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**REPORT ON THE FINANCIAL REGULATIONS FOR THE FOREIGN SERVICE OF  
ST KITTS AND NEVIS**



*Prepared for the St Kitts and Nevis Ministry of Foreign Affairs and Aviation  
June 2018*

**EASTERN CARIBBEAN CENTRAL BANK**

**ST KITTS**

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## LIST OF ACRONYMS AND ABBREVIATIONS

COLA	-	Cost of Living Adjustment
CPI	-	Consumer Price Index
CSO	-	Central Statistics Office
DC	-	District of Columbia
DOS	-	Department of State
ECCB	-	Eastern Caribbean Central Bank
FSA	-	Foreign Service Allowance
FSR	-	Foreign Service Regulations
GDP	-	Gross Domestic Product
ICP	-	International Comparison Program
MOFA	-	Ministry of Foreign Affairs and Aviation
PLI	-	Price Level Index
PPP	-	Purchasing Power Parity
TA	-	Technical Assistance
UN	-	United Nations
US	-	United States

## PREFACE

The St Kitts and Nevis Ministry of Foreign Affairs and Aviation (Ministry/MOFA) requested technical assistance from the Eastern Caribbean Central Bank (ECCB/Bank) to develop the financial regulations for the allowances payable to the country's foreign service officers. The ECCB and the Ministry have had an ongoing engagement to address the Ministry's request. In the first phase of this engagement, the Bank developed a framework to guide the process of developing the financial regulations, culminating in a preliminary report titled, "*Technical Assistance to the St Kitts and Nevis Ministry of Foreign Affairs and Aviation on the Development of the Financial Regulations for the Foreign Service*". The ECCB held discussions with the Permanent Secretary for the Ministry on the proposed framework and, upon agreement by all parties with respect to the approach contained therein, determined the appropriate, concrete next steps for advancing the project.

In this final phase, the ECCB puts forth some proposed allocations for consideration by the Ministry in developing its compensation system for the country's foreign service officers serving at overseas posts. It is envisaged that the final outcome of the project would be the development of a foreign service compensation system that is *fiscally sustainable, transparent, equitable and easy to administer*.

We take this opportunity to acknowledge the assistance and support we received from partners throughout this project. The Bank is particularly grateful to the World Bank's International Comparison Program for so graciously sharing the unpublished data from their Comparison project and for lending their statistical expertise. We also owe Mr Edwin St Catherine, Director of Statistics in Saint Lucia's Central Statistics Office, a debt of gratitude for so willingly assisting us in filling in critical data gaps and providing statistical guidance during the exercise.

It is our hope that this report would serve as a useful guide for policy discussion and contribute to the Ministry's policymaking process for such a fiscally significant issue as the compensation system for the country's foreign service officers posted at overseas missions.

## EXECUTIVE SUMMARY

Foreign service officers posted at the foreign missions of the Government of St Kitts and Nevis are entitled to emoluments under the Government's *Foreign Service Regulations, 2014*. However, to date, these entitlements have yet to be assigned quanta in a set of financial regulations. The lack of a governing body of regulations for the allocation of allowances for foreign service officers has led to an untenable situation of undocumented approaches to determining allowances. In the interest of the principles of fiscal sustainability, transparency and equity, it is important that the Government develop a systematic approach to the payment of these allowances and for the approach to be documented.

In the absence of financial regulations for the foreign service, the Government has largely managed its compensation of foreign service officers by entering into negotiations with individual officers. While this approach has lasted for several years, it is unsustainable and raises important public policy questions about equity and transparency in the management of this fiscal matter.

This project offers a framework and some approaches to formalising the Government's payment of allowances to foreign service officers, towards the development of a compensation system that may then be codified in the financial regulations. In addition to the principles previously mentioned, the proposed framework and approaches take into consideration several constraining factors and the circumstances of the Government in order to develop a compensation system that is administratively easy to implement. The proposed approach draws largely from the experiences of large, well-established international employers but is suitably adapted to the needs of St Kitts and Nevis.

The successful implementation of the proposal set forth in this report is, however, heavily contingent on the existence of a well-developed base salary system within the foreign service. This project is guided by a common approach identified in the literature on foreign worker compensation – the “balance sheet” approach (Reynolds, 1997, p. 123) – that builds up a

remuneration package, underpinned by a solid foundation of a well-defined base salary to ensure, among other things, equity.

The recommendations in this report include suggested rates and limits on allowances for consideration by the Government. The calculations of these recommended amounts were guided by statistical analysis of secondary data obtained from a number of sources and by adapting and applying methodologies used by international employers.

Given the importance of a well-articulated base salary system and the need for the compensation system to meet the principles of fiscal sustainability and transparency, this report offers the following recommendations:

*Over the short to medium-term -*

1. **Establish an internal Government committee on foreign service compensation**, constituted of persons with the relevant expertise, who would conduct and guide research on compensation, and provide policy recommendations and guidance to the Government. Additionally, invest in developing the necessary systems and capacity in the relevant public service personnel and foreign service officers, who would collaborate with the Government committee to ultimately implement a largely or fully “homegrown” foreign service compensation system for the country.
2. **Review periodically and update the compensation system accordingly** - specifically the rates and maximum allowable amounts - to ensure that the system keeps pace with evolving living costs in the host country and that allowances are adequate, in order to avoid reversion to the previous practice of granting allowances and making adjustments in an ad hoc and undocumented manner. Consideration could be given to conducting reviews every three years.
3. **Review and strengthen accordingly the base salary system** upon which the foreign service compensation system is built.



4. **Review the allowances currently specified in the Foreign Service Regulations with a view to rationalising the benefits** in order to avoid inflating the benefits packages paid to foreign service officers.

*Over the longer-term -*

5. **Collaborate with regional governments and organisations** to pool and share resources for the development and implementation of a harmonised or regional foreign service compensation system.

It is commendable that the Government now seeks to address this matter urgently. In light of the current constraints on the Government's resources, the proposed approach set forth in this report adapts systems used by other countries. However, going forward, in the short to medium-term, there is scope for enhancement of the system for compensation of foreign service officers. In the longer-term, there are options for developing and implementing a well-founded compensation system that is specific to the St Kitts and Nevis case. Such a system would serve the country well in attracting the best talent to the foreign service and in supporting officers as they carry out important diplomatic and representational duties in the service of their country.

# REPORT ON THE FINANCIAL REGULATIONS FOR THE FOREIGN SERVICE OF ST KITTS AND NEVIS

## 1.0 INTRODUCTION

This report is prepared in response to a request received from the St Kitts and Nevis Ministry of Foreign Affairs and Aviation (Ministry/MOFA) for technical assistance from the Eastern Caribbean Central Bank (ECCB/Bank) to develop the financial regulations that would govern the allocation of allowances for the country's foreign service officers. The allowances are laid out in the Government of St Kitts and Nevis's *Foreign Service Regulations [FSR], 2014*. The officers entitled to these allowances span several ranks and are currently serving at missions in the following nine locations: Ottawa, Canada; Toronto, Canada; Cuba; Jamaica; Taiwan; Dubai, United Arab Emirates; London, United Kingdom; New York, United States; and Washington, DC, United States.

This report is a follow-up to a previous note ("*Technical Assistance to the St Kitts and Nevis Ministry of Foreign Affairs and Aviation on the Development of the Financial Regulations for the Foreign Service*"), in which the Bank proposed a framework to guide the Ministry's work in developing the compensation system for foreign service officers. The proposed framework was discussed with the Permanent Secretary for the Ministry in August 2017 and agreed to by both parties as a useful guide for proceeding with the exercise. The current report, guided by the 2017 framework, advances work on the development of allowances for St Kitts and Nevis foreign service officers by proposing some allocations for consideration by the Ministry. It focuses on the preparation of three main allowances, as these are likely to be the largest in terms of monetary value and require the most involved data collection and statistical analysis: foreign service allowance, accommodation allowance and education allowance. Guidance on the remaining allowances was previously provided in the initial *Technical Assistance* note.

The remainder of the report is organised as follows. Section 2 provides an overview of the methodology used to determine the allowances. Sections 3 to 5 present the proposed allowances.

Section 6 discusses some limitations and issues for further consideration, and section 7 concludes with some recommendations.

## **2.0 METHODOLOGY**

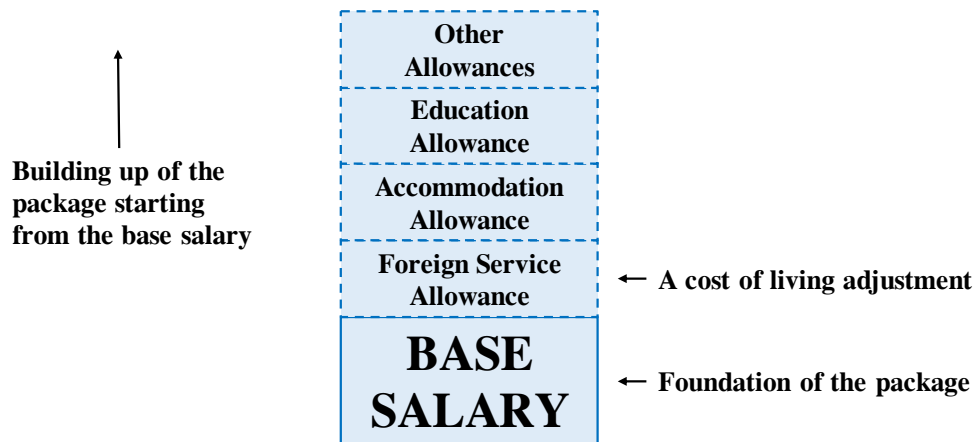
This section describes the methodology used to generate the three main allowances considered in this report. The study is founded on the premise that the Government’s objective with its compensation package is to ensure the “wholeness” of officers. The concept of wholeness is defined in the literature as the aim of ensuring that the international worker is neither disadvantaged nor advantaged by his or her total compensation package (Wentland, as cited in Sims & Schraeder, 2005, p. 100).

The methodology used here is largely based on the “balance sheet” approach (Reynolds, 1997, p. 123) under the assumption that it is the most appropriate for meeting the wholeness objective. The “balance sheet” approach is the most widely used approach among international employers and is a method which “sets salary according to the base pay and benefits of their home country, plus various allowances (e.g., cost-of-living, housing standard, hardship) and tax equalization” (Toh & DeNisi, 2005, p. 137).<sup>1</sup> Figure 1 offers a breakdown of the St Kitts and Nevis allowance structure under the assumption of a balance sheet approach, and with allowances incorporated into the package in an additive manner.

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<sup>1</sup> Two other (less common) approaches found in the literature and used by international employers are the “host-country based approach” and the “international headquarters approach” (see Sims & Schraeder, 2005, p. 105-106 for an exposition of these two alternative approaches).

**Figure 1: Anatomy of the St Kitts and Nevis Foreign Service Compensation Package**



Source: Author

This report draws on and adapts, where necessary, the compensation systems used by major employers of international workers, including the United Nations (UN) and the United States Department of State (DOS). The UN’s Office of Human Resources Management and the International Civil Service Commission provide policy guidance to the UN on its compensation system. The DOS has an established office – the Office of Allowances – to oversee the compensation system for US State Department staff deployed to foreign posts.

In *Technical Assistance to the St Kitts and Nevis Ministry of Foreign Affairs and Aviation on the Development of the Financial Regulations for the Foreign Service*, as part of the proposed framework to guide the work of preparing the allowances for foreign service officers, the Bank highlighted the need for the process to be informed by rigorous analysis. Such an analysis is a data intensive exercise, requiring the collection of detailed expenditure and price data, and statistical capacity. The proposed framework also offered some guiding principles to inform the design of the Ministry’s compensation system. The principles are discussed below.

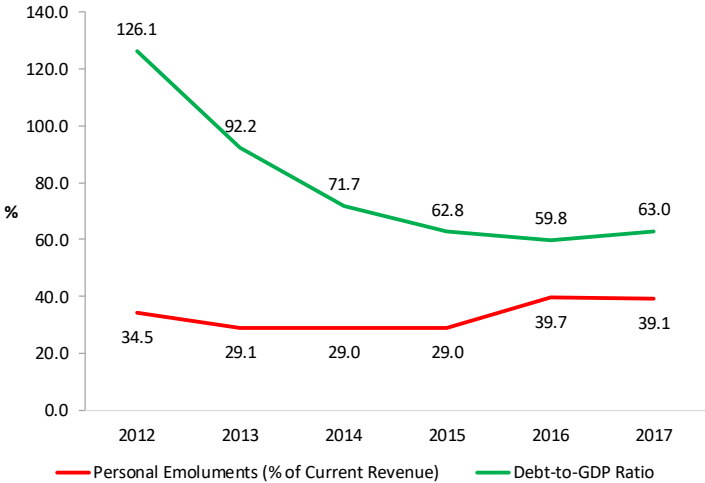
*Guiding Principle 1: Fiscal Sustainability*

The design of the compensation system for any group of government employees must show cognisance of the need for fiscal prudence by taking into account the fiscal capacity of the Government of St Kitts and Nevis and the country’s level of development. Given the thrust to

make strides towards fiscal and debt sustainability, specifically the commitment to achieve a debt target of 60 per cent for the debt-to-GDP ratio by 2030, due consideration should be given to the fiscal situation of the Government in designing the allowance system for foreign service officers.

St Kitts and Nevis has made significant progress towards attaining the sustainable debt benchmark of 60 per cent (see Figure 2) but policies must remain in place to protect the gains to date and support continuing efforts to achieve the target. With respect to fiscal indicators, between 2013 and 2017, personal emoluments as a percentage of current revenue increased by 10 percentage points (see Figure 2); a trend that requires vigilance to ensure that the Government has sufficient fiscal space to pursue growth-enhancing policies.

**Figure 2: St Kitts and Nevis Ratio of Personal Emoluments to Current Revenue and Debt-to-GDP Ratio**



Sources: ECCB; St Kitts and Nevis Central Statistics Office

*Guiding Principle 2: Transparency*

For accountability in the management of public finances, the design of the compensation system should be clear and easily understood. The design should be based on an analytical framework that incorporates relevant factors in deciding allowance amounts, and should be supported by data that are accurate and comprehensive. The details of the allocations should be documented

and institutionalised as part of the policy framework to facilitate continuity in application, from one political administration to the next.

*Guiding Principle 3: Equity*

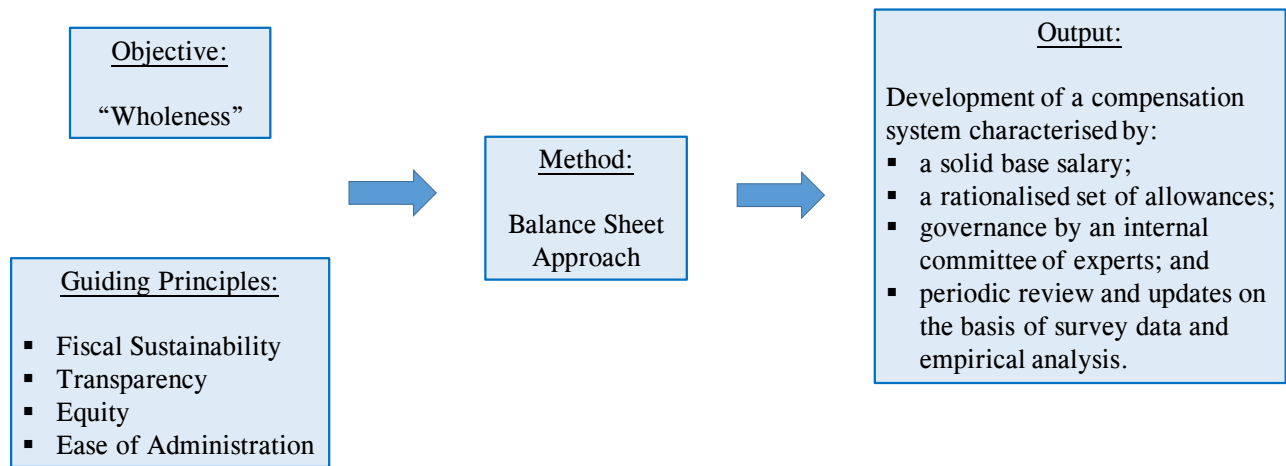
The system should ensure fair compensation, appropriate for the rank or position of the officers across the foreign service. Officers with similar responsibilities should, ideally, receive similar, commensurate compensation.

*Guiding Principle 4: Ease of Administration*

The design of the system should be simple so as not to create an undue burden for administrators but to increase the likelihood of achieving commitment to faithful implementation of the system. A complex system is more likely to be quickly abandoned in favour of flawed heuristics or subjective approaches to granting allowances in response to ad hoc requests from individual officers.

Consideration has been given to these principles as part of the methodological process followed in this report. Given the challenges of capacity and other constraints confronting the Ministry, some aspects of the proposed framework and the guidance provided in the August 2017 note have been adapted to make the process of preparing the allowances more feasible for the Ministry. For example, where it would not be practical for the Ministry to engage in primary data collection at the current juncture, the report proposes to use data available from other sources to facilitate the preparation of the allowances. However, although this approach is more practical and administratively more feasible to implement, it should be noted that use of data collected by other authorities for their own purposes may not be entirely suitable or adequate for the Ministry's purposes and may therefore be a limitation on the exercise. Figure 3 offers a visualisation of the proposed framework.

**Figure 3: Proposed Framework for Foreign Service Compensation System**



Source: Author

### 3.0 FOREIGN SERVICE ALLOWANCE

#### 3.1 Approach to Determining the Foreign Service Allowance

The foreign service allowance (FSA) is essentially a cost of living adjustment (COLA) factor that is added to the base salaries of foreign service officers to ensure that they are not disadvantaged relative to their peers in similar positions at home, simply by virtue of their overseas assignment. Ideally, according to international best practice, the preparation of a COLA requires the development of a basket of goods and services, which reflects domestic consumption patterns for individuals of the social standing of these officers, in order to benchmark their cost of living at home. This basket is then priced at the overseas locations by collecting data on the items contained therein (or similar items in cases where exact matches cannot be found).

For instance, for the DOS's COLA (its "post allowance"), the Department has constructed a detailed basket containing about 130 items from 11 consumption groups and designed a data collection instrument (the *Retail Price Schedule*) to guide the collection of price data on the basket items by officers at the DOS's overseas missions (US DOS, 2018, p. 12). The basket omits items for which officers are compensated under a separate allowance category. The price

surveys are undertaken regularly to facilitate the construction of cost of living indices that allow for a comparison of living costs for locations around the world and Washington, DC (the DOS's home location). The cost of living factor obtained from the difference in costs of living between the foreign location and the home location is then applied to the officer's "spendable income". Spendable income is defined as that portion of the employee's income that is available for consumption of everyday goods and services (US DOS, 2016).<sup>2</sup> At each income level, spendable income varies by family size. The DOS relies on data obtained from expenditure surveys conducted by the Bureau of Labor Statistics in the US Department of Labor to construct the spendable income schedule (US DOS, 2016).

The market basket and regular price survey approach used by organisations such as the DOS was previously recommended as a best practice for adoption by the Government. However, in light of the Ministry's current limited resources for conducting such extensive and periodic surveys and price collections, the following alternative approach is proposed. This new approach uses secondary price data and indices obtained from the World Bank's 2011 round of the International Comparison Program (ICP) to determine cost of living differences between St Kitts and Nevis and the seven countries that host St Kitts and Nevis missions (see Appendix for details). Recent Survey of Living Conditions and Household Budgetary Survey data are not available for St Kitts and Nevis to facilitate construction of the necessary spendable income schedule to which the cost of living adjustment would be applied.<sup>3</sup> Consequently, data were obtained from Saint Lucia's latest *Survey of Living Conditions and Household Budgets 2016*, to extract a table of expenditure amounts by income and household size.<sup>4</sup>

The need for data from the Survey of Living Conditions and Household Budgetary Survey illustrates the important role that the St Kitts and Nevis Central Statistics Office (CSO) can play in assisting the Ministry with the exercise of constructing and managing the compensation

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<sup>2</sup> Retrieved from [https://aoprals.state.gov/content.asp?content\\_id=245&menu\\_id=75](https://aoprals.state.gov/content.asp?content_id=245&menu_id=75)

<sup>3</sup> At the time of writing, the St Kitts and Nevis Central Statistics Office was preparing to go into the field to conduct the next round of these surveys.

<sup>4</sup> Using price level data from ICP, the difference in cost of living between Saint Lucia and St Kitts and Nevis was found to be 4.5 per cent. However, using changes in the countries' consumer price indices between 2011 and 2017 to update the ICP data results in similar price levels (a difference of 1.0 per cent – Saint Lucia being the more expensive location). Therefore, the decision was made to leave the Saint Lucia data unadjusted.



system. The Ministry is encouraged to share this report and the proposed approach with the CSO to facilitate collaboration between the two institutions in determining the cost of living adjustments and other indicators necessary for building the compensation package. The CSO could assist the Ministry with designing its surveys for data collection at the mission posts. Furthermore, the Ministry could benefit from the statistical skills resident within the CSO for managing the more technical aspects of constructing and updating the compensation package.

### **3.2 Suggested Allowance Structure**

Coverage of the FSA is found in Regulation 23 of the FSR. The FSR prescribes that the FSA account for, among other things, cost of living differences between St Kitts and Nevis and the mission locations and the need to maintain a standard of living that respects the status of the officer. The FSA must also consider the officer's marital status; however, the FSR does not require any further consideration of family size.<sup>5</sup>

It is recommended that, in implementing the FSA, the Government follow the “no loss” approach (Sims & Schrader, 2005). The no loss approach states that the cost of living adjustment factor would only be applied in instances where salary is to be adjusted upwards. The approach would not be applied to adjust salary downward in cases where the host location's cost of living is determined to be lower than the home country's cost, resulting in a negative cost of living adjustment factor. In this latter case, the salary is simply left unadjusted and hence at the home country level. The disadvantage of this approach is that it gives foreign officers posted in less expensive mission locations a windfall. However, on the upside, it avoids causing consternation in officers at less expensive locations who, despite perhaps experiencing no change in their material wellbeing, are more likely to feel a perceived sense of loss or lack of “wholeness” if they see a decline in their base salary.

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<sup>5</sup> This may be because the FSR provides, instead, for the allocation of a “child allowance” (in Regulation 24). However, Regulation 24 of the FSR also stipulates a separate “spouse allowance”. This raises the matter of possible inflation of some categories of allowance, and warrants a review and rationalisation of the allowances laid out in the Regulations. This issue is discussed further in the concluding section of this report.

Table 1 summarises the proposed foreign service allowance rates for the nine mission locations. Three of these locations have an adjustment factor of zero because their cost of living indices were lower than that of St Kitts and Nevis, while the adjustment factor for the major cities in the advanced economies are relatively low. This result is likely due in part to the fact that the basket used for the comparison omits two large categories of expenditure that are catered for under their own allowance categories: housing and education. In the cities in the advanced countries, housing and education are expected to be major and expensive categories of expenditure. Perhaps, more importantly, the ICP data are at the country level, resulting in an averaging of price levels within a country and potentially masking large variations that may exist across locations in the same country, particularly in the case of a large country. Ideally, further adjustments to the data are required to accurately reflect the higher cost of living in these cities; however, city-level cost of living data are proprietary.

**Table 1: Proposed Foreign Service Allowance Rates (%)**

<b>Post Location</b>	<b>Adjustment Factor</b>
Ottawa, Canada	45
Toronto, Canada	45
Havana, Cuba	0
Kingston, Jamaica	20
Taipei, Taiwan	0
Dubai, United Arab Emirates	0
London, United Kingdom*	20
New York, United States*	5
Washington, DC, United States*	5

*Source: Author's calculations*

*Note: \*Additional data must be purchased to make further adjustments for these locations as these locations are expected to have significantly higher costs of living than the average cost determined for the country as a whole by the ICP dataset.*

To determine an individual officer's FSA, the officer's spendable income must first be identified in the spendable income schedule in Table 2, using his or her base salary and household size. The appropriate location FSA adjustment rate from Table 1 would then be applied to this spendable income to calculate the FSA dollar amount.

**Table 2: Proposed Spendable Income Schedule (EC\$)**

Base Annual Salary	Number of Persons in Household					
	1	2	3	4	5	6
0 to 4,999	7,900	15,700	21,200	29,700	31,200	25,400
5000 to 9,999	19,700	28,900	21,300	31,800	33,600	26,700
10,000 to 14,999	16,900	32,700	28,800	31,700	40,600	32,300
15,000 to 19,999	25,100	30,400	31,000	33,900	30,400	38,800
20,000 to 24,999	23,000	27,200	35,600	31,500	46,900	40,500
25,000 to 29,999	29,700	29,200	38,300	41,000	56,400	43,300
30,000 to 34,999	35,700	49,500	34,100	42,400	34,400	39,900
35,000 to 39,999	39,900	44,100	41,900	50,200	45,700	47,900
40,000 to 44,999	40,700	42,800	39,900	61,300	60,700	65,300
45,000 to 49,999	38,800	46,100	81,200	52,600	27,500	52,500
50,000 to 59,999	40,800	70,900	93,900	160,300	50,700	49,000
60,000 to 69,999	49,700	54,200	58,200	101,000	64,400	84,900
70,000 to 79,999	63,900	63,600	59,900	58,600	74,200	64,900
80,000 to 89,999	29,459*	48,800	67,300	81,300	79,400	58,600
90,000 to 99,999	42,136*	69,800	98,400	70,800	82,400	60,200
100,000 and over	36,500	84,600	71,200	90,000	197,800	101,700

Source: Saint Lucia Central Statistics Office, Saint Lucia Survey of Living Conditions and Household Budgets 2016

Note: \* - Author's estimates for missing data

Table 3 presents an illustrative example for a hypothetical foreign service officer stationed in Ottawa, Canada and with an annual base salary of EC\$144,000. The example applies the Ottawa FSA rate identified in Table 1 to the appropriate entry in Table 2 for this foreign service officer,

assumed to have a family of four persons. Table 3 shows that the hypothetical officer would be entitled to a foreign service allowance of EC\$40,500 per annum.

**Table 3: FSA Example - Application of Derived Rates**

<b>Parameters</b>	<b>Values</b>
Post Location	Ottawa
FSA Rate obtained from Table 1	45 per cent
Officer's Annual Base Salary (EC\$)	\$144,000
Officer's Household Size (number of persons)	4
Annual Spendable Income for Officer's Household Size obtained from Table 2 (EC\$)	\$90,000
Officer's Annual FSA (EC\$)	FSA rate for Ottawa multiplied by the annual spendable income for the officer's household: 45 per cent of \$90,000 <b>= \$40,500</b>

*Source: Author's calculations*

#### **4.0 ACCOMMODATION ALLOWANCE**

##### **4.1 Overview of Approaches to Accommodation Allowance**

As with the FSA, determining the appropriate allowance for accommodation is an involved process, requiring detailed data collection on housing of a certain standard befitting the status of the respective officers at each of the mission locations. A necessary step in calculating the allowance is developing standards for housing to be occupied by the country's representatives of different ranks and with different family sizes. For ease of administering the allowance, it is recommended that officers of similar or close ranks be grouped into categories, with eligibility for various amounts to be determined for groupings.

In the case of the DOS, officers are grouped into four categories according to salary level and all but the highest salary group are allocated a housing allowance. The highest DOS salary group is provided with government housing. For each grouping of officers, housing allowances vary by family size. The DOS ascertains the appropriate maximum amount for housing by conducting a *Living Quarters Survey*. According to the DOS, the allowance is for covering a

significant portion of the officer's rent, utilities and other related rental charges (US DOS, 2018, p. 17). The standards for housing for DOS officers are set by the Department of State's Office of Overseas Buildings Operations.

Apart from the US DOS approach for determining housing allowance, another common approach used by international employers to set maximum amounts for housing allowance entails stipulating the largest allowable accommodation size for groups of officers, with housing size varying by family size as well. For instance, the housing size may be prescribed in terms of the maximum number of bedrooms an officer is permitted to rent for his/her family size. Then, the employer ascertains the rental rates for homes of varying sizes (ideally by conducting a survey of the rental market at the mission location).

#### **4.2 Recommended Approach to Accommodation Allowance**

Of the two main approaches to setting a housing allowance, it is recommended that the Government consider the DOS approach as opposed to stipulating the allowable number of bedrooms for families. The recommended approach would allow the Government to provide housing of a certain standard while affording each officer and his/her family the flexibility to decide the home size and/or configuration that is most appropriate for their circumstances. Furthermore, it is recommended that the Government adopt – with appropriate modifications – the DOS approach to determining housing allowances.

Similar to the case of the FSA, given the human resource capacity required to conduct and analyse regular surveys of housing market conditions in each mission location, it is recommended that the Government of St Kitts and Nevis also adopt and adapt the DOS housing allowance schedule. By adopting both the DOS approach and its schedule of housing allowances, even with modifications, there is the underlying assumption that the Government of St Kitts and Nevis would, to some extent, be implicitly accepting and adopting the housing standards set by the US federal government for its overseas staff.

It is suggested that the US government may set housing standards for its officers that take into account considerations that may be deemed unnecessary or too stringent for St Kitts and Nevis foreign service officers. These considerations may include, *inter alia*, a requirement for an extraordinarily high level of security due to the US government's vulnerabilities to terrorism and other threats. Such considerations would be extraneous for St Kitts and Nevis officers and are likely to result in exorbitant housing costs by the country's standards. As such, rather than applying the DOS's "living quarters allowance" structure to the St Kitts and Nevis officer groups as is, the no dependants allowances for the bottom DOS officer grouping are adopted as the allowances for the highest group of St Kitts and Nevis officers (with up to one dependant). These DOS allowance amounts used for the St Kitts and Nevis group 1 officers are adjusted downwards by 10 per cent and 20 per cent, respectively, to calculate the allowances for the next two lower groups of St Kitts and Nevis officers, respectively (with up to one dependant).<sup>6</sup> To ascertain the rates for officers with more than one dependant, the corresponding rates for the "up to one dependant" sub-groups are adjusted upward by 10 per cent for officers with up to three dependants, and by 20 per cent for officers with more than three dependants.

The DOS webpage does not publish a housing allowance for domestic locations so no living quarters data were available for New York and Washington, DC. To overcome this limitation, the data gaps were addressed by using data from another US federal government source – the military. The housing allowance payable to commissioned officers in grade O2 in each of the two US cities served as the housing allowance for the top St Kitts and Nevis grouping of officers with up to one dependant and then subsequently adjusted using the same methodology as was previously applied to the DOS allowances.<sup>7</sup>

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<sup>6</sup> The adjustment rates of 10 per cent and 20 per cent were chosen to be in line with the differences between the US DOS's generic "with family" rates for the lowest two groups and the highest allowance group for locations where information is not available on housing costs (US DOS, 2018, p. 8).

<sup>7</sup> Grade O2 was selected because the salary range for this grade of officers aligned with the salary range for the DOS's group 4 staff. The military allowance data were retrieved from <https://www.federalpay.org/military/bah-bas>

### 4.3 Suggested Allowance Structure

As a first step in constructing the housing allowance schedule, Table 4 offers one possible grouping of officers for ease of administering the allowance.

**Table 4: Proposed Grouping of Representational Officers for the Purpose of Administering the Accommodation Allowance<sup>8</sup>**

Proposed Classification/Groups	Schedule of Representational Officers
G1	Ambassador (Permanent Representative) or High Commissioner
G1	Deputy High Commissioner or Deputy Permanent Representative
G1	Minister Plenipotentiary
G1	Minister Counsellor
G2	Counsellor
G2	First Secretary
G3	Second Secretary
G3	Third Secretary
G3	Attaché

Table 5 shows the annual maximum amounts for housing allowance based on the US DOS's 10 June 2018 schedule of "living quarters allowance" (the latest available at the time of writing). As previously anticipated, housing costs represent a major expenditure item in the metropolitan cities of the advanced economies, particularly London in the United Kingdom.

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<sup>8</sup> This is for illustrative purposes. The Ministry may wish to adjust the group boundaries as it deems appropriate.

**Table 5: Proposed Maximum Allowable Accommodation Allowance, Annual (US\$)**

Post Location	Family Size of 1 to 2 Persons			Family Size of 3 to 4 Persons			Family size > 4 persons		
	Group 1	Group 2	Group 3	Group 1	Group 2	Group 3	Group 1	Group 2	Group 3
Ottawa, Canada	31,900	28,710	25,839	35,090	31,581	28,423	38,280	34,452	31,007
Toronto, Canada	34,000	30,600	27,540	37,400	33,660	30,294	40,800	36,720	33,048
Havana, Cuba	12,700	11,430	10,287	13,970	12,573	11,316	15,240	13,716	12,344
Kingston, Jamaica	33,800	30,420	27,378	37,180	33,462	30,116	40,560	36,504	32,854
Taipei, Taiwan	19,100	17,190	15,471	21,010	18,909	17,018	22,920	20,628	18,565
Dubai, United Arab Emirates	12,700	11,430	10,287	13,970	12,573	11,316	15,240	13,716	12,344
London, United Kingdom	49,400	44,460	40,014	54,340	48,906	44,015	59,280	53,352	48,017
New York, United States*	48,636	43,772	39,395	53,500	48,150	43,335	58,363	52,527	47,274
Washington, DC, United States*	26,568	23,911	21,520	29,225	26,302	23,672	31,882	28,693	25,824

Sources: US DOS; \*Federal Pay; Author's calculations

Table 6 continues the example of the hypothetical foreign service officer at the Ottawa mission with a family of four to illustrate the application of the accommodation allowance schedule detailed in Table 5. Table 6 shows that for this hypothetical officer, who is also assumed to be a First Secretary, he or she may claim a housing allowance of up to US\$31,581.

**Table 6: Accommodation Allowance Example - Application of Schedule Limits**

Parameters	Values
Post Location	Ottawa
Officer's Rank	First Secretary
Officer's Group obtained from Table 4	G2
Officer's Household Size (number of persons)	4
Officer's Maximum Allowable Accommodation Allowance (US\$)	<b>\$31,581</b>

Source: Author's calculations



## 5.0 EDUCATION ALLOWANCE

### 5.1 Overview of Approaches to the Education Allowance

The education allowance, as described in Regulation 25 of the FSR, is intended to cover “compulsory fees” for primary and secondary education. For the purposes of this exercise, “compulsory fees” will be interpreted as including tuition costs and any required additional school fees.<sup>9</sup>

Both the DOS and the UN administer complex systems for their respective education allowances; however, the revised UN methodology is the simpler of the two.<sup>10</sup> In the case of the UN, education expenses are reimbursed according to a schedule that dictates rates for seven different ranges of expenses (United Nations Office of Human Resources Management, 2016), as shown in Table 7. The sliding scale is implemented by reimbursing incremental increases in officers’ claims for education expenses at ever declining rates. Effective January 2018, the first US\$11,600 of any claim amount is reimbursed at a rate of 86 per cent. The remainder of the total claim over and above the US\$11,600 threshold would be reimbursed incrementally at decreasing rates. For total claims exceeding US\$40,600, no portion over this final threshold would be reimbursed.

**Table 7: United Nations Education Grant Sliding Scale**

<b>Claim Amount Bracket (US\$)</b>	<b>Reimbursement Rate (%)</b>
0 – 11,600	86
11,601 – 17,400	81
17,401 – 23,200	76
23,201 – 29,000	71
29,001 – 34,800	66
34,801 – 40,600	61
40,601 and above	0

*Source: United Nations Secretariat, 2018, p. 16*

<sup>9</sup> To ensure clarity in the intent of the Regulation, it may be necessary to amend the wording of Regulation 25 pertaining to the education allowance to explicitly state tuition costs as part of the allowable expenses covered by the allowance.

<sup>10</sup> Details of the DOS education allowance may be accessed at [https://aoprals.state.gov/content.asp?content\\_id=249&menu\\_id=75](https://aoprals.state.gov/content.asp?content_id=249&menu_id=75)

The DOS publishes on its Web site a schedule of limits for the education allowance payable at each post for each school grade, from kindergarten through to grade 12. The DOS schedule includes two sets of allowances: one for students who are educated “at post” and one for those who are educated “away from post”, that is, at institutions beyond daily commuting distance (US DOS, 2018, p. 10). This approach results in an administratively burdensome schedule to manage.

## 5.2 Suggested Allowance Structure

The simplicity of the UN’s sliding reimbursement scale makes it an appealing mechanism to adopt for the St Kitts and Nevis compensation system. The reimbursement rates do not depend on location; that is, the same sliding scale is applied for all mission locations. However, actual education expenses and hence claim amounts would likely vary by location, reflecting differences in the cost of education at each post. To further simplify the UN’s scale and make the allowance a more affordable benefit for the Government, it is recommended that the scale be adapted by collapsing the seven brackets into just four, as illustrated in Table 8. Officers will only receive the allowance upon providing proof of actual education expenses as this allowance is not an automatic entitlement to each and every officer. This ensures that total disbursement by Government under the education allowance would, in practice, be much lower than what is suggested by the upper limits of the brackets in Table 8.

**Table 8: Proposed Education Allowance Reimbursement Schedule**

<b>Claim Amount Bracket (US\$)</b>	<b>Reimbursement Rate (Per Cent)</b>
0 – 9,999	85
10,000 – 19,999	80
20,000 – 29,999	75
30,000 and above	0

*Source: Author*

Table 9 applies the reimbursement schedule found in Table 8 to ascertain the allowance for the hypothetical officer in the previous sections, who submits a claim amount of US\$25,000 for allowable education expenses. Table 9 shows that the maximum amount that the officer would receive is US\$20,250.

**Table 9: Education Allowance Example - Application of Reimbursement Schedule**

<b>Parameters</b>	<b>Values</b>
Total Education Expenses Claim Amount (US\$)	\$25,000
Allowance obtained by applying rates in Table 8 (US\$)	First \$9,999: 85 per cent of \$9,999 =\$8,499  Next \$10,000 (beyond \$9,999): 80 per cent of \$10,000 = \$8,000  Final \$5,001 (beyond \$19,999): 75 per cent of \$5,001 =\$3,751  Total allowance =\$8,499 + \$8,000 + \$3,751 = <b>\$20,250</b>

*Source: Author's calculations*

## 6.0 DATA LIMITATIONS AND CAVEATS

The main limitations of this exercise stem from the use of secondary data sources and the reliance on compensation systems used by other countries. Future efforts to improve the St Kitts and Nevis foreign service compensation system should, at a minimum, focus on addressing these limitations. This section discusses some of the data challenges that are most likely to affect the validity of the results from the exercise.<sup>11</sup>

### *Limitations of the ICP Data*

The 2011 round ICP dataset is a comprehensive dataset that serves as a useful foundation for assessing cost differences across countries. However, the basket used to ascertain these differences represents the average consumer. Therefore, the underlying ICP basket may not be entirely appropriate for measuring cost differences across countries for the consumption pattern/basket for individuals with above-average incomes, such as those who make up the St

<sup>11</sup> "A measure is valid to the extent it captures or measures the concept or thing it is intended to measure" (Bingham & Felbinger, 2002, p. 36)

Kitts and Nevis foreign service. However, in the absence of a specifically designed market basket that reflects the expenditure patterns of the population of interest, using the basket for the average consumer would, over the short-term, serve as an acceptable alternative.

Another - but less severe - limitation of the ICP data is the date of compilation of the dataset. At the time of writing, the 2011 round of the ICP was the latest period available. In this exercise, the data were updated using recent consumer price data. Still, it is worth noting that the date of the data could be a potential source of weakness in the analysis. The ICP is currently in the field conducting its next round of data collection, with the data expected to become available in either late 2019 or early 2020. At that time, it would be a beneficial exercise for the Government to review the output of this exercise and incorporate the updated data as necessary.

#### *Data Substitution for St Kitts and Nevis Household Expenditure*

The lack of recent household expenditure data for St Kitts and Nevis necessitated the substitution with Saint Lucia's 2016 household budget survey data in determining the spendable income levels. Despite the attempt to adjust the Saint Lucia data to be better representative of St Kitts and Nevis, the use of a stand-in for the missing St Kitts and Nevis data still potentially introduces bias into the data and analysis. However, it is noted that, as at the time of writing, St Kitts and Nevis is in the process of conducting a household expenditure survey, which is expected to generate data by January 2019. Data from this survey could be a valuable input into future exercises.

#### *Adopting the Assumptions and Standards of Other International Employers*

With the constraints that prevent the Government from building its own compensation system completely from primary data, this project has had to rely on adapting systems from other jurisdictions. This expediency comes at the cost of implicitly adopting many (if not all) of the underlying assumptions and standards upon which the borrowed system is premised. Some of these assumptions and standards may be in line with those of the Government but others may not accurately reflect the standards to which it aspires – they may be either below or above the standards of the Government of St Kitts and Nevis. A case in point is the housing standards

used by the DOS to determine the appropriate allowance amounts for defraying the cost of housing incurred by its overseas staff. Should these housing standards surpass those intended or aspired to by the Government for its foreign service officers, then adopting the US standards would lead to higher than expected payouts to St Kitts and Nevis officers for housing in the same locations as the DOS staff. This may be a concern in respect of the principle of fiscal sustainability.

### *Exchange Rate Fluctuations*

The Government of St Kitts and Nevis currently has missions in countries that adhere to a floating exchange rate regime. This adds a further complication to maintaining the purchasing power of an officer's compensation package, other things being equal. An exercise undertaken at any point in time (such as in the current report) is subject to exchange rate changes. To guard against changes (particularly unfavourable movements) in the value of the compensation package, regular reporting on exchange rates (as part of the broader price data collection process at the mission locations) would be necessary to facilitate the appropriate adjustments to allowances. For instance, the DOS maintains a webpage with different vintages of its post allowance and updates the allowance schedule regularly, partly to account for exchange rate fluctuations.<sup>12</sup>

## **7.0 RECOMMENDATIONS AND CONCLUSION**

This project has examined and drawn on international best practices for the design of a compensation system for foreign service workers to provide a guiding framework for the Government of St Kitts and Nevis. The current report, specifically, has advanced the work of developing a compensation system for the St Kitts and Nevis foreign service by calculating schedules of allowance levels for consideration by the Government. Ideally, the compensation system would have been developed based on an unbiased assessment of actual costs of living at the respective mission posts. This would be achieved by designing and administering surveys to the country's foreign service officers at their respective mission locations and collecting data

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<sup>12</sup> The US DOS post allowance page may be found here: <https://aoprals.state.gov/Web920/cola.asp>

pertinent to the living conditions and costs that the officers face. However, in light of the current capacity constraints confronting the Government, this report takes a satisficing approach to determine an acceptable alternative solution in the interim.

Notwithstanding the proposal laid forth in this report, it is important that the Government's future efforts on this exercise focus on enhancing the current proposed system so that it would be consistent with the standard of international best practices. As such, and given the need for the compensation system to meet the principles of fiscal sustainability, transparency, equity and ease of administration, the report offers the following recommendations:

*Over the short to medium-term -*

1. **Establish an internal Government committee on foreign service compensation**, constituted of persons with the relevant expertise, who would conduct and guide research on compensation, and provide policy recommendations and guidance to the Government. Additionally, invest in developing the necessary systems and capacity in the relevant public service personnel and foreign service officers, who would collaborate with the Government committee to ultimately implement a largely or fully “homegrown” foreign service compensation system for the country.
2. **Review periodically and update the compensation system accordingly** - specifically the rates and maximum allowable amounts - to ensure that the system keeps pace with evolving living costs in the host country and that allowances are adequate, in order to avoid a reversion to the previous practice of granting allowances and making adjustments in an ad hoc and undocumented manner. Consideration could be given to conducting reviews every three years.
3. **Review and strengthen accordingly the base salary system** upon which the foreign service compensation system is built. The allowance system should serve to supplement the income of officers based on the additional expenses that they would incur in the course of carrying out their duties. The system should not be used to compensate for deficiencies in the base salary structure.

4. **Review the allowances currently specified in the Foreign Service Regulations with a view to rationalising the benefits** so as to avoid inflating the benefits packages paid to foreign service officers. Among the considerations that the assessment should include are whether some allowances are necessary, the eligibility criteria for allowances and the terms for the allowances. For example, it is recommended that, in order to meet the principle of fiscal sustainability, the child and education allowances be limited to up to three children per eligible officer. Also, consideration may be given to better defining the spouse allowance to ensure that only officers whose spouses are classified as dependants (that is, spouses who do not earn income) be eligible to receive the allowance. In the case of a spouse who earns income below some threshold (to be determined), an amount be paid to make up the difference between the spouse's income and the threshold, up to the limit of the spouse allowance, as is the practice in the UN system (United Nations Office of Human Resources Management, n.d.).

*Over the longer-term -*

5. **Collaborate with regional governments and organisations** to pool and share resources for the development and implementation of a harmonised or regional foreign service compensation system. As a group, it may then become more economical to engage the services of international survey firms such as Mercer or ECA International for the required cost of living data at the various mission posts.

A key stakeholder group in the process of developing the compensation system is the group of foreign service officers who would be served by the system. It is suggested that, as the Government proceeds in establishing its system, consideration be given to engaging the officers to gain insights into their experiences with the existing compensation system. This process should shed light on officers' concerns and on the deficiencies in the system from the point of view of those most affected by it. This experience should provide further guidance on the development of the system. In addition, this stakeholder group would be critical for implementing the enhanced system recommended for the future. The cooperation of foreign

service officers would be required for the successful administration of any future Government surveys about costs at the mission posts. Furthermore, it may be necessary to enlist the services of the foreign service officers, who are living at the mission locations, in the price data collection process necessary for periodic updates of the allowance schedules.



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## APPENDIX

### **Construction of the Cost of Living Adjustment Factor**

This study follows broadly the method for calculating a COLA used by the US DOS (US Department of State, 2017). The approach uses a pre-determined market basket and “prices” the items it contains to determine the cost of the basket at different locations.

For the purposes of this exercise, the report uses St Kitts and Nevis’s CPI market basket at the level of the aggregates, along with the weights for the aggregates to define the country’s consumption basket. This is an admittedly rudimentary approach to constructing the consumption basket for the foreign service officers as it both uses consumption aggregates (rather than item level information) and is based on the existing CPI basket which captures broadly the consumption patterns of the general population. Going forward, the Government may wish to decide what constitutes an appropriate market basket of goods and services that would accurately reflect the consumption patterns of individuals at the levels of its foreign service officers.

The ICP dataset was the source of price data used in making the cost of living comparisons between St Kitts and Nevis and the host countries for the missions. The dataset includes data on the price level index (PLI), which “is the ratio of the PPP [purchasing power parity] of a currency in a given economy and the corresponding exchange rates” (World Bank, 2015, p. 6). A PLI is an index that helps to determine how relatively expensive a specified basket of goods and services is and allows for a spatial comparison, that is, comparison across locations. The index is standardised across countries to allow for the cross-country comparison by expressing it in a common currency across locations (World Bank, 2015, pp. 13-14).

The ICP data set provides PLIs at various levels of aggregation. This report uses the PLIs for “higher-level aggregates” of consumption goods and services in order to match the consumption aggregates used from the St Kitts and Nevis CPI basket. The PLI is based at world = 100.

$$PLI = PPP/\text{exchange rate}$$

Table 10 outlines the steps followed to process the St Kitts and Nevis CPI basket data and the ICP PLI data to calculate the foreign service allowance adjustment factors.

**Table 10: Steps in Calculating the Foreign Service Allowance Adjustment Factor**

<b>Steps</b>
1. Remove the two large categories of expenditure (housing and education) from the St Kitts and Nevis CPI market basket that are covered by their own separate allowances.
2. Re-calculate the weights for the remaining 10 categories in the CPI basket so that all remaining weights now sum to 1000 (and standardise the weights to sum to 1 by dividing each category weight through by 1000).
3. Obtain the ICP PLIs for the higher level aggregates corresponding to the 10 categories in the modified St Kitts and Nevis market basket. Extract these data for all seven host countries and St Kitts and Nevis. Note that the PLI is based at world=100.
4. Re-base the PLIs for each of the higher level aggregates so that St Kitts and Nevis=100. This is done by dividing each higher level aggregate by the corresponding PLI for St Kitts and Nevis. This step is carried out for each country. The re-based PLIs are referred to as “post ratios” by the US DOS. All of St Kitts and Nevis’s ratios will now be 100.
5. Multiply each post ratio by the respective category’s basket weight obtained in step 2.
6. For each country, sum up the results from step 5 to obtain that country’s cost index for the market basket.
7. Use changes in the CPI as a proxy to update the cost indices for all countries (see Table 11).
8.* Additional optional step: round the cost index up to the nearest 5.
9. To determine the cost of living adjustment percentage rate to apply to the spendable income table, subtract 100 from the cost index.

**Table 11: Changes in Country CPI Data, 2011 to 2017**

<b>Country</b>	<b>2011 CPI</b>	<b>2017 CPI</b>	<b>Percentage Change (2011 to 2017)</b>
St Kitts and Nevis	107.5	106.7	-0.8
Canada	119.8	130.4	8.8
Cuba	N/A	N/A	N/A
Jamaica	326.7	458.0	40.2
Taiwan	100.0	105.7	5.7
United Arab Emirates	245.1	275.3	12.3
United Kingdom	93.4	103.4	10.6
United States	224.9	245.1	9.0
Saint Lucia	108.6	114.1	5.1

*Source: International Monetary Fund World Economic Outlook Database, April 2018*

*Note: N/A – Data not available*