | --- |
| Item | Closing amounts (in US$) | | |
| 2018 [provisional amount] | 2017 | 2016 |
| Staff loans | 200,000 | 186,196 | 174,377 |
| Advances | 150,000 | 88,853 | 134,122 |
| Total | 350,000 | 275,049 | 308,499 |

The above funds, if not held in staff loans and advances should have been part of cash transferred into the Reserve Fund.

### Staff loan revolving fund

In November 2018, Council approved the establishment of staff loan revolving fund for purposes of providing loans permitted under Staff Rule 44. The Secretariat was directed to submit modalities on its establishment and operations at the next meeting of Council.

# PART II: ISSUES BEING ADDRESSED IN THIS SUBMISSION

# Review of key issues

### 3.1 Staff welfare in line accordance with COMESA international character

1. Provisions enabling COMESA Secretariat to avail staff loans and advances reflect adherence to the Treaty, particularly the following provisions: -

* In appointing staff to offices in the Secretariat, regard shall be had, subject to the paramount importance of securing the highest standards of integrity, efficiency and technical competence, to the desirability of maintaining the principle of equal opportunities and an equitable distribution of appointments to such offices among citizens of all the Member States **(Article 17) (5);**
* In the performance of their duties, the Secretary-General and Assistant Secretaries-General and the staff of the Secretariat shall not seek or receive instructions from any Member State or from any other authority external to the Common Market. They shall refrain from any actions which may adversely reflect on their position as international officials and shall be responsible only to the Common Market **(Article 17)(6);** and
* Each Member State undertakes to respect the international character of the responsibilities of the Secretary-General, Assistant Secretaries-General and the other staff of the Secretariat and shall not seek to unduly influence them in the discharge of their responsibilities **(Article 17) (7).**

1. In accordance with the above framework given by the Treaty, COMESA Staff Rules and Procedures has provisions which strengthen staff to achieve compliance with professional ethical requirements. The staff loans and advances contribute as follows: -

* Enabling staff from the 21 Member States to settle at a duty station by availing financial assistance in the form of staff loans and advances. Such support is required in respect of housing and transport, as staff relocates to a new environment.

*Note that international staff may require a lengthy period of time to be able to access financial facilities (i.e. personal bank facilities) at a duty station.*

* The financial resources availed by COMESA to address settling-in requirements, also empowers staff as they do not have to seek such facilitation from originating countries and unknown sources.

1. The establishment of Staff Loans and Advances Revolving Fund demonstrates the significance of staff welfare contractual provisions in accordance with Treaty provisions (Article 17) and is also consistent with best international practice and practices in RECs.

### 3.2 Preservation of contractual rights

1. Employment contracts signed between the COMESA Secretariat, through its Secretary General and Individual Staff, confer rights and obligations on both parties.
2. The rights that an individual staff acquires under an employment contract, include what is specified in the contract. For COMESA Secretariat staff, these rights extend to: -

* Receipt of emoluments: salary, allowances and benefits; and
* Support and facilitation, under terms and conditions, including access to staff loans and advances.

1. The establishment of Staff Loans and Advances Revolving Fund preserves the rights regarding accessing staff loans and advances (Staff Rule 35 and 44) to qualifying staff and for eligible purposes.

### 3.3 Addressing audit findings

1. The proposal also addresses the finding of COMESA Board of External Auditors on the 2017 COMESA Secretariat financial statements. Without specific funding, COBEA concluded that the Reserve Fund is being utilized to pay staff loans contrary to Financial Rules.

#### 2017 Audit finding

1. The matter as reported by COMESA Board of External Auditors (COBEA) is re-produced as below: -

**4.2.5 - Interest on staff loans not taken to the Reserve Fund**

***Criteria:*** *COMESA Financial Rules and Regulations 2014, article 45 (e) provides that the Reserve Fund shall be credited with Proceeds from services rendered by the Secretariat and its Institutions.*

***Description of finding:*** *Contrary to these provisions, COBEA noted that COMESA Secretariat used the Reserve Fund to give loans[[2]](#footnote-2) to its staff which reached USD 103,819.44 at end of year 2017 while such utilization is not included among the authorized use of funds from the Reserve Fund in contrary with COMESA Financial Rules and Regulations 2014 Rule 46 which Specifies uses[[3]](#footnote-3) of Fund of Reserve Fund.*

*COBEA also noted that the interest on staff loans which reached USD 4,002.00 has not been included at Reserve Fund, and included at Finance income in contrary with COMESA Financial Rules and Regulations 2014, article 45 (e) stipulates that the Reserve Fund shall be credited with Proceeds from services rendered by the Secretariat and its Institutions.*

***Risk:***

1. *Noncompliance with Financial Rules and Regulations of COMESA.*
2. *Incorrect balance of the Reserve Fund as at 31/12/2017.*
3. *Incorrect balance of operating surplus.*

***Recommendation***

1. *Compliance with Financial Rules and Regulations of COMESA;*
2. *Conduct the necessary correction.*

***Management response***

|  |  |
| --- | --- |
| *Clarification* | *Interest on staff loans is transferred to Reserve Fund on an annual basis through a transfer from Accumulated Fund to the Reserve Fund.* |
| *Interest on staff loans in 2017:* | *The Secretariat issues House and Car loans to locally recruited staff of a maximum amount of COM$10,000 and COM$5,000 respectively. An interest of 3% is charged on these loans and recognised as part of the income for the year through the income and expenditure statement; and subsequently transferred to the Reserve Fund as part of the surplus for the year. The interest earned from staff loan in 2017 amounted to COM$ 4,002.* |
| *Accounting treatment* | *Interest on staff loans in recognised in the statement of income and expenditure in line with IAS 18* |
| *Corrective Action* | *N/A* |
| *Future Action to prevent the re-occurrence* | *N/A* |
| *Year-end: 31-Dec-2017* | *At year-end, the interest on staff loans in 2017 of COM$4,002 has been transferred into Reserve Fund.* |
| *Proposed action* | *There is a need to re-align requirements of: -*  *1: Financial Rules (Rule 45: Receipts into the Reserve Fund)*  *(c) Interest earned from the investment of the fund;*  *(d) Monetary donations; and*  *(e) Proceeds from services rendered by the Secretariat and its Institutions.*  *2: IAS 18:* |
| *It is against IFRS for income to be transferred direct to net assets, i.e. Reserve Fund skipping statement of income and expenditure. Equity and or net assets accounting is not permitted under IFRS.* |
| *Council is invited to consider amendment of Financial Rule 45 (c;d;e) to the effect that cash received on interest; donations and other activities be transferred from accumulated fund to Reserve Fund after audit certificate on annual financial statements of COMESA Secretariat. Current Financial Rules are incompatible with IFRS requirements.* |

***Auditor’s evaluation***

*Issue 1: Relating transferring the interest of staff loans to reserve Fund annually* ***is Resolved****.*

*Issue 2:* ***Not Resolved****. Using reserve fund on funding staff loans has not been addressed, and is against existing COMESA Financial Rules and Regulations 2014 (Rule 46) which Specifies uses of Fund of Reserve Fund.*

#### Advantages of revolving Fund

1. Revolving Funds have been established at comparable RECs for purpose of addressing staff welfare issues, considering character of RECs.
2. A revolving Fund has the following advantages: -
3. Enable staff to access financing to match timing of cash out flow requirements (e.g. fees for dependents’ education is required up-front) and spread the burden and recovery of the period the fees relate to;
4. Sets a ceiling on maximum amounts that can be approved by Secretary General, as loans and advances to staff;
5. Separate ledger account for the Staff Revolving Fund enable better monitoring of loans and advances, granted to staff;
6. Over time and based on documented practices the COMESA Secretariat can continue to improve on the underlying Staff Rules and Regulations regarding staff loans and advances;
7. Staff morale is boasted up, since employer shows care for staff welfare.
8. To overcome the potential disadvantage of a revolving credit, which is the temptation to spend money one does not have, the following controls are in place: -
9. Net earnings (after loan and advance) deduction do not fall under 30%;
10. Loans & advances against non-cash emoluments *(e.g. medical and education)* are restricted by maximum entitlements

* *e.g. House allowance – amount based on grade;*
* *Medical – US$3,750 per family per annum;*
* *Fees for dependents children of Professional Category staff – US$4,950 per qualifying child per annum (General Service Category staff – US$2,880)).*

1. Recovery of loans & advances against non-cash emoluments is over the period, the cost relates to (e.g. 3 months advance towards house allowance is deducted over a 3 months period).

#### Interest on staff loans

1. Currently, interest:
2. is charged at 3% charged on the loan amount without; and
3. is not varied based on a repayment period.
4. COBEA found that there is no decision of Council on the current interest that is charged on staff loans. COBEA recommended that a decision of the Council for interest rate be obtained.
5. COMESA is an international organisation, whose membership is made up of countries. Each country has a national Policy on interest rate, reflecting its economic development objectives *(e.g. stimulating and or cooling economic activities)*. The Policy on interest rate incorporates required cash reserves that each legitimate bank maintains, among other macro-economic considerations.
6. Based on nature of COMESA Secretariat and its character, it is important to bring out the following considerations regarding interest on staff loans and advances: -
7. Opportunity cost of the funds, that are being availed to staff includes the interest foregone. It is therefore important that staff are charged interest on the use of these funds;
8. In line with its character, COMESA Secretariat serves common objectives of all Member States, as adopted in the Treaty. The limited non-commercial purpose for which the staff loans and advances are granted, would indicate that a reference to London Interbank Offered Rate (LBOR) is more appropriate than any rate, charged by a Member State. LIBOR: -
9. is a [benchmark](https://www.investopedia.com/terms/b/benchmark.asp) rate that represents the most competitive interest rate for short-term loans;
10. is an average value of the interest-rate which is calculated from estimates submitted by the leading global banks on a daily basis; and
11. serves as the first step to calculating interest rates on various loans throughout the world.
12. The staff loans and advances, as granted are within available staff emoluments, including staff gratuity and provident fund, and recovered over the period of an employment, hence there is no risk of financial loss. This would favour a fixed interest rate, more so as any existing staff loans has to be fully repaid over the loan contracted period.
13. The above considerations suggest that: -
14. Interest be charged on amounts borrowed by staff, whose repayment period exceeds 6 months. These are for non-commercial purposes, hence a cut-off of 6 months is appropriate
15. That the interest rate be maintained at 3% per annum. Rationale is provided by London Interbank Offered Rate (LIBOR). Why LIBOR – this is the most appropriate reference framework, as it relates to **short-term borrowing**, without incorporating risk considerations for the borrower. These are the attributes that are similar to staff loans.

### 3.4 Initial amount in the Staff Loans and Advances Revolving Fund

1. The initial amount being proposed for the Revolving Fund is based on analysis of several factors, as follows: -
2. **Welfare requirements befitting an international organization in Africa**

It is critical that COMESA Secretariat is able make available financial assistance in the loans and advances to staff arriving at duty station from other countries. Critical purposes are enabling staff to secure safe and secure housing and transport.

In a region burdened by high levels of HIV and AIDS pandemic and other causes, which reduces life expectancy, it should be expected that international staff share the burden of their communities in taking care (through provision of fees for medical and education) of non-biological children which cannot be adopted.

1. **Affordability for staff to meet repayments**

Critically, COMESA Secretariat adheres to international best practice regarding net home pay. Net home pay should not fall below 30% of one’s earnings. This enable staff to meet other essentials of day to day life. This calculation takes into account allowances that are either part of regular staff (e.g. housing; dependency) and or are subject of claims (e.g. fees and costs for dependent children and medical for family)

1. **Alternative sources of competitively priced financing available to staff**

COMESA Secretariat strives to ensure that staff are able to secure alternative sources of financing, which are competitively priced.

The COMESA Secretariat discourages staff from accessing “pay day lenders,” as these can have a very significant interest not linked to rates available from commercial banks.

1. **Financial capacity of COMESA Secretariat to sustain this initial investment.**

Computation of the proposed initial investment (i.e. appropriation of funds) as a percentage of staff emoluments shall assist to demonstrate an optimal amount. This takes into account need to retain sufficiently skilled internationally and locally recruited staff.

An examination of amounts previously set aside towards staff loans and advances shall facilitate in assessing the financial capacity of COMESA Secretariat.

1. The COMESA Secretariat:
2. Considered all the above factors, including actual levels of staff remuneration and staff loans and advances for the period, 2016 to 2018;
3. has therefore determined that the most appropriate level of cash to be appropriated into Staff Loan and Advance Revolving Fund, is US$350,000; and
4. Thus, recommends that the Staff loans and Advances Revolving Fund, be set at US$350,000. The detailed workings are shown in Table 1 below: -

**Table 1: Determining initial amount to be appropriated into Staff Loans and Advances Loan Fund (all figures in US$)**

| **Item** | | **2016** | **2017** | **2018** | **2019** | **Total** | Maximum that can be borrowed, hypothetically | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Actual** | **Actual** | **Actual** | **Budget** | **Average** | Rationale | Control | Maximum, if staff were to access facility | Indicative repayment period |
| 1 | Basic Salary [Professional Staff -44; General Services Staff - 115] = 159 Total Staff | 3,966,632 | 3,895,944 | 4,595,302 | **4,746,735** | **4,152,626** | Staff loans ***(justifiable causes, including transport & house construction - Staff Rule 44)*** and other advances ***(for compelling and exceptional personal circumstances, including funeral, medical, education - Staff Rule 35 and Financial Administrative Practice 19***), with an average recovery of, 3 months. | Net basic salary less provident fund deduction (of 10%) after deduction to be above 30% | 654,039 | 3 |
| 2 | Housing Allowance | 1,449,120 | 1,479,476 | 1,881,606 | **1,902,432** | **1,603,401** | **Against housing allowance**: Landlord require 3 months advance, plus security deposit | Amount fully deducted, prior to next borrowing | 400,850 | 3 |
| 3 | Dependency Allowance | 67,225 | 70,847 | 111,136 | **89,994** | **83,070** | n/a [ spousal and dependent child, under 21 or 24, if attending full-time education] |  |  |  |
| 4 | Gratuity | 533,539 | 547,898 | 672,125 | **712,010** | **584,521** | n/a [under current Employment Contract framework, gratuity only after separation, i.e. individual no longer with COMESA Secretariat. |  |  |  |
| 5 | Terminal Benefits | 84,071 | 538,068 | 60,000 | **60,000** | **227,380** | n/a [refers to earned outstanding leave days] |  |  |  |
| 6 | Medical Allowance | 150,236 | 136,424 | 344,879 | **585,000** | **210,513** | **Against medical allowance**: Only 20%, can be recognised as advance. Reason: Individual staff reimbursed up to 80% of costs and recovered over 3 months (term/semester) | Amount borrowed to be fully deducted, prior to next borrowing | 13,157 | 3 |
| 7 | Education Allowance | 442,424 | 490,442 | 710,852 | **931,818** | **547,906** | **Against education allowance:** Only 25%, can be recognised as advance. Reason: Individual staff reimbursed up to 75% of costs and recovered over 3 months (reasonable period) | Amount borrowed to be fully deducted, prior to next borrowing | 45,659 | 3 |
| 8 | Cost of Living Adjustment |  |  | 0 | **41,688** | **0** | n/a [payable to staff at Brussels Office] |  |  |  |
| 9 | Statutory Employer Contributions |  |  | 0 | **36,000** | **0** | n/a [payable to staff at Brussels Office] |  |  |  |
| 10 | Other Allowances | 2,639 | 723 | 6,000 | **6,000** | **3,121** | n/a |  |  |  |
| 11 | Overtime | 64,186 | 72,610 | 63,000 | **68,000** | **66,599** | n/a |  |  |  |
| 12 | Temporary Assistance | 330,598 | 273,965 | 114,000 | **120,000** | **239,521** | n/a [relief staff] |  |  |  |
| 13 | Travel - Contractual | 64,895 | 70,848 | 95,000 | **100,000** | **76,914** | n/a [home leave costs] |  |  |  |
|  | **Total** | **7,155,565** | **7,577,246** | **8,653,901** | **9,399,677** | **7,795,571** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | Upper Revolving Fund required amount - if all staff were to obtain staff loans and advances | | | |  | 1,113,705 | 3 months |
|  |  |  |  | Average Amount required in Staff Revolving Fund – absolute minimum | | | |  | 371,235 | 1 month |
|  |  |  |  | % of average (4 year) staff remuneration) | | | |  | 5% |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | Compare with actual (closing year-end balance) | | | | 2018 | To complete |  |
|  |  |  |  |  |  |  |  | 2017 | 275,049 |  |
|  |  |  |  |  |  |  |  | 2016 | 309,499 |  |

# PART III: RECOMMENDATIONS

# Recommendations

This paper concludes with the following recommendations: -

### Initial amount set aside at the establishment of Staff loans and advances Revolving Fund

**Summary justification**: Based on a detailed review including demonstrated advantages and COBEA Finding (irregular use of Reserve Fund to finance staff loans) on audit of 2017 COMESA Secretariat Financial Statements, the continued adherence to contractual staffing framework comprising of *Employment Contracts*; *Staff Rules on Loans and Advances (Staff Rule 35 and 44),* as well as ensuring that *COMESA Secretariat staff are treated as international staff* as accorded under Article 17 (5 -7), it is recommended that the Council of Ministers set aside US$350,000 for 2019 for the Staff Loans and Advances Revolving Fund established in November 2018 Fund.

### 4.2 Source of financing the transfer into staff Loans and Advances Revolving Fund.

**Summary justification**: As based on current structure of financing of COMESA Secretariat all other inflows, except those approved as part of expenditure budget (capital and or revenue regular and or supplementary budget) are part of Reserve Fund, it is recommended that the Council of Minister approve transfer of US$350,000 from Reserve Fund to Staff Loans and Advances Revolving Fund for 2019.

### 4.3 Ratification of amounts held as staff loans and advances

**Summary justification**: The funds currently held in staff loan and advances account should have been part of Reserve Fund. As Reserve Fund has been deprived of these funds, it is recommended that the Council of Minister ratifies these amounts for 2018.

### 4.4 Interest to be charged on staff loans

**Summary justification**: Taking into consideration the opportunity cost of the funds, as well as that staff loans and advances are for non-commercial purpose, it is recommended that: -

1. Interest be charged on amounts borrowed by staff, whose repayment period exceeds 6 months. These are for non-commercial purposes hence a cut-off of 6 months is appropriate.
2. That interest rate be maintained at 3% per annum, based on the justification provided herein.

### 4.5 Financial Rules governing the Staff loans and advances Revolving Fund

**Summary justification**: It is recommended that Council approves an amendment to the existing Financial Rules, providing for the establishment and purpose of the Fund, as well as set Financial Rules for Accounting; Receipts into the Fund; Interest on staff loans; and use of the Fund. The amendment is attached (Annex 1 to this paper).

1. *The current 1 year LIBOR rate as of January 2019 is 3.00544%.* [↑](#footnote-ref-1)
2. ***Staff loans are availed to staff pursuant Staff Rule 35 and 44*** [↑](#footnote-ref-2)
3. ***Authorised uses of Reserve Fund (Financial Rule 46A) (1) (a – e)***

   *Payment of: -*

   *recurrent expenditure at the beginning of the year, pending receipt of contributions from member States. Upon receipt of contribution the amount shall be transferred back to the reserve;*

   *unbudgeted for but urgent and unforeseen expenditure, which cannot be deferred to the following financial year without adversely affecting the operations of the COMESA subject to the approval of the Bureau;*

   *capital expenditure in respect of which covering policy has been previously approved by the Council;*

   *expenditure on approved supplementary budget; and*

   *investment subject to the approval of the Bureau.*

   *Rule 46 B (Authorisation to use the Reserve Fund): Pursuant to Rule 46(A), the Reserve Fund shall be used upon approval of the Bureau or the Council of Ministers.* [↑](#footnote-ref-3)