



30 SEPTEMBER 2025



# TUVALU TRUST FUND 2025 ANNUAL REPORT

PREPARED BY:  
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*TTF SECRETARY*

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**ABBREVIATIONS AND ACRONYMS**

A\$	Australian Dollars
CIF	Consolidated Investment Fund
CPI	Consumer Price Index
DAA	Dynamic Asset Allocation
GoT	Government of Tuvalu
IC	Investment Committee
NZ	New Zealand
N\$	New Zealand Dollars
SAA	Strategic Asset Allocation
SIOP	Statement of Investment Objectives and Policy
TTF	Tuvalu Trust Fund
TTFAC	Tuvalu Trust Fund Advisory Committee
ToR	Terms of Reference
UK	United Kingdom



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## CHAIMAN'S REPORT

In accordance with Part VIII, Article 23 of the International Trust Fund Agreement (the Deed), I am pleased to present the 2025 Annual Report of the Tuvalu Trust Fund for the financial year ending 30 September 2025.



Despite a challenging global environment marked by elevated inflation, the Fund demonstrated resilience and achieved robust growth. At the close of the financial year, the Fund's market value reached **AUD\$293.9 million**, supported by additional capital contributions of **A\$12 million** from the Australian Government and **NZD\$4.5 million** from the New Zealand Government. The maintained value increased from **A\$247.3 million** from last year to **A\$272.5 million** as of 30 September 2025. TTF thus had an available distribution of **\$21.4m** for the Financial Year ended 30 September 2025.

In addition to the pleasing returns for the quarter, I am delighted to report that, at the time of this writing, the Fund reached \$300 million—another significant milestone. Achieving this within just a few years of transitioning to the new investment strategy (65% growth, 35% defensive SAA) is a clear reflection of the potential and effectiveness of the new approach in elevating the Fund's value, as evidenced by the substantial increase we have seen.

The Fund is managed by Mercer Investments, our Implemented Consultant, in close collaboration with the Investment Committee. Together, we continue to refine strategies and policies to enhance the Fund's ability to meet both short- and long-term objectives. Our focus remains on prudent management, sound governance, and the perpetuity of the Fund as Tuvalu's largest financial asset.

I wish to acknowledge the dedication of my fellow Board Directors, the steadfast support of New Zealand and Australia, and the professionalism of our service providers—including Mercer, the Investment Committee, the Advisory Committee, the External Auditor, and the Secretariat. Their collective commitment has been instrumental in advancing the Fund's mission.

On behalf of the Board, I reaffirm our commitment to safeguarding the Fund's integrity and ensuring its continued contribution to Tuvalu's long-term financial sustainability.

Fakafetai lasi, Tuvalu mo te Atua

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**Hon. Panapasi Nelesone**

Chairman, Tuvalu Trust Fund

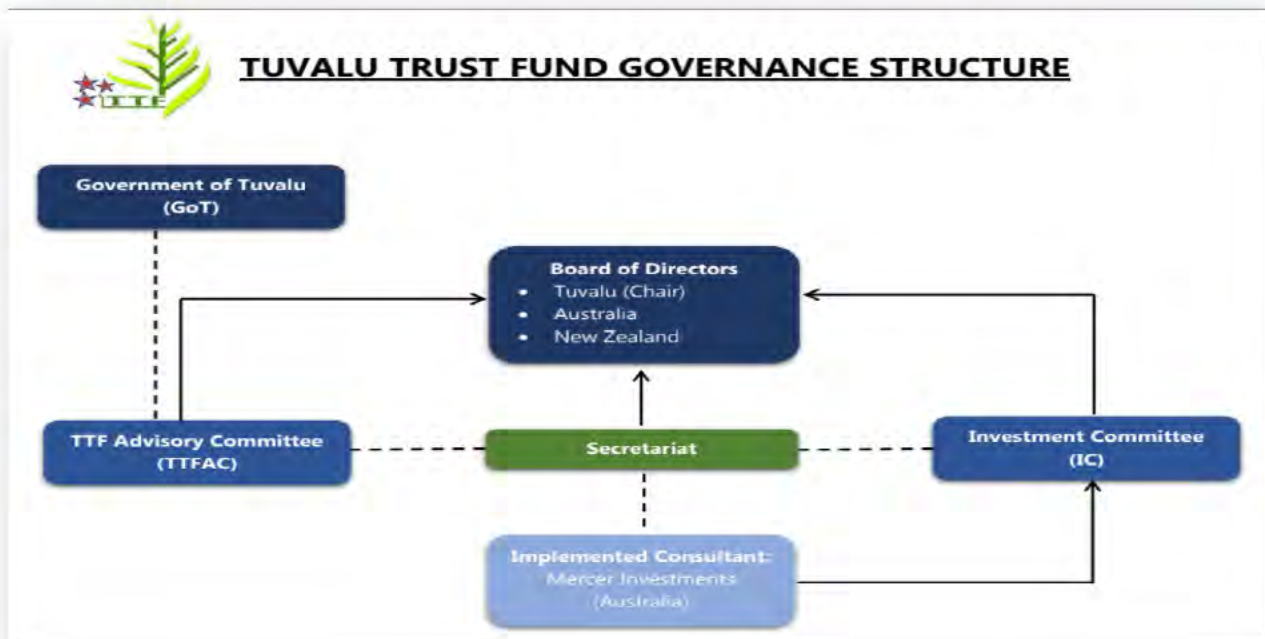


## THE TUVALU TRUST FUND – TTF

### HISTORY OF THE FUND

Established in 1987, the Tuvalu Trust Fund was designed to secure the enduring financial stability and security of Tuvalu. Its founding represented a collaborative initiative between the Government of Tuvalu and its development partners, notably New Zealand and Australia. Over time, the Fund has proven to be a cornerstone in strengthening the nation’s fiscal resilience, serving as a buffer against economic volatility and furnishing a consistent source of revenue to support essential public services and broader development objectives.

### GOVERNANCE OF THE FUNDS



The governance structure of the Fund is distinguished by its unwavering commitment to transparency, accountability, and prudent financial stewardship. The Board of Directors, consisting of esteemed representatives from Tuvalu, New Zealand, and Australia, exercises comprehensive oversight and strategic direction for the Fund’s operations, as established in Article 6 of the Deed, which provides that “[t]here shall be a Board of Directors of the Fund.” Furthermore, Article 6 stipulates that the “[d]irector appointed by the Government of Tuvalu, ... shall be Chairman of the Board. All powers of the Fund



shall be vested in and exercisable by the Board.” The Fund’s activities are also subject to regular evaluation by independent committees, external auditors, and Secretariat, thereby ensuring the maintenance of exemplary fiduciary standards. Through this rigorous framework, the Tuvalu Trust Fund is well-equipped to address the evolving requirements of the nation and to sustain the confidence of its stakeholders.

## THE BOARD OF DIRECTORS

### **1. Hon. Panapasi Nelesone – Tuvalu Director and chairman of the TTF Board**

Hon. Panapasi Nelesone has dedicated his career to public service, consistently working to advance the interests of his Government and the people of Tuvalu. His professional journey began after graduating from the University of the South Pacific (USP) in 1986, when he assumed the role of Assistant Planning Officer. Building on this foundation, Hon. Nelesone continued his service as a government Economist and, in 1991, became the Secretary of Finance.



Throughout his career, Hon. Nelesone has been recognized as one of the pioneers of the Tuvalu Trust Fund, contributing to its establishment and ongoing success. He has held several key positions within the government, including Deputy Secretary to Government and, subsequently, Secretary to Government in 2000. He served in this capacity for nearly a decade, demonstrating steadfast commitment to public administration and governance. In addition to his domestic roles, Hon.

Nelesone represented Tuvalu abroad, serving as Ambassador to Belgium and the European Union for several years before returning home to resume his duties as Secretary to the Government.

Currently, Hon. Panapasi Nelesone serves as the Deputy Prime Minister of Tuvalu and Minister of Finance. He also leads as Chairman of the Board of the Tuvalu Trust Fund. His first meeting as Director of the Board and Chairman was at the TTF’s 78th Board Meeting in May of this year.



## 2. Mr. Mark Tattersall – Australia Director and Representative to the Board

Mr. Mark Tattersall brings a wealth of experience and expertise to his role as Australia's Director and Representative to the Tuvalu Trust Fund Board. He holds a Master's degree in International Social Development from the University of New South Wales, as well as a Bachelor of Arts and Commerce with First Class Honors in History from the University of Sydney.

Currently, Mr. Tattersall serves as the First Assistant Secretary of the Polynesia, Micronesia and Development Division within the Department of Foreign Affairs and Trade. He commenced this role in February 2024, following a posting in Hanoi, Vietnam, where he was the Deputy Head of Mission from 2021 to 2024.



His career includes significant leadership positions, such as Assistant Secretary for Aid Management and Performance, where he was the lead author of Australia's 2020 development policy, Partnerships for Recovery. From 2017 to 2018, he coordinated Australia's humanitarian response efforts in the Indo-Pacific region.

Mr. Tattersall's international experience is further exemplified by his three-year secondment to the World Bank in Washington, D.C., where he served as Advisor to the Executive Director, representing the interests of Australia and Pacific Island countries. Prior to this, he held several roles in the former AusAID, including being posted to Pakistan from 2008 to 2009. He also worked in Vanuatu within the non-governmental organization sector.



### 3. Mr. James Messent – New Zealand Director and Representative to the Board

Drawing on his broad international experience and academic background, Mr. Messent brings a nuanced understanding of public financial management and economic development to his role as New Zealand's Director and Representative on the Tuvalu Trust Fund Board. His expertise in climate finance and development programming, coupled with his previous work at the OECD and New Zealand Treasury, positions him to contribute valuable insights to the Board's strategic discussions and oversight of the Fund.



In addition to his extensive background in public financial management, Mr. James Messent has developed a particular expertise in climate finance, supporting Pacific Island nations as they navigate the complexities of sustainable economic development in the face of climate change. During his tenure at the OECD, he was involved in the development and analysis of effective policy measures for international aid and economic growth, equipping him with a global perspective that informs his current work on the Tuvalu Trust Fund Board.

Mr. Messent's experience with the New Zealand Treasury strengthened his understanding of sound fiscal policy and strategic funding allocation—skills that prove invaluable when overseeing the governance and investment activities of the Fund. His practical, evidence-based approach to development programming is complemented by his academic achievements, which include advanced studies in economics and public policy.

Known for his collaborative style, Mr. Messent is highly regarded for fostering partnerships between governments, multilateral organizations, and the Pacific community. He is committed to ensuring that the Tuvalu Trust Fund remains a robust instrument for promoting Tuvalu's long-term financial stability and resilience. Through his leadership and advisory roles, Mr. Messent continues to contribute thoughtful guidance to the Fund's evolving strategy and operations, working to realize the shared vision of prosperity for Tuvalu and its people.



## MEETING OF THE BOARD

### 2025 FINANCIAL YEAR: FIRST BOARD MEETING HIGHLIGHTS



The 2025 financial year for the Tuvalu Trust Fund commenced on October 1, 2024. Accordingly, the first Board Meeting for the new financial year was convened on November 22, 2024. The Government of Tuvalu hosted this meeting in one of the islet resort on Funafuti, Tuvalu, bringing together Board members and key stakeholders to address significant Fund matters.

### KEY RESOLUTIONS PASSED

- 1) Approval of the Secretariat Budget: - The Board formally approved the Secretariat's budget for the 2025 financial year, ensuring continued support for the Fund's operations and activities.
- 2) External Auditor Procurement: - Following notification from PwC Fiji regarding their merger with Grant Thornton a Tier 2 firm the Board decided to discontinue PwC's engagement. Instead, the Board resolved to seek a new Tier 1 firm to serve as the Fund's external auditor, maintaining the high standards required for Fund oversight.
- 3) Distribution to the CIF: - The Board agreed to transfer \$3.9 million to the Consolidated Investment Fund (CIF). This transfer aims to replenish the CIF and ensure it meets the target minimum balance of 16% of the Tuvalu Trust Fund's Maintained Value.
- 4) Adoption of New Investment Strategy: - Approval was granted for the implementation of the 80/20 Strategic Asset Allocation (SAA) as the new investment strategy for the Tuvalu Trust Fund, reflecting the Board's commitment to prudent financial management and long-term sustainability.





### MEETING REFLECTIONS

During the meeting, participants engaged in productive discussions on the Fund's recent performance, the impact of global market trends, and the importance of maintaining transparency in all financial operations. The Board also underscored the value of ongoing stakeholder engagement, emphasizing open communication with the Tuvaluan government and development partners to ensure that the Fund's objectives remain aligned with national priorities.

The meeting was notably successful, providing participants with a valuable opportunity to experience Tuvalu's culture and hospitality. Attendees also gained firsthand insight into the ongoing impact of climate change on Tuvalu,



reinforcing the importance of the Fund's objectives and continued support for the country's financial stability and resilience.

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## 2025 FINANCIAL YEAR: SECOND BOARD MEETING HIGHLIGHTS

The second Board meeting was hosted by New Zealand in May 2025 at the Ministry of Foreign Affairs and Trade (MFAT) office in Auckland. Attendees included the Fund's Board of Directors, Advisory Committee, Investment Committee, Implemented Consultant (Mercer), Secretariat, and observers from MFAT, World Bank, and Tuvalu's Mission in New Zealand.



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## KEY RESOLUTIONS PASSED:

- 1) 80/20 SAA Implementation Plan: Recognizing the risks associated with being out of the market and the timing requirements for certain asset classes, the Board approved the 80/20 Strategic Asset Allocation (SAA) Implementation Plan. The Board instructed Mercer and the Investment Committee to execute the implementation with the utmost diligence and care.
- 2) Aligning Fund Operations with Government Priorities: The Board directed the Investment Committee and Mercer to review the Fund's distribution policy and propose alternative options to better meet the Government of Tuvalu's financial needs and priorities.
- 3) Enhancing Fund Service Delivery: The Board endorsed the Investment Committee Charter and requested the Advisory Committee to draft their own charter to further improve the Fund's governance and effectiveness.
- 4) Fund Marketing and Promotion Program: Recognizing the importance of increasing the Fund's value and attracting new philanthropic donors, the Board approved the engagement of a marketing specialist to develop the Fund's marketing program and related materials.



## MEETING REFLECTIONS:

The meeting focused on strategies for sustaining the Fund's growth to ensure ongoing financial stability for Tuvalu. This was New Zealand's first time hosting the Board meeting, and it was a positive experience for all attendees.

## INVESTMENTS OF THE FUND

### THE STATEMENT OF INVESTMENT OBJECTIVES AND POLICY – SIOP

The SIOP serves as TTF's investment guide, outlining the Fund's objectives, beliefs, strategy, and management. It also specifies the roles of the Board and other service providers.

### INVESTMENT OBJECTIVES.

The investments of TTF' assets are guided and directed by its Statement of Investment Objectives and Policy (SIOP). This statement documents the processes formulated by the Board in relation to the investments of the TTF's assets.

TTF's General Investment Objectives as stated in the SIOP are:

1. To invest the Fund as permitted by law.
2. To prudently manage all aspects of risk in relation the Fund, including ensuring:
  - a. the assets are adequately diversified;
  - b. the assets have an appropriate level of liquidity; and
  - c. that any party to whom investment decision making is delegated exercises integrity, prudence and professional skill in fulfilling the investment tasks delegated to them, and that the actions of the party are fully accountable to the Board.
3. The Investment objective of the Fund is to grow the real value of the original capital and subsequent contributions, while maximizing the returns available to the Government of Tuvalu over the long term, subject to an appropriate level of risk being taken.



## INVESTMENT BELIEFS

In addition to the Investment Objective, the SIOP also emphasizes the Fund's Investment approach. The table below outlines the current Investment Beliefs as identified in the SIOP.

TOPIC	BELIEF	IMPLICATIONS FOR FUND
Risk	There can be reward for investment risk. Investors are generally compensated for accepting higher risk, or increased volatility of returns, by realising higher long-term returns.	Diversification improves the risk to return trade-off for the Fund. It allows the Fund to generate higher returns for the same level of risk or reduce risk for the same level of returns.
Diversification	Prudent diversification of assets, both between and within asset classes, will reduce volatility of total portfolio returns.	
Timeframe	Investors with a long-term horizon can outperform investors with a shorter-term orientation.	Since the Fund has a long-term horizon, it is less affected by short-term volatility, so it can afford to take on additional risk with the aim of achieving higher returns.
Asset Allocation	Asset allocation is the key determinant of long-term risk and return.	
Active Management	Active management (versus passive) can return a premium over time to market returns but requires skill. Opportunities to add value through active management are not uniformly distributed across asset classes or through time.	The Fund may use both active and passive management within its investment portfolio.
Governance	Governance matters. Robust structures, clear accountabilities and sound advice contribute to the fund's performance. The Board's role is strategic, including oversight of the Fund's management.	When taking strategic decisions, the Fund benefits from having a diversity of views on the Board and on the Investment Committee.

Table 1: TTF Investment Beliefs



## INVESTMENT STRATEGY

In 2022, the Board adopted an investment strategy aligned with TTF's investment beliefs and the Fund's objectives as detailed in the SIOP. The strategy outlined the Strategic Asset Allocation (SAA), underlying asset classes the fund should invest in, the underlying benchmarks to measure performance, and risk assessment and control measures.

### i. Strategic Asset Allocation (SAA):

In alignment with the Government of Tuvalu's objective to ensure the long-term growth of the Fund, the Board approved a new 80/20 Strategic Asset Allocation (SAA) for the Fund in November 2024. Following this decision, the Investment Committee (IC) and Mercer have collaboratively developed and executed an implementation plan designed to minimize risks associated with the transition to the new SAA.



The Board endorsed the proposed plan during its May meeting, after which Mercer proceeded to implement the transition. As of the end of the Financial Year, the Fund's SAA stood at 72/28, indicating progress towards the target allocation, with certain assets pending transition. Full investment into the 80/20 SAA is anticipated to be achieved before the conclusion of the calendar year.

### ii. Asset Classes:

Below are the Fund's asset classes and their % and \$ allocations at the end of the 2025 Financial Year:

	SAA Range (%)	SAA Target (%)	Actual (\$)	Actual (%)
Australian Equities	0.0 - 40.0	24.0	68,603,658	23.3
International Equities Unhedged	0.0 - 40.0	10.0	32,678,604	11.1
International Equities Hedged	0.0 - 40.0	10.0	43,552,896	14.8
International Small Cap Equities	0.0 - 10.0	4.0	12,638,594	4.3
Emerging Market Equities	0.0 - 10.0	5.0	15,256,862	5.2
Australian Listed Property	0.0 - 15.0	3.0	-	0.0
Australian Unlisted Property	0.0 - 15.0	0.0	24,116,487	8.2
Global Listed Property	0.0 - 15.0	3.0	-	0.0
Global Listed Infrastructure	0.0 - 15.0	6.0	16,930,196	5.8
Global High Yield Credit	0.0 - 15.0	2.5	6,339,648	2.2
Global Absolute Return Bonds	0.0 - 15.0	7.5	-	0.0
Global Credit	0.0 - 15.0	5.0	12,360,500	4.2
Global Sovereign Bonds	0.0 - 15.0	0.0	11,934,733	4.1
Australian Sovereign Bonds	0.0 - 15.0	5.0	25,250,162	8.6
Australian Inflation Plus	0.0 - 15.0	10.0	18,282,773	6.2
Cash	0.0 - 15.0	5.0	5,987,117	2.0
<b>Total</b>		<b>100.0</b>	<b>293,932,231</b>	<b>100.0</b>



### iii. Asset Class Benchmarks:

Below are the benchmarks Mercer uses to evaluate asset class performance as outlined in the SIOP.

ASSET CLASS	BENCHMARK
Australian equities	S&P/ASX 300 (TR)
International equities (developed)	MSCI World ex Australia (NR) – 50% AUD hedged
Global small cap equities	MSCI World Small Cap
Emerging markets equities	MSCI Emerging Markets (Net) Index
Australian listed property securities	S&P/ASX200 Property Trusts Accumulation Index
International listed property securities	FTSE EPRA/NAREIT Developed Index AUD hedged
Global listed infrastructure	FTSE Global Core Infrastructure 50/50 100% AUD hedged
Global absolute return bonds	Bloomberg AusBond Bank Bill Index + 1%
Global high yield bonds	ICE BoAML BB-B Rated Developed Markets High Yield Constrained Yield
Australian sovereign bonds	Bloomberg AusBond Treasury Index
Australian inflation plus bonds	Lagged CPI+1%
Global credit	60% Barclays Global Aggregate – Corporate Index and 40% Barclays Global Aggregate – ex Treasuries, ex Government Related Index (AUD hedged)
Australian cash	Bloomberg AusBond Bank Bill

Table 2: TTF's Asset Class Benchmarks

### iv. Dynamic Asset Allocation:

Table 3 outlines DAA ranges used to adjust from the SAA during periods of significant market mispricing. When a DAA is needed, the Implemented Consultant submits a recommendation for Board approval via the IC and Secretariat. The following summarizes these DAA positioning at the end of the 2025 financial year.

	DAA Range (%)	DAA Target (%)	Actual (\$)	Actual (%)
Australian Equities	0.0 - 40.0	24.0	68,603,658	23.3
International Equities Unhedged	0.0 - 40.0	8.0	32,678,604	11.1
International Equities Hedged	0.0 - 40.0	12.0	43,552,896	14.8
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Australian Listed Property	0.0 - 15.0	3.0	-	0.0
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Global Absolute Return Bonds	0.0 - 15.0	0.0	-	0.0
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Global Sovereign Bonds	0.0 - 15.0	5.0	11,934,733	4.1
Australian Sovereign Bonds	0.0 - 15.0	10.0	25,250,162	8.6
Australian Inflation Plus	0.0 - 15.0	10.0	18,282,773	6.2
Cash	0.0 - 20.0	2.5	5,987,117	2.0
<b>Total</b>		<b>100.0</b>	<b>293,932,231</b>	<b>100.0</b>



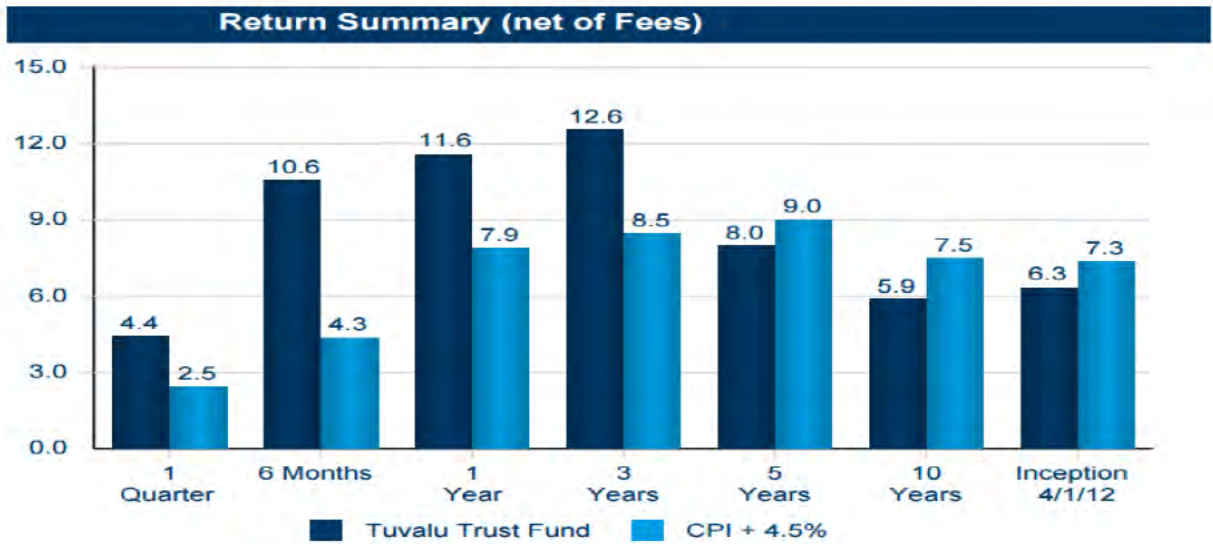
FY 2025 FUND'S PERFORMANCE HIGHLIGHT

TTF MARKET VALUE AS AT 30 SEPTEMBER 2025

As of 30 September 2025, TTF's valuation reached **\$293.9 million**, an increase of **\$42.7 million** from **\$251.2 million** in 2024, marking its highest annual growth since inception. For the first time, the Fund simultaneously benefited from its Strategic Asset Allocation (SAA), Dynamic Asset Allocation (DAA), and Manager Selection, all of which surpassed their respective benchmarks and collectively generated alpha. As a result, TTF exceeded its return target of CPI + 4.5% for the first time since inception. The graph below illustrates the Fund's performance relative to its CPI + 4.5% return target from inception to the present.



Portfolio Performance Overview



TTF RETURN ON INVESTMENT – MARKET VS MAINTAINED VALUES

At the end of the year, the Maintained Value stands at **A\$272.5 million**, reflecting an increase from **A\$247.3 million** in 2024. According to the Fund's distribution policy, distributions are permitted only if the Market

Value at year-end surpasses the Maintained Value. As of 30 September, the Market Value exceeds the Maintained Value by **\$21.4 million**, making this amount available for distribution. The accompanying line graph demonstrates the historical growth of both Market and Maintained Values since inception. For the financial year ending 30 September 2025, the difference between the Market Value (blue line) and the Maintained Value (red line) represents the distributable amount.

### Tuvalu Trust Fund

Ending 30 September 2025



### TTF FY 2024 CASH FLOW

#### ADDITIONAL CONTRIBUTIONS

This year marks a highest substantial injection from New Zealand’s and Australia’s additional contributions. The Fund received its first injection of **NZD\$4.5m** in late June from New Zealand. The second injection of **AUD\$12m** was received from Australia in mid July. These contributions are parts of New Zealand and Australia’s continuing annual supports to the Fund. Therefore, total additions into the Fund for the 2025 FY is amounting to **AUD\$16.5 million**.



WITHDRAWALS

A total distribution of **\$3.9 million** was made from the Tuvalu Trust Fund (TTF) to the Consolidated Investment Fund (CIF) for the financial year ending September 2024. Additionally, an amount of **\$430,700** (or \$430.7K) was redeemed to finance the Secretariat’s budget for the 2025 financial year. Consequently, the total withdrawals from the Fund during this period amounted to **\$4.3 million**. The table below summarizes the cash flow for the 2025 financial year.

Fund cash flows					
	Quarter		6 Months		1 Year
Opening value	\$	269,048,457	\$	254,097,168	\$ 251,246,180
Additions	\$	16,158,435	\$	16,158,435	\$ 17,158,435
Withdrawals	-\$	3,904,548	-\$	3,904,548	-\$ 4,278,143
Investment returns	\$	12,629,886	\$	27,581,176	\$ 29,805,759
<b>Closing value</b>		<b>293,932,231</b>		<b>293,932,231</b>	<b>293,932,231</b>

**Appendix 1** of the report contains the full investment report for the Fund at 30 September 2025.

TTF’S SERVICE PROVIDERS

THE IMPLEMENTED CONSULTANT - MERCER

It is important to note that all investments of the Fund is the sole responsibility of the our Implemented Consultant – Mercer. Considering this, the Fund extends its gratitude and commendation to Mercer, for the diligence and expertise applied to the daily administration of the Fund. This year, your strong commitment and excellent management capabilities have driven notable success, enabling the Fund to reach unprecedented performance levels.



THE INVESTMENT COMMITTEE - IC

The **Investment Committee (IC)** plays a critical role in the management and oversight of the Fund's investments, functioning as the Investment Advisor body to the TTF Board. Comprising representatives from Tuvalu, Australia, and New Zealand, the Committee supports their respective Directors by:

- Advising and assisting them in understanding current market developments.



- Providing guidance on the management of the TTF investment portfolio.

The IC also acts as the Fund Monitor under the current investment approach. In this capacity, they scrutinize and critique the work and investment recommendations put forward by the Implemented Consultant, Mercer, before these items are presented to the Board for approval.



The current Investment Committee is led by **Mr. John Eliopoulos**, who serves as Australia's IC advisor. He is joined by **Ms. Nalayini Brito**, the representative for New Zealand and the committee's longest-serving member, with over a decade of continuous service. **Mr. Easter Tekafa** serves as Tuvalu's IC advisor, having joined the team some years ago.

## THE TUVALU TRUST FUND ADVISORY COMMITTEE – TTFAC

As stipulated in the Trust Deed, the TTF Advisory Committee (TTFAC) is mandated to advise the Government of Tuvalu on socio-economic progress. The Committee's reporting obligations include submitting an interim report to the Government after the first six months of the financial year, followed by an annual report thereafter. These reports cover all socio-economic matters requiring government attention and include strategic recommendations designed to assist the Government in addressing them effectively.

Similar to the Investment Committee (IC), the TTFAC comprises expert representatives from the Governments of Tuvalu, Australia, and New Zealand. The Committee's membership recently transitioned. Key members present for the missions this year included:

- **Mr. Talavai Iona** – Tuvalu TTFAC Advisor
- **Ms. Tarita Hutchinson** – New Zealand TTFAC Advisor
- **Mr. Stuart Schaefer** – Australia TTFAC Advisor



The Fund recently farewelled Mr. Stuart Schaefer upon the conclusion of his contract in June this year. Following his departure, the Department of Foreign Affairs and Trade (DFAT) appointed Ms. Melissa Wells to serve as the interim replacement until a permanent appointee is confirmed.

The TTFAC operates without a fixed chairmanship term, unlike the IC; instead, members rotate the leadership for each mission. The Committee conducted two missions during the reporting period: the first took place in October 2024, and the second was completed in May 2025. Detailed reports from both of these missions are provided in **Appendices 2 and 3**, respectively.

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## THE TTF OFFICE - SECRETARIAT

The TTF Secretariat plays a critical coordinating role, managing the various functions and activities under the Tuvalu Trust Fund (TTF) umbrella. It serves as the central hub for information flow, consolidating actions resulting from decisions made by the various governing parties.

The Secretariat's core responsibilities are centred on reporting, communication, and operational efficiency:

- **Reporting to Government:** The Secretariat reports and provides updates to the Government of Tuvalu via the Minister of Finance, who also chairs the TTF Board.
- **Board Updates:** A primary responsibility is to keep the Board of Directors apprised of the latest information pertaining to the Trust Fund. This includes, but is not limited to, investment reports, Fund valuations, and Maintained Value updates.
- **Capacity Building:** The Secretariat is committed to continued professional development training to ensure staff members are well-equipped to execute their duties as effectively and efficiently as possible.

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## SECRETARIAT ACTIVITIES - ANNUAL UPDATES

### 1. Annual Work Plan

To ensure an equitable distribution of workload and to provide staff with a clear understanding of their expected duties, the Secretariat's initial strategic task at the beginning of the year was the establishment of annual objectives and goals.

The overarching strategic goal for the year was defined as 'continuous improvement over the previous year'. This objective encompasses key performance areas such as enhanced commitment, service delivery quality, productivity, efficiency, and competency.



A critical component of this plan involved internal discussions to identify mechanisms for realizing the intended improvements.

These defined task lists are intended to be utilized as a foundational tool for the staff performance appraisal process. Having a clear, structured set of tasks and responsibilities for each employee will significantly assist assessors in conducting accurate and objective evaluations during both the quarterly reviews and the annual performance appraisals. These appraisals directly inform decisions regarding annual bonus awards.

## 2. Capacity Development

The Secretariat engaged in three main professional development programs this year: an investment training course delivered by Mercer, an accounting software training course (Reckon) provided by PwC, a HR & Risk Management workshop training provided by Ken Knowledge International.

### i. Investment Training by Mercer

The investment training occurred in December of the previous year, with the Secretariat joining a client session offered by Mercer. This participation was endorsed by the Board, which supported the recommendation from the External Support Service to bolster the Secretariat's technical capacity in investment matters.

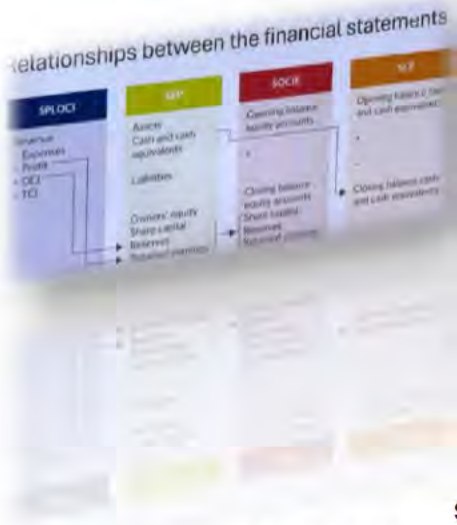
Conducted by the Mercer team at their Sydney premises, the course offered valuable insights, enabling staff to analyze investment reports and statements with greater proficiency. This has contributed significantly to more efficient job performance. Given the success demonstrated, the Secretariat intends to replicate this training for new staff members to maintain high competency levels across the team.



### ii. Reckon Training by PwC

The Secretariat's second key professional development initiative this year was the Reckon accounting software training, which was facilitated by PwC (PricewaterhouseCoopers).





This targeted training program was designed to significantly enhance the Secretariat's operational efficiency and financial data management capacity. By providing staff with comprehensive instruction on the Reckon platform, the initiative ensures that the team is highly proficient in handling the Fund's accounting tasks, which directly contributes to accurate and efficient financial reporting across all Secretariat functions.

The proficiency gained from this training holds a critical implication for the audit process. Enhanced staff competency in data entry and ledger management on the Reckon platform results in improved data integrity and consistency. This internal assurance strengthens the efficiency of external audit preparations by streamlining document retrieval, reducing reconciliation errors, and ultimately accelerating the overall audit timetable.

iii. HR Excellence & Risk Management

To further fortify the governance and internal controls of the Secretariat, the TTF Secretary undertook a focused, back-to-back training series this year, comprising a Risk Management Training course and an HR Excellence workshop.



The Risk Management training provided essential methodologies for identifying, assessing, and mitigating potential financial and operational risks facing the Fund and its operations. This is crucial for strengthening the Secretariat's ability to protect the Fund's assets and ensure compliance.

The HR Excellence workshop was undertaken to enhance the Secretariat's capability in crucial HR functions, including staff performance evaluation, compliance with employment regulations, and strategic workforce planning. The knowledge acquired is particularly essential as the Secretariat currently lacks a dedicated, formal HR Policy.



The combined knowledge gained from these two specialized training programs is instrumental for the development of the Secretariat's internal governance framework. Specifically, it equips the Secretary with the necessary expertise to draft and implement comprehensive Risk Management and Human Resources policies for the office. This strategic capability ensures that internal management practices are robust, risk-aware, and aligned with the overall strategic objectives and governance standards of the Tuvalu Trust Fund

### 3. External Auditor Procurement

Following the notification of a merger between PwC and Grant Thornton, the Board resolved in November 2024 to initiate the procurement process for a new external auditor. Given the status of the Tuvalu Trust Fund as a Sovereign Wealth Fund, it was deemed a strategic imperative that the audit be conducted by a Tier 1 firm within the industry.

In May of this year, the Board formally approved the Terms of Reference (ToR), the proposed Request for Proposal (RFP), and the overall procurement process, which included the engagement of an external consultant. An Evaluation Committee (EC) was subsequently established to assess and evaluate all proposals, as well as to verify and confirm the consultant's assessment and recommendation.

The RFP was officially issued in late August. Only two firms from the Tier 1 category submitted bids. Following a thorough review, the EC conducted a due diligence meeting with the short-listed candidate. The outcome of the due diligence, along with the Committee's final recommendation for formal Board approval, has been compiled into a comprehensive report. The full report detailing this exercise is provided in **Appendix 4**.

The Secretariat aims to complete the onboarding of the new external auditor by December so that the transitioning can begin in early next year. The expectation is to complete the FY2025 audit by April 2026 to allow the Secretariat to table the audited FS and audit report to the Board in the May Board meeting of 2026 as required under the Secretariat's Operations Manual.

### 4. TTF Promotion & Marketing Program

The Board previously resolved to initiate a strategic promotional and marketing program for the Tuvalu Trust Fund, utilizing high-profile international platforms, notably the Conference of the Parties (COP) meeting and other potential platforms. This initiative aims to:

- Elevate its international profile among sovereign and philanthropic entities.



- Attract potential new contributors to enhance the Fund's growth.
- Showcase the success of Tuvalu's governance model in addressing climate change financial vulnerability

To execute this, the Board tasked the Secretariat with the immediate responsibility of developing a detailed Terms of Reference (ToR) and a corresponding budget proposal for the promotional program. These documents will define the campaign's scope, key deliverables, and specific target platforms, and are required for review and formal approval by the Board.

The Secretariat has since successfully completed the Terms of Reference (ToR) for the promotional program. Given the initial timeline for this exercise was June, the key approach to accelerating implementation was the direct recruitment of a specialized marketing consultant. Unfortunately, due to other pressing issues and commitments, the Secretariat could not finalize the contract agreement and budget for this to proceed. The intention now is to integrate this exercise's budget into the 2026 proposed budget, finalize the engagement agreement before end of the year, and get the ball rolling in January 2026.

The Secretariat is currently prioritizing the completion and launch of this marketing program before the commencement of the next COP session. This accelerated timeline is necessary because the scheduling of this year's COP event clashes with the timing of the next Board meeting, which would prevent the formal presentation and approval of final campaign materials before it can be utilized in the COP as planned.



## CONCLUSION

The financial year ending September 30, 2025, represents a landmark period of strategic consolidation and fundamental strength for the Tuvalu Trust Fund (TTF). This year was defined by two critical factors: the significant capital injection of **\$16.5 million** from the Governments of Australia and New Zealand, which underscores the enduring commitment of our partners, and the proactive, strategic decisions undertaken by the Board to safeguard the Fund's long-term sustainability.

Despite volatile global market conditions, the Fund's investment performance returned the TTF to a net distributing position of **\$21.4m**. The most impactful governance decision was the approval of the new **80/20 Strategic Asset Allocation (SAA)**, a fundamental shift designed to optimize growth, align with long-term investment objectives, and maintain the Fund's crucial purchasing power in the face of global inflation.

Internally, the Secretariat has made substantial progress in strengthening its institutional capacity. Through targeted professional development—including Investment Training with Mercer, financial proficiency training with PwC, and specialized workshops on Risk Management and HR Excellence—the staff are better equipped to execute their duties efficiently and accurately, with immediate positive implications for audit readiness. This capacity building is instrumental in the ongoing initiative to draft and implement comprehensive HR and Risk Management policies, addressing critical gaps in the Secretariat's operational framework. Furthermore, the procurement process for a new Tier 1 external auditor is actively progressing, ensuring continued adherence to the highest standards of financial oversight.

Looking ahead, the focus for the next financial cycle is on disciplined execution. Priorities include the full implementation of the new SAA, the finalization of new governance instruments—namely the TTFAC Charter and the revised Distribution Policy—and the successful launch of the strategic promotional program at the next Conference of the Parties (COP) session.

The TTF remains a resilient, well-governed, and essential resource for the nation. The collective expertise of the Board, the Investment Committee, the TTFAC, and the Secretariat has established a strong foundation for continued success, ensuring the long-term financial security and stability of the people of Tuvalu.



# *Appendix 1*



# Tuvalu Trust Fund

# Quarterly Report

September 2025



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# Executive Summary

Ending 30 September 2025

Performance (net of fees)	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Inception	Inception Date
<b>Tuvalu Trust Fund</b>	<b>4.4</b>	<b>10.6</b>	<b>11.6</b>	<b>12.6</b>	<b>8.0</b>	<b>5.9</b>	<b>6.3</b>	<b>Apr-2012</b>
CPI + 4.5%	2.5	4.3	7.9	8.5	9.0	7.5	7.3	
Excess Return	2.0	6.3	3.7	4.1	-1.0	-1.6	-1.0	
SAA weighted composite benchmark*	4.3	10.0	10.6	12.7	-	-	-	
Excess Return	0.1	0.6	1.0	-0.2	-	-	-	

## Mercer Commentary

### Fund Performance

Tuvalu Trust Fund returned 4.4% for September quarter, outperforming the return target of CPI +4.5% by 2% and outperforming its composite benchmark by 0.1% over the quarter.

### Markets

Australian shares experienced growth in the third quarter of 2025, with most sectors showing positive performance. The materials sector led the gains, benefiting from a surge in metal prices. In contrast, the healthcare sector faced challenges and was the weakest performer, impacted by the US administration's announcement of tariffs on pharmaceutical imports.

International shares, on a hedged basis, also saw an increase during the same period despite some disappointing economic data from the US. The US technology sector performed notably well, with major companies such as Apple, Microsoft, Amazon, Alphabet, Meta, Tesla, and Nvidia showing strong gains. Additionally, emerging market shares, particularly in China, contributed positively to the overall international market performance.

### Mercer Fund Performance

Most Mercer Funds performed in line with or better than benchmark over the quarter. With the exclusion of the Mercer Global Small Companies Shares Fund, which underperformed its benchmark over the quarter by 1.2%. Negative stock selection in the IT, Industrials, and Health Care sectors were the main drivers of underperformance for the fund.

### Dynamic Asset Allocation

Your sector allocations at the end of the quarter were within the prescribed asset allocation ranges. The overall allocation to growth assets was 72.7%, compared to a target of 65%, moving closer to the halfway point in the transition to 80/20 at quarter-end.

Over the quarter, the DAA tilts implemented in April remained in place. A +2% tilt to the Hedged International Shares Funds added a small amount of value as the USD slightly weakened against the AUD. The underweight positions in the Global Absolute Return Bond fund and Cash also added value but were offset by the overweight positions in the Australian and Global Sovereign Bond Funds.

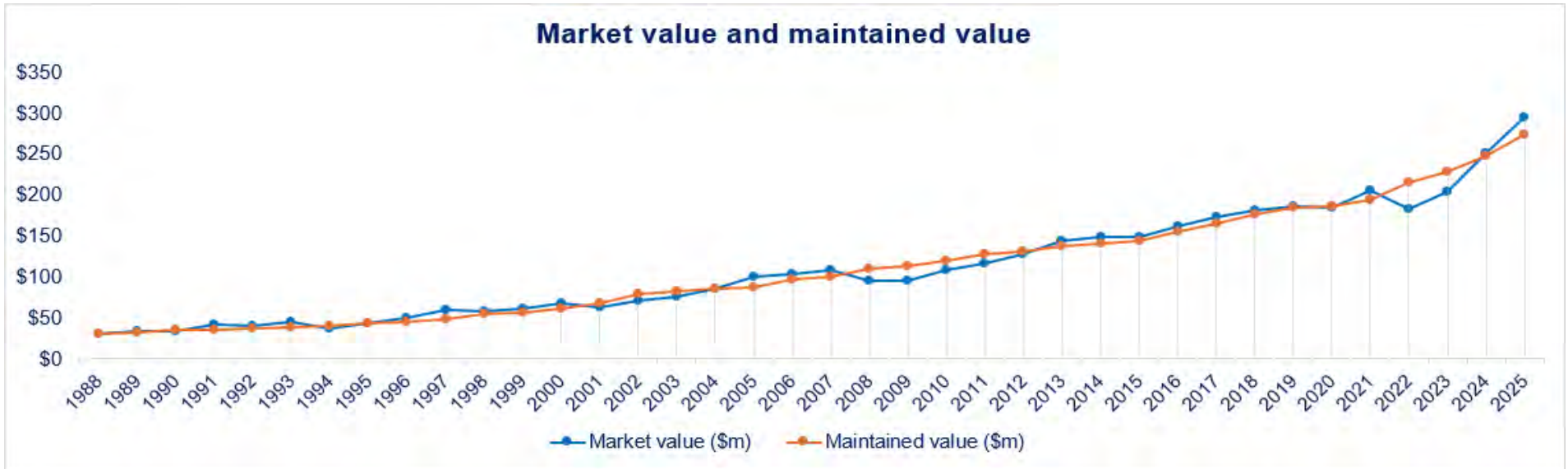
Over the year to September 2025, the underweight position in the Global Absolute Return Bond fund added the most value, while the overweights to both the Global and Sovereign Bond Funds slightly detracted from performance.

Although manager selection detracted value over the quarter, most active funds added value over the year. The Australian Inflation Plus Fund was the biggest contributor over the last 12 months.

\*The Composite benchmark is calculated using relevant asset class benchmarks weighted by the strategic allocation to that asset class

# Tuvalu Trust Fund

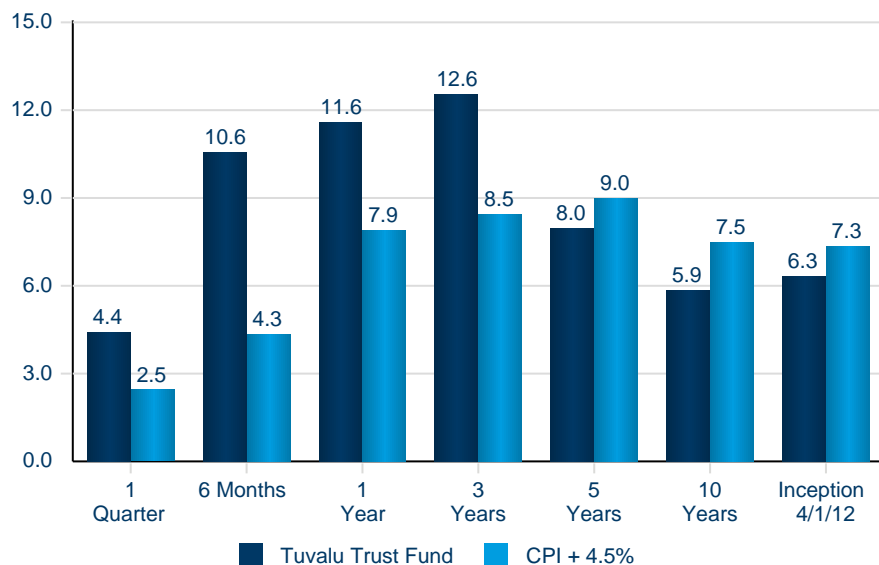
Ending 30 September 2025



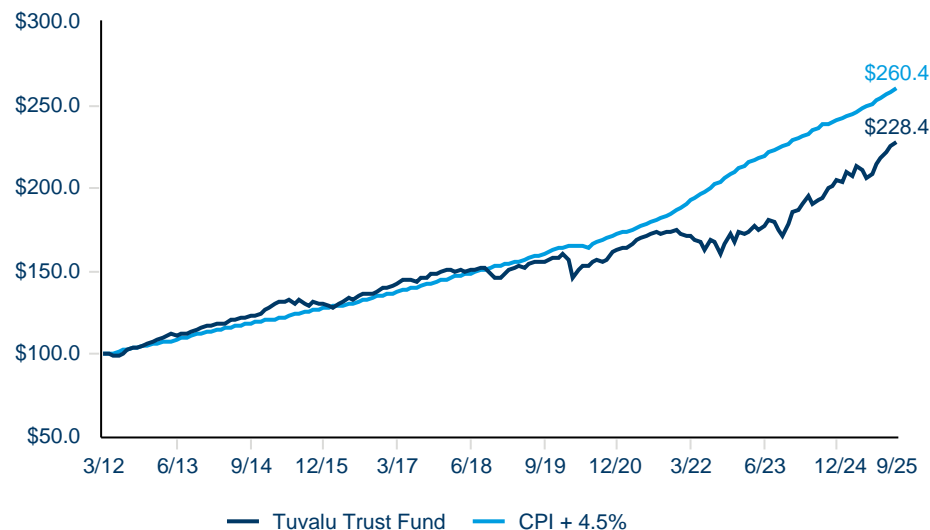
# Portfolio Performance Overview

Ending 30 September 2025

Return Summary (net of Fees)



Growth of \$100: Beginning of April - 2012 (net of fees)



## Key features of quarterly performance

- The fund returned 4.4% in the September quarter.
- The fund return for the last 12 months was 11.6%.
- The Market Value at 30 September was \$293.9m, which was above the Maintained Value of \$272.5m (an excess of \$21.4m).

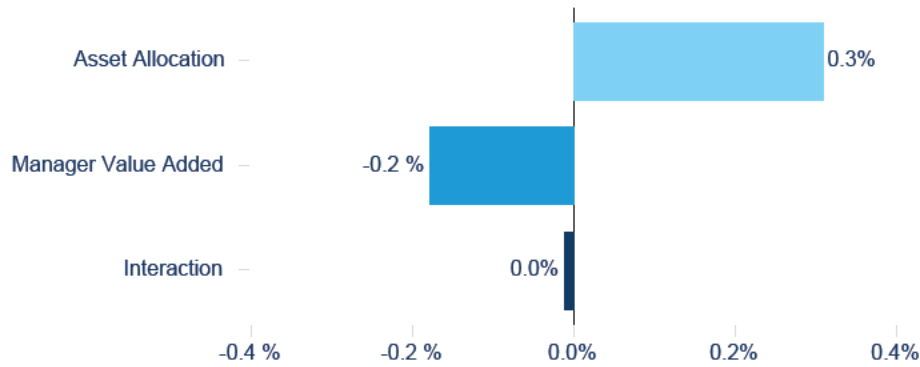
Historical Statistics: Since Inception with Mercer

	Portfolio	Benchmark
Beta	0.9	1.0
Standard Deviation	7.8	8.2
Maximum Drawdown	-5.5	-6.4
Sharpe Ratio	0.8	0.7
Sortino Ratio	1.2	1.0
Information Ratio	0.4	-
Tracking Error	1.2	0.0
R-Squared	1.0	1.0
Up Capture	99.3	100.0
Down Capture	93.2	100.0

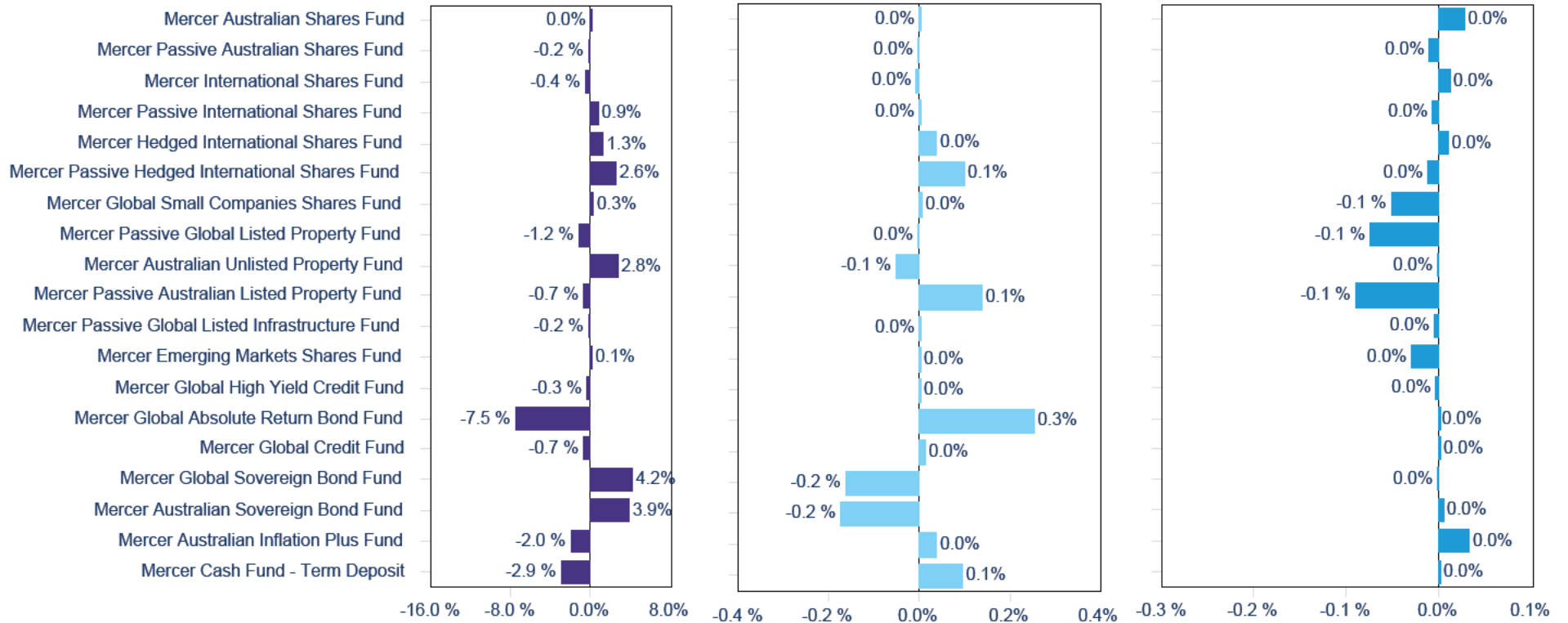
# Portfolio Attribution - 1 Quarter

Ending 30 September 2025

**Total Value Added: 0.1%**



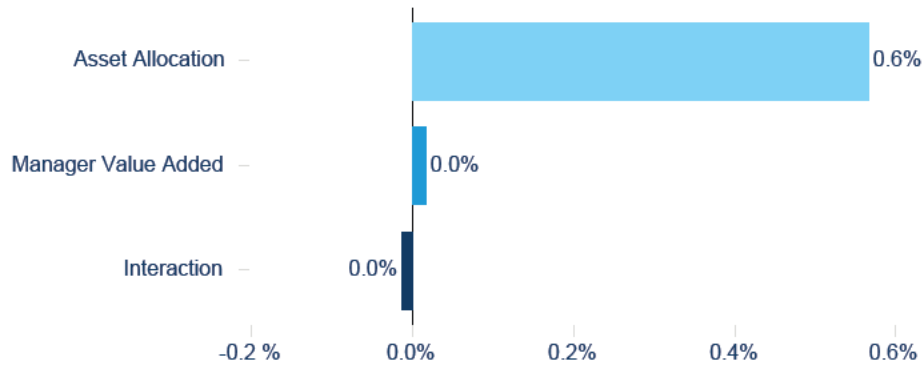
**Average Active Weight: 0.0%**      **Asset Allocation: 0.3%**      **Total Manager Value Added: -0.2%**



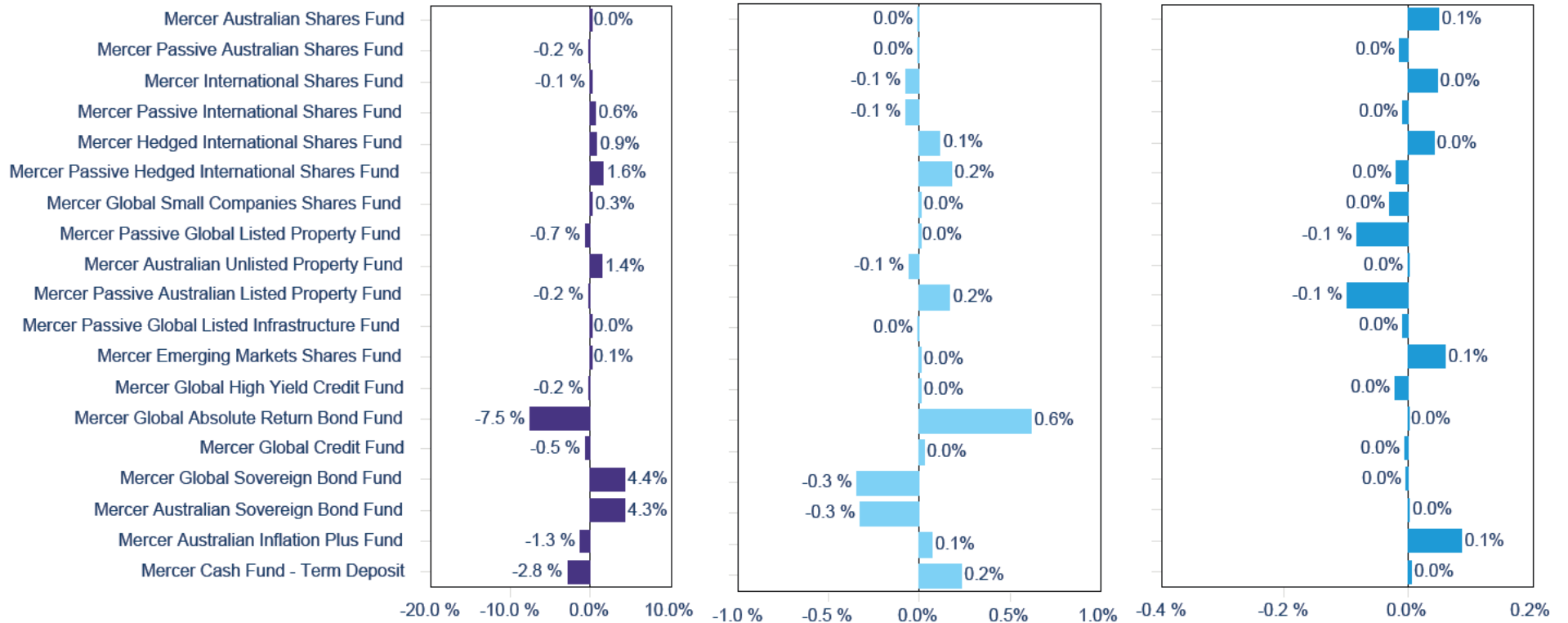
# Portfolio Attribution - 6 Months

Ending 30 September 2025

**Total Value Added: 0.6%**



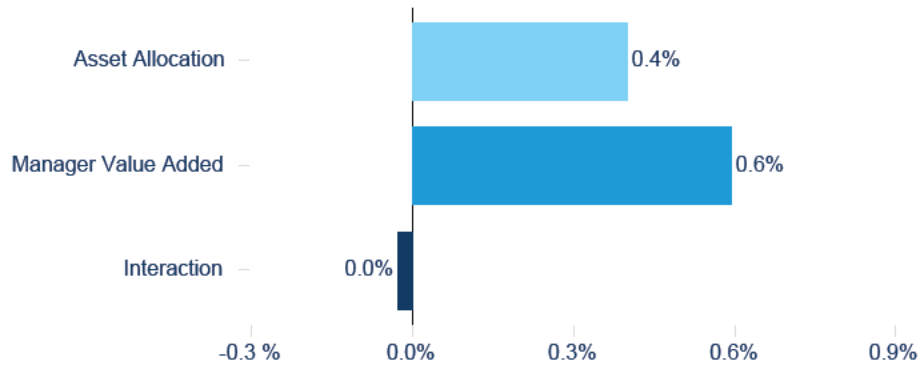
**Average Active Weight: 0.0 %      Asset Allocation: 0.6%      Total Manager Value Added: 0.0%**



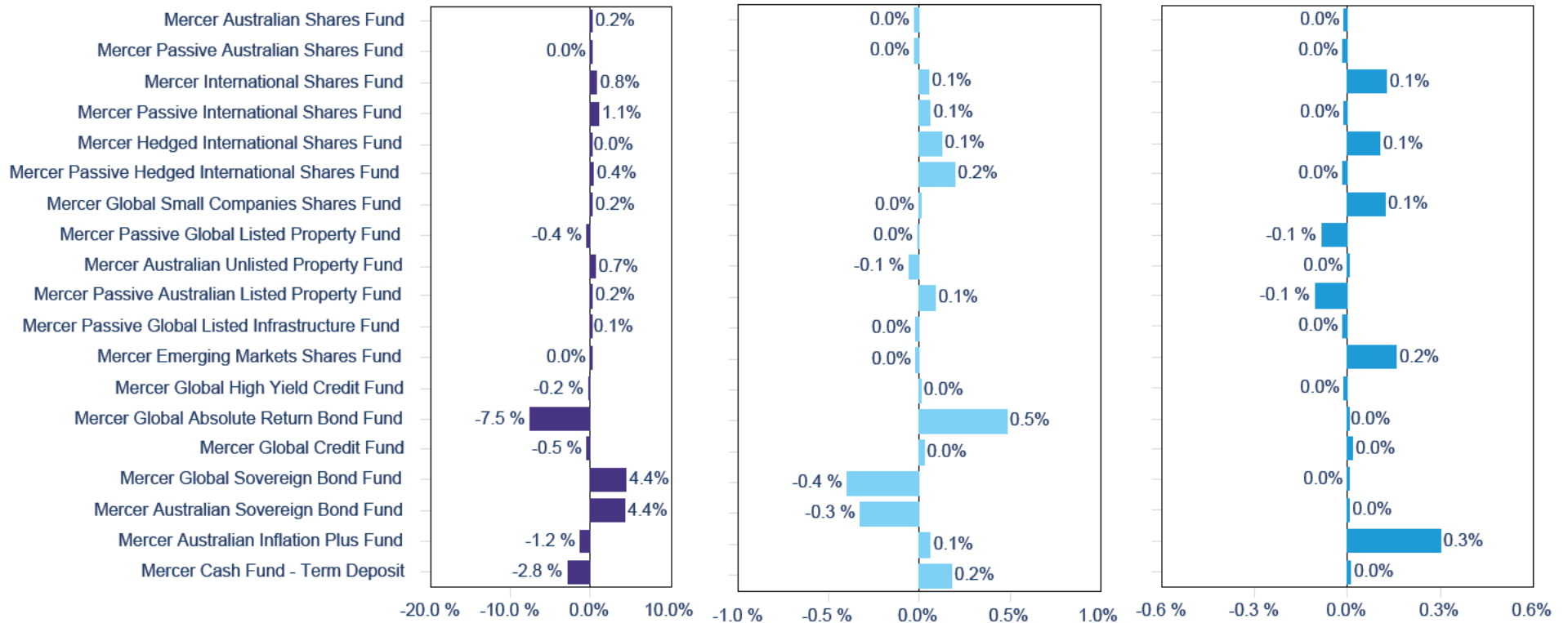
# Portfolio Attribution - 1 Year

Ending 30 September 2025

**Total Value Added: 1.0%**



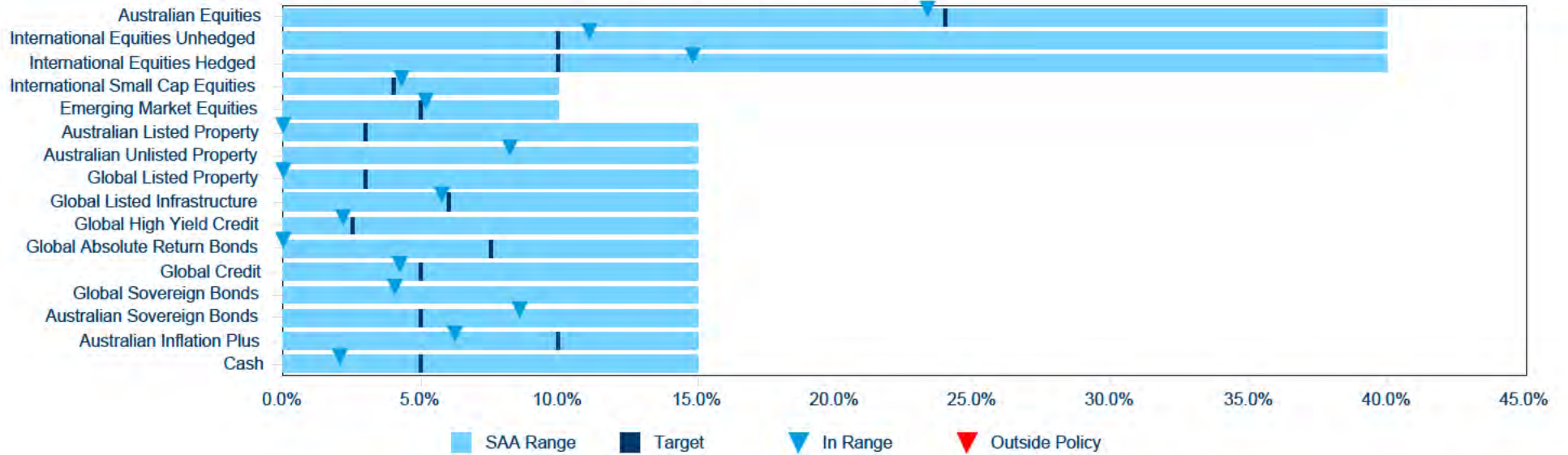
**Average Active Weight: 0.0 %      Asset Allocation: 0.4%      Total Manager Value Added: 0.6%**



# Portfolio Overview

Ending 30 September 2025

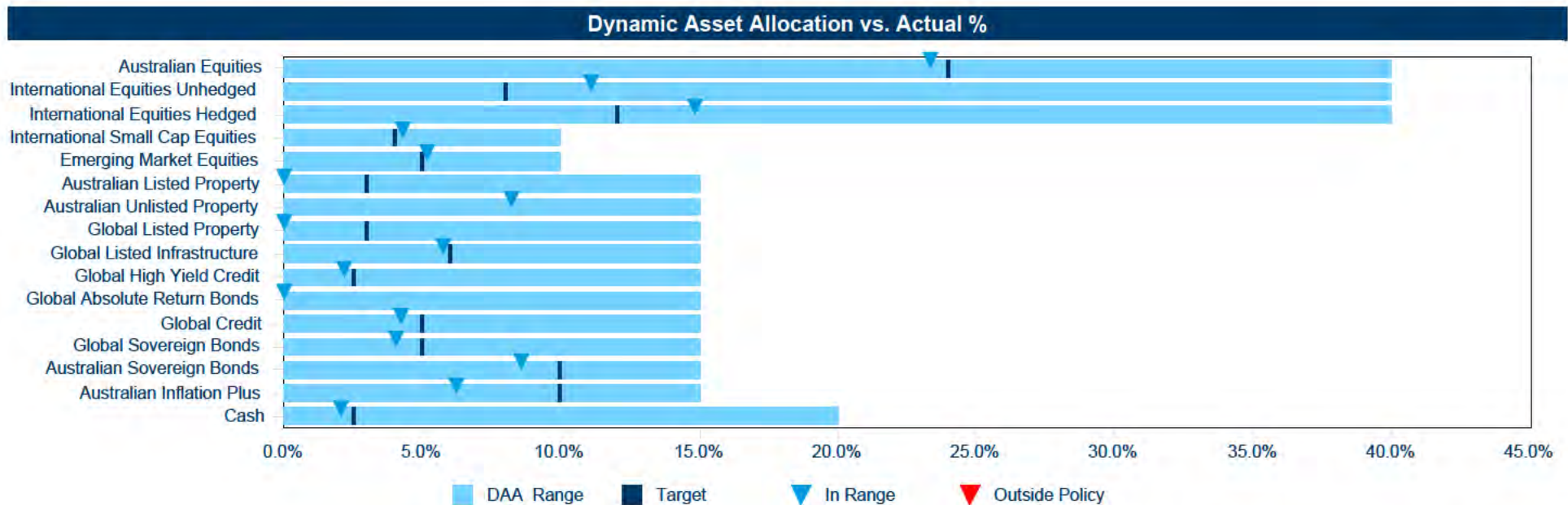
## Strategic Asset Allocation vs. Current



	SAA Range (%)	SAA Target (%)	Actual (\$)	Actual (%)	Differences (\$)	Active Weight (%)
Australian Equities	0.0 - 40.0	24.0	68,603,658	23.3	-1,940,077	-0.7
International Equities Unhedged	0.0 - 40.0	10.0	32,678,604	11.1	3,285,381	1.1
International Equities Hedged	0.0 - 40.0	10.0	43,552,896	14.8	14,159,673	4.8
International Small Cap Equities	0.0 - 10.0	4.0	12,638,594	4.3	881,305	0.3
Emerging Market Equities	0.0 - 10.0	5.0	15,256,862	5.2	560,251	0.2
Australian Listed Property	0.0 - 15.0	3.0	-	0.0	-8,817,967	-3.0
Australian Unlisted Property	0.0 - 15.0	0.0	24,116,487	8.2	24,116,487	8.2
Global Listed Property	0.0 - 15.0	3.0	-	0.0	-8,817,967	-3.0
Global Listed Infrastructure	0.0 - 15.0	6.0	16,930,196	5.8	-705,737	-0.2
Global High Yield Credit	0.0 - 15.0	2.5	6,339,648	2.2	-1,008,658	-0.3
Global Absolute Return Bonds	0.0 - 15.0	7.5	-	0.0	-22,044,917	-7.5
Global Credit	0.0 - 15.0	5.0	12,360,500	4.2	-2,336,112	-0.8
Global Sovereign Bonds	0.0 - 15.0	0.0	11,934,733	4.1	11,934,733	4.1
Australian Sovereign Bonds	0.0 - 15.0	5.0	25,250,162	8.6	10,553,550	3.6
Australian Inflation Plus	0.0 - 15.0	10.0	18,282,773	6.2	-11,110,450	-3.8
Cash	0.0 - 15.0	5.0	5,987,117	2.0	-8,709,494	-3.0
<b>Total</b>		<b>100.0</b>	<b>293,932,231</b>	<b>100.0</b>	<b>-</b>	<b>0.0</b>

# Portfolio Overview

Ending 30 September 2025



	DAA Range (%)	DAA Target (%)	Actual (\$)	Actual (%)	Differences \$	Active Weight (%)
Australian Equities	0.0 - 40.0	24.0	68,603,658	23.3	-1,940,077	-0.7
International Equities Unhedged	0.0 - 40.0	8.0	32,678,604	11.1	9,164,026	3.1
International Equities Hedged	0.0 - 40.0	12.0	43,552,896	14.8	8,281,028	2.8
International Small Cap Equities	0.0 - 10.0	4.0	12,638,594	4.3	881,305	0.3
Emerging Market Equities	0.0 - 10.0	5.0	15,256,862	5.2	560,251	0.2
Australian Listed Property	0.0 - 15.0	3.0	-	0.0	-8,817,967	-3.0
Australian Unlisted Property	0.0 - 15.0	0.0	24,116,487	8.2	24,116,487	8.2
Global Listed Property	0.0 - 15.0	3.0	-	0.0	-8,817,967	-3.0
Global Listed Infrastructure	0.0 - 15.0	6.0	16,930,196	5.8	-705,737	-0.2
Global High Yield Credit	0.0 - 15.0	2.5	6,339,648	2.2	-1,008,658	-0.3
Global Absolute Return Bonds	0.0 - 15.0	0.0	-	0.0	-	0.0
Global Credit	0.0 - 15.0	5.0	12,360,500	4.2	-2,336,112	-0.8
Global Sovereign Bonds	0.0 - 15.0	5.0	11,934,733	4.1	-2,761,878	-0.9
Australian Sovereign Bonds	0.0 - 15.0	10.0	25,250,162	8.6	-4,143,061	-1.4
Australian Inflation Plus	0.0 - 15.0	10.0	18,282,773	6.2	-11,110,450	-3.8
Cash	0.0 - 20.0	2.5	5,987,117	2.0	-1,361,189	-0.5
<b>Total</b>		<b>100.0</b>	<b>293,932,231</b>	<b>100.0</b>	<b>-</b>	<b>0.0</b>

# Financial Reconciliation

Ending 30 September 2025

## Cash Flow Summary: 1 Quarter

	Beginning Market Value	Net Cash Flows	Ending Market Value	Return On Investment
Mercer Australian Shares Fund	32,877,982	-	34,607,406	1,729,424
Mercer Passive Australian Shares Fund	32,396,260	-	33,996,252	1,599,992
Mercer International Shares Fund	12,615,948	-	13,431,774	815,826
Mercer Passive International Shares Fund	12,355,241	5,800,000	19,246,830	1,091,590
Mercer Hedged International Shares Fund	17,320,025	-	18,671,534	1,351,509
Mercer Passive Hedged International Shares Fund	17,137,374	6,058,435	24,881,362	1,685,553
Mercer Emerging Markets Shares Fund	14,004,664	-	15,256,862	1,252,198
Mercer Passive Australian Listed Property Fund	9,319,762	-9,806,647	-	486,885
Mercer Passive Global Listed Property Fund	7,498,660	-7,547,256	-	48,596
Mercer Passive Global Listed Infrastructure Fund	16,202,480	-	16,930,196	727,716
Mercer Australian Unlisted Property Fund	-	24,000,000	24,116,487	116,487
Mercer Global Small Companies Shares Fund	11,511,516	400,000	12,638,594	727,078
Mercer Global High Yield Credit	6,209,484	-	6,339,648	130,164
Mercer Global Credit Fund	12,104,690	-	12,360,500	255,810
Mercer Australian Sovereign Bond Fund	25,204,680	-	25,250,162	45,482
Mercer Australian Inflation Plus Fund	24,492,379	-6,646,097	18,282,773	436,490
Mercer Global Sovereign Bond Fund	11,869,025	-	11,934,733	65,708
Mercer Cash Fund - Term Deposit	5,928,287	-4,548	5,987,117	63,378
<b>Total</b>	<b>269,048,457</b>	<b>12,253,887</b>	<b>293,932,231</b>	<b>12,629,886</b>

### Fund cash flows

	Quarter	6 Months	1 Year	3 Years	5 Years
Opening value	\$ 269,048,457	\$ 254,097,168	\$ 251,246,180	\$ 183,239,859	\$ 183,249,549
Additions	\$ 16,158,435	\$ 16,158,435	\$ 17,158,435	\$ 32,226,429	\$ 34,730,217
Withdrawals	-\$ 3,904,548	-\$ 3,904,548	-\$ 4,278,143	-\$ 5,014,988	-\$ 13,279,550
Investment returns	\$ 12,629,886	\$ 27,581,176	\$ 29,805,759	\$ 83,480,931	\$ 89,232,016
<b>Closing value</b>	<b>293,932,231</b>	<b>293,932,231</b>	<b>293,932,231</b>	<b>293,932,231</b>	<b>293,932,231</b>

### Total assets

	Value
TTF Mercer	\$ 293,932,231
TTF Westpac	\$ 27,260
<b>Total Assets</b>	<b>\$ 293,959,491</b>

### Additions/ Withdrawals

- Contributions of \$16.1m were made in the quarter from the Australian and New Zealand Governments.
- A distribution of \$3.9 million was made from TTF to CIF for the financial year ending September 2024.

# Asset Class Performance

Ending 30 September 2025

	Allocation		Performance (net of fees)								Inception Date
	Market Value \$	%	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Inception*		
<b>Tuvalu Trust Fund</b>	<b>293,932,231</b>	<b>100.0</b>	<b>4.4</b>	<b>10.6</b>	<b>11.6</b>	<b>12.6</b>	<b>8.0</b>	<b>5.9</b>	<b>6.3</b>	<b>Apr-2012</b>	
CPI + 4.5%			2.5	4.3	7.9	8.5	9.0	7.5	7.3		
Excess Return			2.0	6.3	3.7	4.1	-1.0	-1.6	-1.0		
SAA weighted composite benchmark			4.3	10.0	10.6	12.7	-	-	-		
Excess Return			0.1	0.6	1.0	-0.2	-	-	-		
<b>Australian Shares</b>	<b>68,603,658</b>	<b>23.3</b>	<b>5.1</b>	<b>15.1</b>	<b>10.7</b>	<b>15.0</b>	<b>-</b>	<b>-</b>	<b>10.9</b>	<b>Jun-2022</b>	
<b>Mercer Australian Shares Fund</b>	<b>34,607,406</b>	<b>11.8</b>	<b>5.3</b>	<b>15.4</b>	<b>10.6</b>	<b>15.3</b>	<b>-</b>	<b>-</b>	<b>11.2</b>	<b>Jun-2022</b>	
S&P/ASX 300			5.0	14.9	10.8	15.0	-	-	10.4		
Excess Return			0.3	0.5	-0.1	0.3	-	-	0.7		
<b>Mercer Passive Australian Shares Fund</b>	<b>33,996,252</b>	<b>11.6</b>	<b>4.9</b>	<b>14.9</b>	<b>10.7</b>	<b>14.9</b>	<b>-</b>	<b>-</b>	<b>10.7</b>	<b>Jun-2022</b>	
S&P/ASX 300			5.0	14.9	10.8	15.0	-	-	10.4		
Excess Return			0.0	-0.1	-0.1	-0.1	-	-	0.3		
<b>International Shares</b>	<b>104,126,956</b>	<b>35.4</b>	<b>7.2</b>	<b>15.5</b>	<b>22.9</b>	<b>21.9</b>	<b>-</b>	<b>-</b>	<b>17.3</b>	<b>Jun-2022</b>	
<b>Mercer International Shares Fund</b>	<b>13,431,774</b>	<b>4.6</b>	<b>6.5</b>	<b>13.4</b>	<b>25.5</b>	<b>22.8</b>	<b>-</b>	<b>-</b>	<b>19.2</b>	<b>Jun-2022</b>	
MSCI World (ex Aust) Index in \$A net div reinv			6.1	12.4	23.0	22.6	-	-	18.6		
Excess Return			0.3	1.0	2.4	0.2	-	-	0.6		
<b>Mercer Passive International Shares Fund</b>	<b>19,246,830</b>	<b>6.5</b>	<b>6.1</b>	<b>12.4</b>	<b>22.8</b>	<b>22.6</b>	<b>-</b>	<b>-</b>	<b>18.9</b>	<b>Jun-2022</b>	
MSCI World (ex Australia, ex tobacco, ex controversial weapons) in A\$			6.2	12.5	22.9	22.7	-	-	18.6		
Excess Return			-0.1	-0.1	-0.2	-0.1	-	-	0.3		
<b>Mercer Hedged International Shares Fund</b>	<b>18,671,534</b>	<b>6.4</b>	<b>7.8</b>	<b>18.6</b>	<b>19.2</b>	<b>22.0</b>	<b>-</b>	<b>-</b>	<b>15.0</b>	<b>Jun-2022</b>	
MSCI World Index (hedged) - Net Dividends Reinvested			7.6	17.7	16.9	21.7	-	-	14.5		
Excess Return			0.2	0.8	2.4	0.3	-	-	0.5		
<b>Mercer Passive Hedged International Shares Fund</b>	<b>24,881,362</b>	<b>8.5</b>	<b>7.5</b>	<b>17.5</b>	<b>16.5</b>	<b>21.7</b>	<b>-</b>	<b>-</b>	<b>14.7</b>	<b>Jun-2022</b>	
MSCI World (ex Australia, ex tobacco, ex controversial weapons) in A\$ (Hedged)			7.6	17.8	16.8	21.8	-	-	14.6		
Excess Return			-0.1	-0.3	-0.2	0.0	-	-	0.2		
<b>Mercer Emerging Markets Shares Fund</b>	<b>15,256,862</b>	<b>5.2</b>	<b>8.9</b>	<b>18.0</b>	<b>26.6</b>	<b>16.8</b>	<b>-</b>	<b>-</b>	<b>12.6</b>	<b>Jun-2022</b>	
MSCI Emerging Markets Index			9.4	16.5	22.8	17.0	-	-	12.4		
Excess Return			-0.5	1.5	3.8	-0.2	-	-	0.3		
<b>Mercer Global Small Companies Shares Fund</b>	<b>12,638,594</b>	<b>4.3</b>	<b>6.1</b>	<b>13.2</b>	<b>22.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19.7</b>	<b>Aug-2024</b>	
MSCI World Small Cap			7.3	13.9	18.9	-	-	-	17.5		
Excess Return			-1.2	-0.6	3.1	-	-	-	2.2		

\*Benchmark returns for the Since Inception period included full month returns for June 22, however, the fund returns are for partial month.

# Asset Class Performance

Ending 30 September 2025

	Allocation		Performance (net of fees)							Inception Date
	Market Value \$	%	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Inception*	
<b>Property &amp; Infrastructure</b>	<b>41,046,683</b>	<b>14.0</b>	<b>3.7</b>	<b>8.7</b>	<b>4.2</b>	<b>11.2</b>	<b>-</b>	<b>-</b>	<b>5.1</b>	<b>Jun-2022</b>
<b>Mercer Passive Global Listed Infrastructure Fund</b>	<b>16,930,196</b>	<b>5.8</b>	<b>4.5</b>	<b>5.9</b>	<b>8.5</b>	<b>9.5</b>	<b>-</b>	<b>-</b>	<b>3.9</b>	<b>Jun-2022</b>
FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net			4.5	6.0	8.7	9.8	-	-	4.2	
Excess Return			0.0	-0.1	-0.2	-0.3	-	-	-0.3	
<b>Mercer Australian Unlisted Property Fund</b>	<b>24,116,487</b>	<b>8.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.5</b>	<b>Aug-2025</b>
Mercer Australia Unlisted Property benchmark			-	-	-	-	-	-	1.6	
Excess Return			-	-	-	-	-	-	-1.1	
<b>Fixed Income &amp; Cash</b>	<b>80,154,933</b>	<b>27.3</b>	<b>1.2</b>	<b>3.2</b>	<b>4.7</b>	<b>4.2</b>	<b>-</b>	<b>-</b>	<b>3.5</b>	<b>Jun-2022</b>
<b>Mercer Global High Yield Credit</b>	<b>6,339,648</b>	<b>2.2</b>	<b>2.1</b>	<b>4.5</b>	<b>6.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8.0</b>	<b>Dec-2022</b>
BoA ML BB-B Rated Dev Markets HY Constrained Index A\$ Hedged			2.2	5.4	6.8	-	-	-	8.3	
Excess Return			-0.1	-0.9	-0.5	-	-	-	-0.2	
<b>Mercer Global Credit Fund</b>	<b>12,360,500</b>	<b>4.2</b>	<b>2.1</b>	<b>3.9</b>	<b>4.1</b>	<b>5.9</b>	<b>-</b>	<b>-</b>	<b>3.0</b>	<b>Jun-2022</b>
Mercer Global Credit Benchmark			2.0	3.9	3.8	5.7	-	-	2.7	
Excess Return			0.1	-0.1	0.3	0.2	-	-	0.3	
<b>Mercer Australian Sovereign Bond Fund</b>	<b>25,250,162</b>	<b>8.6</b>	<b>0.2</b>	<b>2.8</b>	<b>3.4</b>	<b>3.6</b>	<b>-</b>	<b>-</b>	<b>2.9</b>	<b>Jun-2022</b>
Bloomberg AusBond Treasury 0+ yrs (All Maturities)			0.1	2.7	3.3	3.6	-	-	2.6	
Excess Return			0.1	0.1	0.1	0.1	-	-	0.3	
<b>Mercer Australian Inflation Plus Fund</b>	<b>18,282,773</b>	<b>6.2</b>	<b>2.0</b>	<b>3.5</b>	<b>7.5</b>	<b>3.5</b>	<b>-</b>	<b>-</b>	<b>4.1</b>	<b>Jun-2022</b>
CPI + 1%			1.6	2.6	4.3	4.8	-	-	5.2	
Excess Return			0.4	0.9	3.3	-1.3	-	-	-1.1	
<b>Mercer Global Sovereign Bond Fund</b>	<b>11,934,733</b>	<b>4.1</b>	<b>0.6</b>	<b>2.5</b>	<b>2.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2.7</b>	<b>Dec-2023</b>
JP Morgan Global Govt Bond Hgd AUD			0.6	1.7	0.8	-	-	-	2.3	
Excess Return			0.0	0.7	1.2	-	-	-	0.4	
<b>Mercer Cash Fund - Term Deposit</b>	<b>5,987,117</b>	<b>2.0</b>	<b>1.1</b>	<b>2.2</b>	<b>4.6</b>	<b>4.3</b>	<b>-</b>	<b>-</b>	<b>4.0</b>	<b>Jun-2022</b>
Bloomberg AusBond Bank Bill AUD			0.9	1.9	4.2	4.1	-	-	3.8	
Excess Return			0.2	0.2	0.4	0.3	-	-	0.3	

\*Benchmark returns for the Since Inception period included full month returns for June 22, however, the fund returns are for partial month.

# Risk Statistic Summary

---

30 September 2025

1. **Beta:** A measure of a fund's volatility in relation to the overall market. A beta greater than 1 indicates higher volatility than the market, while a beta less than 1 indicates lower volatility.
2. **Standard Deviation:** A statistical measure that quantifies the amount of variation or dispersion in a set of values. In finance, it is used to assess the risk associated with a fund's returns.
3. **Maximum Drawdown:** The maximum observed loss from a peak to a trough of a portfolio before a new peak is achieved. It helps investors understand the potential downside risk of an investment.
4. **Sharpe Ratio:** A measure of risk-adjusted return, calculated by subtracting the risk-free rate from the portfolio's return and dividing by the standard deviation of the portfolio's excess return. A higher Sharpe ratio indicates better risk-adjusted performance.
5. **Sortino Ratio:** Similar to the Sharpe ratio, but it only considers downside volatility (negative returns) instead of total volatility. This makes it a more accurate measure of risk for investors focused on downside risk.
6. **Information Ratio:** A measure of a portfolio's excess return relative to its tracking error. It indicates how much excess return is generated for each unit of risk taken relative to a benchmark.
7. **Tracking Error:** The standard deviation of the difference between the returns of a portfolio and its benchmark. It measures how closely a fund follows its benchmark index.
8. **R-Squared:** A statistical measure that represents the percentage of a fund's movements that can be explained by movements in its benchmark index. A higher R-squared indicates a stronger correlation with the benchmark.
9. **Up Capture Ratio:** A measure of a fund's performance in up markets compared to its benchmark. It indicates how well a fund captures positive market movements.
10. **Down Capture Ratio:** A measure of a fund's performance in down markets compared to its benchmark. It indicates how well a fund mitigates losses during market downturns.

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# ***Appendix 2***

# 50TH REPORT

to the  
Government of Tuvalu



**TUVALU TRUST FUND ADVISORY COMMITTEE**

**NOVEMBER 2024**



#### Acknowledgements

Faakfetai lasi to Violeti, Joe, Loise, Galu, Matagali, Emilio for all of your assistance particularly on Mission in Funafuti. *E taki toko fia foki a tagata o fenua.*

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## EXECUTIVE SUMMARY

### Key Statistics

In AUD \$000	Actual to 9 Oct 2024 (PY)	Budget 2024/25 (FY)	Actual 2023 (FY)
Total Revenue	11,755	93,032	110,889
Total Expenses	26,861	96,984	109,417
<b>Surplus / (Deficit)</b>	<b>(15,106)</b>	<b>(3,952)</b>	<b>11,472</b>
<b>Headcount (Vacancy level)</b>	<b>1,402 (344)</b>	<b>1,402 (383)</b>	<b>1,380 (372)</b>
Donor Funding – general budget support	0	24,480	40,090
Capex Funding	714	7,754	5,239

Source: Ministry of Finance Government of Tuvalu

As inflation, interest rates, and fuel prices around the world stabilize, Tuvalu may experience less pressure on living costs. That notwithstanding, the government should prioritize long-term strategies to mitigate future price shocks. TTFAC finds that the GOT's 21 priorities are understood by all responsible agencies and that the implementation of most is well underway. Strong implementation of donor-funded infrastructure projects is evident, but regional temporary migration schemes continue to push the limits of the domestic labour supply.

### FISCAL

While we applaud the new government's commitment to fiscal consolidation for the 2024/2025 FY, there are questions around its credibility as some major spending appears to have been significantly underestimated, while others (for instance salaries) are deliberately over-budgeted. But the more worrying concern is that the budget has a structural problem, and it is getting worse. With only a few fiscal ratios being met in the past 5 years, an estimated 61% domestic budget deficit for the current FY and 90% of total expenditure in recurrent costs, a comprehensive structural adjustment is urgently needed over the medium term.

To assist with the proposed structural adjustment, a 3-year budget cycle (with annual appropriations) is necessary as it will also promote fiscal discipline, enhanced project execution, and greater alignment with Tuvalu's development goals.

### FMIS

The FMIS was utilized in the formulation of the 2024/2025. TTFAC believes it can be configured to support a three-year budget cycle. While the system is serving its purpose, its functionality can be improved with new additional modules. Enhanced efficiency of the system can also be

---

obtained by updating the Financial Instructions for better alignment, and by introducing checklists along the workflow.

---

## GOVERNMENT EFFICIENCIES

Having the right governance arrangements for Cabinet and DCC processes is critical to the swift implementation and monitoring of decisions. There appear to be gaps in the coordination of submissions and the dissemination of important decisions which calls for the adequate resourcing of the offices of the Secretary to Government and Clerk to Cabinet. Due to increased travel commitments of its members, DCC has not met regularly, and this has become a bottle-neck in the processing of key Cabinet papers. There is value in the DCC reflecting on how it can best drive the development and implementation of government policy as the pre-eminent official leadership cohort.

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## DONOR ENGAGEMENT

As donor funded projects and budget support increase, its coordination and management become more important so that the benefits can be maximised. There is a danger from having significant support in one sector that the amount of policy development from programs overwhelms small ministries and indeed, policy can in effect be subcontracted to donors if local positions are not filled. TTFAC's view remains that PRM is a basis of deeper policy discussions between the government and donor partners and it is in the interest of the GoT to more strongly lead the process.

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## PROGRESS OF THE 21 PRIORITIES

Annex C provides a summary of our assessment of where progress is for each of the 21 Priorities. Those with red backgrounds are the ones TTFAC views deserve the immediate attention of the government.

## RECOMMENDATIONS

TTFAC makes a number of suggestions and recommendations throughout the body of the report, but we highlight here what we think are the most critical:

1. Sustained efforts are needed to implement a well-planned structural adjustment over the medium term. Such efforts must be grounded on fiscal sustainability, pro-growth and the need to create space for buffers and resilience building;
2. Building on the existing Medium Term Fiscal Framework, we see merits in the introduction of a three-year budget cycle that will better support ministries with forward planning, procurement across years, and alignment of objectives with the government's longer-term strategic priorities;
3. As part of a fiscal adjustment exercise, low priority vacancies should not be allocated for in the next budget, with savings to be repurposed to high priority programs, including capital projects;
4. In addition to scheduling major payments to match major inflows, Treasury must utilise the CIF to manage cash flow shortages, when funds permit;
5. Revision of thresholds is necessary to direct scrutiny efforts to major procurements and filling the existing four vacancies in CPU will help speed up operations;
6. As a matter of urgency, the Financial Instructions are due for an update to better align with the FMIS. A review of the current workflow to streamline approvals and avoid bottlenecks at the top will expedite payments;
7. Immediate investment must be directed toward both enhancing TEC's generator capacity and advancing sustainable energy solutions to secure Tuvalu's future energy needs and safeguard national security; and
8. Tuvalu must prepare and articulate a clear vision for the Falepili Treaty, to frame its negotiations on the implementation with its treaty partner, and inform a baseline study on the impacts of Falepili on the well-being of all Tuvaluans.
9. Adequate resourcing of the offices of the Secretary to Government and Clerk to Cabinet will ensure efficient coordination of submissions and the dissemination of important decisions. DCC also needs to reflect on how it can best drive the development and implementation of government policy.

## INTRODUCTION

The 50th mission of TTFAC took place from 10th to 24th October 2024, led by Talavai Iona. Stuart Schaefer arrived from Australia on 10th October, joined by Talavai from Washington DC, USA and new appointee Tarita Hutchinson from Tauranga, New Zealand, on 15th October. Recently appointed by the New Zealand Trustee, Tarita replaced long standing member Pete Rodger and visited Tuvalu for the first time.

Meetings were held via teleconference or in person with government officials, supported by the TTF Secretary and Secretariat team, to whom TTFAC extends gratitude for facilitating these engagements. Interviewed officials provided valuable insights; the list of attendees reflects the breadth of discussions (Appendix A).

As is customary, TTFAC sought guidance from the Minister of Finance, who highlighted the new government's 21 priorities and expressed concerns over implementation delays, including donor-related issues, procurement bottlenecks, FMIS payment and decision-making bottlenecks, budget process improvements, the use of the TTF & CIF, and revenue generating opportunities.

## OVERVIEW

The global post-pandemic recovery is underway, with fiscal indicators like inflation, interest rates, and fuel prices stabilizing. This trend is promising for Tuvalu, as it may ease living costs by keeping staple goods at steady prices. Growth is expected to be 3.5% for 2024, primarily driven by strong public investments, which is in line with the modest but steady global growth, and has brought output to pre-

pandemic levels. As the benefits of post-COVID rebound wane, slower growth of 2.9% is expected.

Geopolitical tensions and wars persist, and the U.S. election result will likely shift U.S. focus to domestic issues, though its economy is expected to remain strong. Tuvalu should leverage these developments to gain support for climate change initiatives.

However, Tuvalu must not become complacent. To mitigate future cost-of-living shocks, the government should prioritize long-term strategies, such as managing persistent freight costs, which remain high in the Pacific despite post-COVID adjustments.

## NEXT MISSION

As per established practice, the agenda of the next visit will be guided by GoT. TTFAC proposes to undertake its planned tour of selected outer islands, which is an opportunity to assess the impact of service delivery, including the state of the internet and other critical infrastructure. It will also be a chance to carry out a preliminary assessment of rolling-out the FMIS to Kaupules for streamlined financial procedures and timely reporting.

A closer look at the governance of public entities and state-owned enterprises is another suggestion for the next visit's agenda.

## FISCAL UPDATE

The 2023 fiscal balance had a small surplus of 2% of GDP, while the 2024 First Half Year outturn had a 5% of GDP surplus. The World Bank biennial budget support was not expected in the 2024/2025 fiscal year. Coupled with a slight reduction in fisheries licences, budgeted revenues declined by 16% compared to the 2023 actuals. Being mindful of protecting budget sustainability, the new government reduced expenditure estimates by 11% compared to the 2023 actuals. This resulted in an anticipated \$3.9 million deficit (4% of GDP) which will be financed by the CIF. This falls well within the fiscal balance ratio of 10% of GDP. This would also be the only operational budget ratio that is being satisfied in the current budget.

### TABLE OF FISCAL RATIOS<sup>1</sup>

Expenditure	Target	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024/2025 Budget	2025/2026 Proj	2026/2027 Proj
Scholarship to Domestic Revenue	<5%	5.8%	6.6%	8.4%	9.2%	8.7%	8.2%	9.4%	9.4%	8.8%
Staffing to Domestic Revenue	<40%	28.0%	35.4%	34.0%	38.7%	45.4%	40.6%	54.2%	56.5%	57.3%
TOMRS to Domestic Revenue	<6%	6.1%	7.7%	9.2%	10.2%	13.5%	19.3%	7.3%	7.7%	7.9%
<b>Revenue</b>										
Tax Revenue to GDP	>20%	14.7%	15.4%	15.3%	12.7%	13.6%	12.1%	11.7%	11.3%	10.7%
Fishing License to GDP		79.9%	48.9%	58.0%	47.4%	41.3%	41.8%	35.7%	35.1%	34.7%
Domestic Revenue to GDP		124.9%	87.9%	96.5%	83.3%	69.9%	67.2%	62.7%	59.5%	58.2%
<b>Additional Fiscal Ratio</b>										
Capital Expenditure to GDP	>30%	51.7%	40.9%	42.0%	19.9%	5.1%	4.9%	7.1%	7.1%	7.1%
Operating Expenditure to GDP	<60%	84.6%	71.2%	78.7%	90.3%	90.0%	92.5%	78.8%	77.5%	75.0%
Fiscal Balance to GDP	+/-10%	26.6%	4.6%	9.1%	-0.3%	-13.1%	4.8%	-3.6%	-4.6%	-4.4%

Table 2: Fiscal Ratios

But the reduction in expenditures meant some big-ticket items had been significantly underestimated, for instance TOMRS and the subsidy to TEC. While policy reforms in the pipeline hold the promise of curtailing TOMRS and TEC subsidies, their impacts on the budget are not likely to be realised within the current financial year.

Scholarship costs are budgeted at approximately 9.4% of Domestic Revenue for the 2024/2025 year, these costs continue to be well above the government prescribed budget rate of less than 5%. The Cabinet may choose to place a moratorium on new scholarships in 2025 to move costs back into the prescribed levels.

Unfavourable conditions in Tuvalu's exclusive economic zone remain, while the international fishing fleet declines. Both these factors are responsible for the Fisheries Department's inability to sell 500 VDS fishing days in the current fiscal year. Consequently, revenues are expected to fall short of budget

<sup>1</sup> Excerpt from the Government of Tuvalu 2024/2025 Annual Budget Appropriation





estimates. There is a general concern that there might be too many days in the system, as about 5K days in total have been consistently unsold each year.

At the time of writing, budget support is expected to exceed approved estimates. The World Bank is most likely to make a US\$7 million disbursement in the current financial year and New Zealand will increase its budget support to AU\$5 million compared to \$1.5 million in the budget. However, the overall impact of higher budget support on the bottom line could be nullified by expected increases in expenditures. But even if the outturn becomes a balanced or surplus budget, it does not mean the budget is structurally balanced, quite far from it.

*The budget has a structural problem which is not getting better*

Just as a poorly designed and constructed building can have structural flaws, a nation's finances can also suffer from underlying imbalances. These issues might not be immediately obvious, but over time, they can cause the country's financial stability to deteriorate, eventually making it challenging and costly to fix.

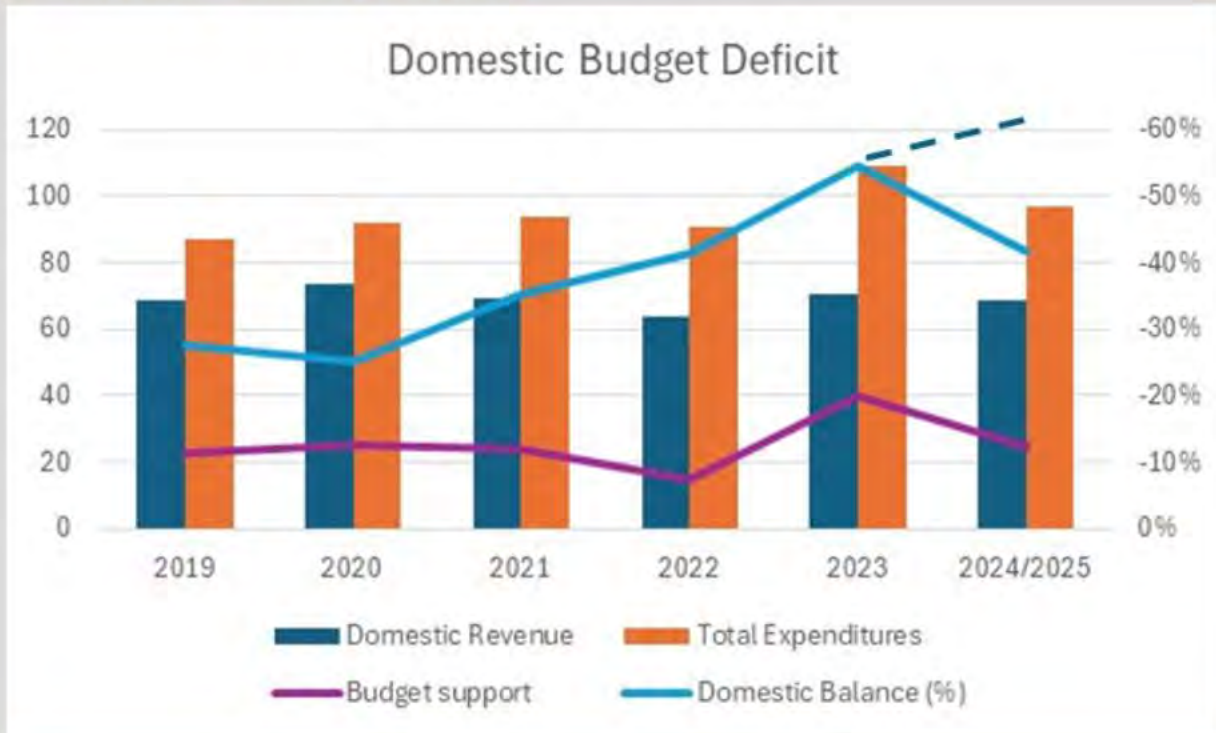
## STRUCTURALLY IMBALANCED BUDGET

	One fiscal ratio is being met	Must work on others
	Domestic deficit	Getting worse
	Over-reliance on budget support	Exposure to decisions beyond Tuvalu's control
	Recurrent budget makes up <b>90%</b> of total expenditures	Limited space for capital projects

The fact that very few of GoT's self-imposed fiscal ratios have been satisfied for the past 5 years is a clear demonstration of the budget's structural problem.

More specifically, the domestic fiscal deficit (domestic revenues minus total expenditures) has steadily increased from 28% in 2019 to 50% in 2023. The 2024/2025 budget anticipates an improvement of the deficit to 35%. TTFAC conservatively estimates the gap to continue worsening to 61%<sup>2</sup>, in line with the trend since 2020. The gap is being met by budget support, exposing a significant portion of the budget to decisions beyond the government’s control. Additionally, more than 90% of the budget goes to recurrent expenditure, leaving insufficient fiscal space for capital spending.

## DOMESTIC BUDGET DEFICIT



The budget would benefit from sustained efforts to make structural adjustments over the medium term, to support growth-friendly and resilient capital projects. It will also strengthen the government’s control of the recurrent costs. A true structurally balanced budget is one that supports fiscal sustainability and helps build resilience against climate change. It will also help build buffers to allow for swift responses to shocks. DFAT, WB and IMF could be potential partners in this space.

On the expenditure side, the committee re-emphasises that GoT is stretching its already thin resources by trying to do too much. After successive years of constant expansion of the civil service, it is time to right-size the government. A first step to achieve this is by not filling low priority vacant positions. At the beginning of this fiscal year, vacancies sit at 27% of total established positions. See detailed comments on the civil service review under **Priority 10** below.

<sup>2</sup> TOMRS and TEC are most likely to ask for additional funding and fishing licenses may fall short of approved estimates.

*it is time to right size the government*

### NOMINAL ROLL<sup>3</sup>

<b>Ministry</b>	<b>Filled</b>	<b>Vacant</b>	<b>Total</b>
<i>Office of the Governor General</i>	4	0	4
<i>Office of the Prime Minister</i>	36	19	55
<i>Office of the Legal Services</i>	27	10	37
<i>Office of the Parliament</i>	5	3	8
<i>Office of the Auditor General</i>	17	2	19
<i>Ministry of Finance and Economic Development</i>	65	26	91
<i>Ministry of Public Works, Infrastructure, Disaster and Water</i>	105	33	138
<i>Ministry of Health and Social Welfare</i>	143	75	218
<i>Ministry of Natural Resources Development</i>	94	30	124
<i>Ministry of Home Affairs, Climate Change and Environment</i>	96	17	113
<i>Tuvalu Police Service</i>	104	31	135
<i>Ministry of Transport, Energy, Communication and Innovation</i>	101	26	127
<i>Ministry of Education, and Human Resource Development</i>	168	92	260
<i>Office of the Judiciary</i>	12	4	16
<i>Ministry of Foreign Affairs, Labour and Trade</i>	42	15	57
<b>TOTAL</b>	<b>1019</b>	<b>383</b>	<b>1402</b>

On the revenue side, further improvements to compliance and efficiency of tax collections must be prioritised. In addition, the government could explore additional avenues of raising domestic revenues through new taxes (see below for a more detailed discussion) and service charges, although we caution that any new taxing regime must protect the most vulnerable households.

### Three-Year Budget Cycle

To assist with the proposed structural adjustment, a three-year budget cycle (with annual appropriations) is necessary as it will also promote fiscal discipline, enhanced project execution, and greater alignment with Tuvalu's development goals. It would also provide more stability in funding allocations and allow for better resources management across multiple years. The existing one-year cycle presents challenges for long-term planning, especially for multi-year projects and strategic initiatives. This is another area where engagement with DFAT, WB and IMF would make sense.

<sup>3</sup> Excerpt from Section 3 Nominal and Vacant Positions Table, 2024-2025 Nominal roll Government of Tuvalu 2024-2025 National Budget

## Cashflow

Cash flow remains lumpy and as a result needs to be tightly managed when expenditure proceeds revenue. Significant effort has gone into a work-around solution in the absence of a bank reconciliation in the FMIS linked to the NBT accounts. The government is also looking at ways it can reduce lumpiness by for example getting budget support payments in tranches. Scheduling of major payments to match with major cash inflows can also help manage cash flow shortages. This will require clear communications between Budget/Treasury and line Ministries.

The government is working towards reconciling the Tuvalu Development Fund (TDF) but is yet to pay back all the funds borrowed in the 2023 financial year. TTFAC reemphasizes the urgency of this reimbursement.

The Minister of Finance has made a clear commitment not to utilize the TDF to finance cash flow shortages in the General Account going forward. Instead, an overdraft facility to the tune of \$10 million has been established at the NBT.

*TTFAC recommends Treasury tap into CIF funds to smooth out cash flow*

TTFAC is of the view that the Treasury could tap into the funds available in the CIF to manage cash flow requirements. This approach avoids both the 12% interest cost on the overdraft and the potential crowding-out effect on the private sector. With a more robust cashflow forecast in place, the government should be in a better position to inform the investment strategy of the CIF, ensuring cash is immediately available when needed. And while FIs limit the use of the CIF – FIs can be realigned to meet current needs.

## Systems and processes

### ANNUAL PLANNING CYCLE

The Ministry of Finance is to be commended for completing the 2024/25 budget to incorporate the thinking of the new government in the short time between government formation and the start of the new financial year. Finance has started planning for the 2025/26 budget which needs to begin in earnest by January.

Incorporation of workforce planning data into the budget process has been problematic for several years. It is understandable that the data was not ready in time for the 2024/25 budget. Development of the next budget should include early inclusion of the workforce planning data. In the 2024/25 budget, significant effort was placed on linking the 21 priorities of the new government with Te Kete's priorities, and linking the budget to annual Ministry work-plans and outputs. This needs to be followed up with completion of annual accounts and annual reports [for the period Jan 2023 to June 2024]. In parallel to the development of the annual work plans, Ministries need also to develop their annual

procurement plans. TTFAC notes this is not currently happening which prevents CPU from prioritising and planning its support for procurement across government for the following year. We also note that the last audited government accounts to be laid before Parliament are from 2020.

The Minister for Finance asked the Advisory Committee for advice on how to incorporate the TTF dividends into the budget process of the revised financial year. The potential TTF dividend is calculated at the end of the TTF financial year (30 September) based on Australia's CPI over the previous 12 months. The International Agreement notes the dividend is for use in the following financial year. TTFAC suggests any TTF dividend payable is continued to be deposited into the CIF and budgeted for in the following financial year.

### Tuvalu Trust Deed Articles 16 and 18<sup>4</sup>

#### 16 Re-Investment and Distribution to the Government of Tuvalu

- (1) At the end of each financial year, the resources of the Fund (after the administration and other costs of the Fund have been met) shall be available for re-investment and for distribution to the Government of Tuvalu during the following financial year as additional revenue for financing recurrent budgetary expenditure in accordance with this Article.

#### 18 Financial Year

The financial year of the Fund shall end on 30 September in each year.

There has been discussion around growing the TTF to a billion fund over the next decade. TTFAC believes this goal is achievable and that Tuvalu is uniquely positioned to attract a mix of intergovernmental grants, philanthropic contributions, self-funding initiatives, diaspora bonds, and carbon credits. By leveraging these diversified funding sources and maintaining steady portfolio growth, the TTF could potentially secure the estimated AUD 80 million annually needed to reach this target. This growth journey could begin by developing a strategic funding roadmap to identify potential partners and funding channels, and then developing the more complex financial instruments such as bonds and carbon credits over time.

There has been slow but steady progress on developing M&E indicators with ESCAP support. The addition of the new government's 21 priorities has added complexity and delay to the completion of the M&E framework. TTFAC looks forward to seeing further progress of the M&E framework on its next mission.

## PROCUREMENT

TTFAC was tasked by the Minister for Finance to investigate slowness in procurement across government. There are clearly defined processes for procurement of goods and services of different values. Followed well, they allow officials to make timely and accountable procurement decisions.

TTFAC notes that while this is the case procurement processes are not always being properly undertaken. At times suppliers are being selected without due process resulting in the Central

<sup>4</sup> Article 16 and 18 Tuvalu Trust Deed

Procurement Unit rejecting the outcome. Agencies have to start the process again, adding time delays.

Agencies appear to be not following the process for a number of reasons. During COVID the government relaxed its approach to competitive procurement in the interests of speedy purchasing in an environment where it was difficult to attract multiple tenders. Some officials are trying to continue direct procurement.

Turnover of procurement staff within individual ministries also means that they have diminished capacity. Staff need training on procurement. The CPU has delivered some training and also issued guidance on procurement rules and templates. TTFAC also heard Deputy Secretary Finance will brief DCC on procurement process in the coming months.

Finally, officials are seeking to circumvent the procurement process because the ability to plan and execute procurement of infrastructure projects within one financial year is limited. There is some ability to carry over procurement across financial years, but having a multi-year budget would significantly relieve pressure on procurement process and could encourage stronger adherence to proper infrastructure planning and documentation, and planning for staging of infrastructure procurement.

### *Boosting procurement speed is as simple as filling the CPU's empty seats*

A second reason for slowness of procurement is that with numerous positions of the CPU vacant, the Unit can only support a limited number of procurements at one time. Urgently filling the vacant positions will allow this important element of government service delivery to be sped up. In the absence of being able to fill the vacant positions, the Government could investigate the CPMO either supporting or housing the CPU.

TTFAC tested the idea of introducing 'panel' or longer-term contracts for items that are regularly procured such as air travel and medicines. There was little immediate support for the ideas, and could be considered as a second priority once staffing levels have improved.

In addition, the current thresholds in the procurement legislation were set nearly a decade ago. Prices and spending patterns have dramatically changed since then. A review of thresholds will help redirect tighter scrutiny efforts towards major procurements.

The Minister raised concerns with the limited flexibility of World Bank procurement rules and their impact on project implementation in small countries like Tuvalu. He planned to raise these issues in the WB Annual Meeting (which occurred concurrently with the TTFAC mission) following indications from the WB President during his visit to Tuvalu that the Bank could accommodate the concerns. Depending on the outcomes of the Minister's lobbying for change at the Annual Meeting, on its next mission TTFAC could investigate the possibility of the GoT establishing an entity which maintains the capability of PWD in Tuvalu, be commercially competitive and able to bid for WB and ADB work in the country.

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## FMIS

Better internet has allowed the FMIS to move to be cloud-based. In addition to the system being more accessible for agencies in Funafuti, over time Tuvalu's overseas missions and outer island Kapule's will also be able to use it and give Finance better visibility on all expenditures. The FMIS was used successfully for the development of the 2024/25 budget. TTFAC heard, however, that it has limited user friendly reporting, and that while the system is being used to process/approve payments it is slow. While decision-makers can delegate easily, it is not clear if this is always happening.

It would seem more training including of senior line agency staff is required to ensure everyone understands the documentation that has to be attached to each transaction. TTFAC heard there is a duplicate paper system in operation which defeats the purpose of getting improved efficiency from going electronic, and that rejected transactions always return to the originator for fixing. Financial Officers are also using the paper system because the electronic system is not aligned with the Finance Instructions. A review of the Finance Instructions should occur as a matter of urgency.

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*Finance needs a fast-track: align the electronic system with Finance Instructions, streamline approvals, and check for bottlenecks*

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The incoming finance adviser will need to review the number of steps in the approval process with a view to streamlining them, and collect data on how long approvals take when all required documentation is in place. The possibility of a system choke-point at the Secretary of Finance level needs to be investigated. The adviser could also investigate the cost-effectiveness of adding a procurement module to the FMIS.

## Government effectiveness

TTFAC heard concerns about the coordination of cabinet submissions, communication about decisions made, and monitoring of the implementation of decisions. The cabinet submission process is clear and well-documented. Potentially the process to get comments on submissions from impacted portfolios could be strengthened by enabling Secretaries access to individual submissions that have been uploaded to the portal. Arguably every cabinet decision has a resourcing impact for instance, and hence the MoF should be consulted on all submissions. Clerk to Cabinet should have the authority to reject submissions that do not satisfy this requirement.

The office of the Clerk to Cabinet is currently under-resourced. Three positions in the office have been shifted elsewhere. The positions should be reinstated and filled urgently to support the submission process, documentation and storage of decisions, and the monitoring of their implementation. Currently all of this would appear to be done by the Secretary to Government and the Deputy Secretary OPM. Their attention on the day-to-day administration of the cabinet process takes them away from higher value duties.

The system of summarising for Secretaries all cabinet decisions so they have a sense of government overall direction in a verbal briefing at DCC is sound. It does, however, rely on the DCC meeting regularly. TTFAC heard the DCC has not been meeting in the absence (on duty travel) of the substantive Secretary to Government, and the majority of members. TTFAC suggests DCC meetings are held regularly whether the Secretary to Government is present or not to support cross-government information sharing and collaboration. With a significant number of new secretaries now participating in the DCC, there is value in the DCC reflecting on how it can best drive the development and implementation of government policy as the pre-eminent official leadership cohort. A reflection exercise could be part of a retreat by DCC members with discussions facilitated by a retired Permanent Secretary or retired Secretary to Government, with possible support from a UNDP consultant on governance and team building.

## Donor Partner engagement

Tuvalu is benefiting from ever increasing donor interest in the form of projects and budget support. Donor support is useful but its management needs to be resourced. In the education sector Tuvalu has project support from the World Bank and Australia as well as the Global Partnership for Education, UN and regional bodies. The number of donors involved demands strong coordination across the ministry. Australia is supporting this as well.

Similarly, the health sector is supported by the World Bank and Australia is also designing a program of health support. The Ministry of Health is also supported by other agencies such as WHO.

As well as demands on coordination there is a danger from having such significant support in one sector that the amount of policy development coming from programs can overwhelm a small ministry and indeed, policy can in effect be subcontracted to donors if local positions are not filled.

TTFAC heard existing and new donors of TCAP would meet at the end of October to discuss new phases of the program. This will be a useful mechanism for Tuvalu to get donor partners to commit to the project. It was not clear if the donor meeting would include discussion of the new government's commitment to Tuvalu's Long Term Adaptation Plan (LTAP) as developed by the previous government. TTFAC encourages the government to reflect on how to have regular whole of government discussions with donors involved in project level support.

Increasing levels of budget support also need to be managed, so it can be maximised (in terms of amounts), and maximised for the benefit of Tuvalu. TTFAC heard that disaster funding from the current ADF round had not been fully utilised when the opportunity had arisen after the last natural disaster. Such funding is quickly released by the ADB and WB post-disaster with few conditions.

The triggers for releasing budget support are contained in the Policy Reform Matrix. Early discussion on the timing of the tranches could assist with smoothing cash-flow.

As TTFAC has argued previously, the PRM is a basis of deeper policy discussions between the government and donor partners. Discussions between the government and donor partners can demonstrate commitment to the policy reforms and generate stronger policy outcomes. TTFAC heard the next PRM meeting is scheduled for January 2025. TTFAC encourages the government to prepare well for the meeting and involve ministries beyond Finance in the discussions.

The recently completed Assessment of National Systems (ANS) was not shared with TTFAC. TTFAC understands there is some concern within the Ministry of Finance that its findings do not reflect well on the state of PFM in Tuvalu. This may well be the case, but like the issues contained within the PRM, TTFAC encourages the government to use the ANS as a guide to engaging with donor partners to strengthen PFM.

## 21 STRATEGIC PRIORITIES

### STATUS UPDATE

The Minister of Finance and Cabinet have done a commendable service to clearly articulate its 21-priority plan in the Public Service. The government officials that the Mission interviewed had a great deal of clarity around the Priorities, the purpose and expectation for delivery. Each official we spoke to was clear about their designated priority and all had focussed their minds to deliver on the priorities. The 2024/2025 budget was built to deliver on the 21 Priorities.

For ease of reference government officials have mapped the 21 Priorities. For the reader's understanding we have documented each priority against Te Kete. Refer to Appendix C for the 21 Priorities and Appendix D for the mapping of 21 priorities to Te Kete.



(TCAP). The success of the project means significantly more funding for additional stages will be added. On Funafuti stage two is close to starting; three and four are well-planned. Other stages are also underway and planned in outer islands.

In addition to TCAP, the Climate Change Department has the following underway or in preparation: underground water gallery project in Nanumea (2025); new WASH policy (to be completed in 2024); integrated water resource project; household climate proofing project; GCF Readiness project and assistance with writing project proposals from the Climate Finance Access project. Additionally, the ADB is planning a water reticulation project for Funafuti. At concept stage there is a significant project to upgrade the energy grid including with floating solar panels in the lagoon and on houses in Funafuti; and to recycle waste (potential piggery with attached bioreactor). IOM has a climate mobility project in the country.

### Priority 1 & 2 Climate change and minimising the impact of king tides

The current government like others before it is very active on the global level advocating for responses to climate change. The return of Ian Fry to the government's team and the funding of an additional position in New York adds depth to GoT efforts. The time impost on Ministers and officials attending overseas meetings is significant, and while the issue is vitally important to Tuvalu, there is inevitably an opportunity cost on the daily job of governing the country.

Tuvalu has been a leader in adaptation in the pilot Tuvalu Coastal Adaptation Project

The Climate Change Department is well resourced with project support. Disappointingly the Departmental funding was cut by the government. In preparation for the budget all Ministries have articulated how they will support climate change responses. However, it is not evident to TTFAC that ministries are prioritising climate change and including it in their decision-making as part of their everyday work. The Office of the Auditor General's (with support from INTOSAI Development Initiative (IDI) and PASAI) forthcoming performance audit on climate change adaptation actions, focusing on evaluating the effectiveness and efficiency of coastal erosion and sea level rise adaptation actions should be completed in November. The audit will inform how the government can strengthen its climate change effectiveness.

### Priority 3 and 6 Chronic shipping services and life-threatening operation conditions and Sustainable and affordable shipping services

Despite the establishment of a new Shipping Operations Policy, incomplete implementation leaves current operations at risk of catastrophic failure. Immediate and full execution of the Shipping Operational Plan is crucial to prevent disaster.

The new MV Manusina funded through ADB is expected to arrive from Japan in the first quarter of 2025. The captain and crew are yet to be identified. There was no clarity in the Ministry over the fate of the MV Manu Folau. However, under the ADB contract for the new vessel the Manusina is a *replacement*.

Given the lack of clarity within the Ministry around the commissioning process of the MV Manusina and the decommissioning process of the MV Manu Folau, Cabinet may consider the need to reaffirm the purpose of the new vessel and provide guidance to the Ministry so that they may start the planning process to prepare the crew for the new boat and find the existing boat a new owner. The sale of the MV Manu Folau will be a welcome relief to the government account.

It would be beneficial to task the socio-economic analyst engaged for the cost-of-living work to analyse the true cost of maritime and air transport in order to better calculate the subsidies required for their sustained operation. Furthermore, the Government should consider the long-term maintenance and management of *Manusina*, potentially transferring it to a public entity to ensure focused oversight, distinct from the Transport Ministry's regulatory role. This could be a potential candidate for TTFAC's next visit to analyse in greater detail as part of a broader focus on PEs and SOEs.

### Priority 4 Reform of the parliamentary electoral process

TTFAC heard the review into electoral issues at the last election is close to finalisation and sharing in Parliament. Review findings potentially will be for significant reform. If that is the case and the government decides to implement the findings in time for the next election, then resources in OPM will be required to socialise the reforms with communities, draft legislation and prepare for new operating arrangements. This will divert resources from current activities unless they are supplemented.

### Priority 5 Addressing the high cost of living

There have been several minor fiscal measures taken in the current period to address concerns around the high cost of living. These include the removal of the 7% tax on telecom and energy consumption. Fortunately, with inflation and interest rates easing around the world there should be a slowdown in further price rises.

The key drivers of high costs remain freight, imported fuel and low levels of local production and will need to be properly analysed as part of the cost-of-living review which was about to start during the TTFAC mission. The review will need to understand how shipping costs are passed on to consumers and whether stronger monitoring is needed to stop price gouging. An ADB funded study on freight could be a useful starting point for analysis. Pricing methodology of the monopoly fuel supplier also needs to be analysed so the government can better engage with the supplier on fuel issues.

Visually there is little evidence of people spending less on consumables. Shops were busy. New cars and motor bikes are on the roads. This suggests despite the cost-of-living pressures, some in the community are still comfortable. The review will need to understand which members of the community are most affected by the increased costs, and suggest policies to address this. Policy solutions will need to be consistent with healthy living and eating programs. In other words, keep locally produced foods as cheap as possible, and tax imported processed foods where they are known to be contributors to diabetes and obesity.

The challenge for GoT is to begin removing the COVID subsidies which saw public expenditure balloon by 18% year on year in 2023, while balancing the effect on the most vulnerable in the community.

TTFAC heard that an adviser has been selected for the cost-of-living study. Separately there is concern the formula for set the prices of controlled products is out of date. TTFAC notes the study should include investigation of the price control mechanism, as well as the longer-term impacts of strengthening the broader business environment and as a result supply of locally produced food products.

### Priority 7 Sustainable, reliable and affordable air services

There is little activity in the past 6 months to move forward on-air services. At the international level Fiji Airways, as the only carrier, has issues around the safety of the runway and is asking for improved security and navigation equipment, Fiji Airways was scheduled to meet the Government in October to address concerns.

TTFAC was not advised of any discussions with other airlines at this time to service international routes.

### Priority 8 Sustainable, reliable and affordable internet

There continues to be good progress on internet improvement in Tuvalu. Starlink is used by many individuals and organisations providing more speed and bandwidth. This has also freed up some bandwidth on the Kacific originated service.

Tuvalu Telecom Corporation is driving change by itself and as the implementing partner for the World Bank ICT project. TTC reduced prices for its services by 60% (according to TTC). Also, blackspots are being fixed and 4G services developed on outer islands. Work has started on the installation of the terrestrial cable around Funafuti. There are plans for it to be completed by the time the submarine cable is landed. In the first instance organisations and businesses will be connected to the cable providing internet services significantly faster and more reliable than Starlink, enabling things like telemedicine to become much better.

The high-speed internet (and lots of spare capacity) will enable Tuvalu to provide services in other countries. Ideas such as establishing a small AI enabled call centre and eventually (subject to electricity generation improving) a small data centre could be possible.

The government continues to negotiate with Starlink for a local license. TTFAC heard there are still some points of contention. One issue that has been overcome is payment methods. That the government had to find a way for Starlink to accept non-card payments demonstrates the urgency with which the banking system needs to be updated in the country. The idea of a Starlink community gateway (based on a local ground station) going live in September and being a stop-gap measure before the submarine cable arrived is now looking unlikely. Instead, it will provide redundancy for the cable.

The steady progress on the delivery of the internet in the country will allow the GoT to take forward other aspects of its ICT strategy.

TTFAC will review implementation of the strategy on its next mission.

### Priority 9 Ascertaining the fiscal situation

Please refer to the mission Fiscal Update for an in-depth analysis on the fiscal situation.

### Priority 9 Pursuing revenue generating activities

The need for the government to generate additional revenue is an immediate and long-term priority. Over the long-term additional revenue measures need to be developed in parallel with making structural changes to the budget.

More immediately, fishing revenues are down for a variety of reasons. The Ministry of Natural Resources is working with Fisheries to improve fisheries revenues by flagging vessels. This and other measures to improve revenue from fisheries will be useful but will not ameliorate the need for additional revenue.

TTFAC explored with Customs and Inland Revenue ideas of taxes on banking deposits, land tax particularly on those owners who earn income from leasing their land, and taxes on tourism and international travel.

Revenue from international overflights seems low compared to the size of Tuvalu's airspace. An audit of the amounts received and the method of calculating them is prudent. The World Bank may be able to assist with this.

Once electronic banking is introduced, the government should re-introduce the collection of consumption tax by TTC and TEC, but have the tax immediately deposited into the

government's bank account at the time the consumer buys the data or energy.

To achieve large-scale revenue generation, particularly through tourism, Tuvalu will need to implement both immediate and long-term strategies. In the short term, introducing visitor visa charges and modest tourism fees could provide an immediate revenue boost. However, building a sustainable tourism sector requires foundational investment in essential infrastructure, such as ports, harbours, runways, internet, electricity, airlines, on ground transport, accommodation, and hospitality, to attract and retain visitors. In the long run, it will be vital to encourage private sector engagement, potentially through public-private partnerships and incentivized investments that address key infrastructural needs. Strategic planning in these areas will pave the way for a resilient private sector that can generate significant revenue for Tuvalu.

While increasing revenue is and will remain a priority, the government also needs to consider introducing user pays fees for services in Tuvalu. Fees and taxes are important in driving demand for quality in government services, and for encouraging personal responsibility. Fees for waste collection and other municipal services are easily quantifiable in terms of cost of delivery and outputs achieved.

### Priority 10 Review and reform of Tuvalu public service

TTFAC heard that the government had progressed its thinking on the review of the Tuvalu public service from one which focussed on issues of pay and conditions to a gap review. The idea of a gap review will serve the government well in several ways. As a small country, Tuvalu needs to regularly review which core responsibilities of government are applicable to it, and how best can those

services be delivered. Some dedicated positions have been established to meet donor requirements, when they could be delivered in other ways. For example, questions remain about the need for an ombudsman or whether such functions could be delivered in another way. The World Bank has supported the government with the CPMO. The model of effectively contracting out specific services may be applicable to other parts of government, particularly those positions which present 'key person risk' to the delivery of services. Improvements to the internet are also opening opportunities to deliver services differently in Tuvalu.

From another perspective the government has large numbers of vacancies (around 300), significant numbers of which have not been filled for several years. There is an opportunity in the large number of vacancies to reassess which of those that are a priority to be filled. Given the small numbers of staff in the PSC which are central to recruitment, maximum numbers of positions that are likely to be filled in a year are probably around 30. TTFAC recommends non-priority positions are removed from the establishment, and if still needed are included in workforce planning in the following financial year. Some functions could be contracted out.

Financial savings from the unfilled positions could be used to fund priority programs. Currently money set aside for vacant positions act as a contingency for line departments to be used without linkage to policy priorities as they can be vired. Inevitably they are vired to consumption-type goods and services like staff travel rather than real investment. Taking control of this expenditure is an easy first step to addressing the structural issues of the budget.

### Priority 11 Review of the quality and standard of medical services

TTFAC heard the review of medical services is complete and will inform the development of the Ministry of Health planning documents which are due for renewal this year. The documents will reflect

- increased emphasis on primary health care which encourages healthier living and personal responsibility for health maintenance;
- regular visits by specialist medical professionals to treat conditions in-country which otherwise would require patients to travel overseas;
- ongoing use of locums to diagnose and where possible treat patients locally;
- increased use of local diagnosis using the relatively new CT scanner and improvements in telemedicine capabilities;
- investigation of India supporting Tuvalu to develop a local dialysis capability.

Diagnosis in Tuvalu should reduce some TOMRS expenditure as patients can limit their overseas travel for treatment only.

Early work of the World Bank project which is supporting the Ministry has assisted in the review. The project will also support implementation of review findings. Australia is also in the early stages of design of a new health program which will also support Tuvalu to address review findings.

### Priority 12 TOMRS Review

The TOMRS review is underway. Two Tuvaluan reviewers, one medical and one financial professional, have started the review and are scheduled to deliver findings by the end of the year. The review will include visits to Fiji and India to understand how GoT doctors attached to the High Commission interact with service providers, and whether different contractual arrangements for the services are possible.

The review will likely complement the 2023 performance audit of the scheme. The Public

Accounts Committee has recently considered the audit and its findings are being written up.

The findings of the review and performance audit will be available in time to inform the 2025/26 budget. The government should be able to respond to the simpler recommendations in that budget, especially if administration of TOMRS is better resourced. The aim of the government should be to have a clear plan to transition the costs of TOMRS to sustainable levels over the next three years. Increasingly good internet should assist this.

### Priority 13 Assessment and upgrading the condition of all classrooms in the country

Education is working with PWD on the initial assessment of all classrooms. This will take some time as PWD completes the full assessment of all government infrastructure first in Funafuti and then to outer islands. There is no timetable for the completion of assessment of this project.

### Priority 14 Promoting inclusivity in development to cater for youth, women and people with special needs

*Te Paagatasi a Tuvalu* Gender Equity Policy, launched in April 2024, is now supported by a 2024-2029 action plan focused on increasing women's representation in leadership, reducing domestic violence, and empowering women in business.

While funding for inclusivity initiatives remains limited, the Gender Division in the Office of the Prime Minister is a small but skilled team with external partner support. Progress requires sustained commitment from the Prime Minister, Cabinet, and community, given ongoing challenges highlighted by statistics. Partnerships with community groups addressing development goals are strong, though government ministries currently show limited focus on inclusivity.

### Pacific CEO's by Gender<sup>5</sup>



<sup>5</sup> Chart of Chief Executive Officers by Gender in the Pacific in 2024. Excerpt from the Pacific Private Sector Initiative, 2024 Leadership Matters dataset

The National Council of Women (NCW) has a comprehensive program supporting women's business and family protection, with a goal to increase the Government of Tuvalu (GoT) annual support from \$25,000 to \$50,000 for expanded community outreach. Meanwhile, some unfunded groups continue effective international advocacy, filling critical gaps where the government is absent.

Data from the 2022 Census and 2023 disability survey will be instrumental in assessing and guiding future inclusivity efforts.

### Priority 15 Assessing and reviewing the status of operational efficiencies of statutory corporations

There appears to be a lack of clarity around the role of the public enterprises and how they fit within the government framework. No public enterprises have returned dividends to the government for the current financial year and in fact most are being heavily subsidised. Audited financial statements of most state-owned enterprises remain behind schedule. NBT and TTC were the only entities where dividends to the government are on the horizon.

NBT is working hard on correspondent banking relationships and is actively participating in the regional consultations on addressing those issues. NBT also has positive



feedback from NAB in Australia, and is looking at resituating its correspondent banking relationship with BRED Europe to BRED Fiji.

NBT still maintains a USD relationship with the Bank of Hawaii. This is all good news and will result in faster and cheaper international transactions across the board.

In general, GoT will benefit from the detailed review of the public entities sector which is about to be carried out and TTFAC will be in a good position to analyse the data on the next mission and recommend ways that operational efficiencies by public entities can be improved.

### Priority 16 Status and progress of the internal air service project

On the domestic services front the two planes owned by the Government of Tuvalu are not being used to service domestic routes. The larger plane is being leased to Air Vanuatu and the smaller is being housed at Nausori Airport. The documentation for the plane is missing and the plane cannot be used or rented out. This is a critical matter that requires immediate resolution.

The continuation of outer islands runways is on hold until the Funafuti runway project is complete. TTFAC learned that equipment used for the Funafuti runway will be transferred to the outer island runway projects.

TTFAC notes the lack of urgency in moving this forward. Significant investment has gone into this initiative and further delaying its completion will only inflate project costs and prolong the realisation of the intended benefits on the economy. Meanwhile, assets deteriorate. A comprehensive and prioritised plan for the internal air service project should be developed.

## Priority 17 Waste

The management of waste is rightly a priority. Many of the elements of a good waste management system are in place, but implementation needs to be resourced and policies further developed. With EU support equipment was purchased and recycling started. The equipment now needs replacing and updating.

The dump has exceeded its capacity, and there are currently no operational compactors on Funafuti. There is one operational waste collection tractor on Funafuti, and one ordered. Recycling efforts have started but need to be ramped up. TTFAC heard that plastic bottles are shredded and aluminium cans crushed but a significant waste metal problem remains in Funafuti. An e-waste program has started. Composting is also underway at the waste facility and could be expanded. Minimal waste has been shipped offshore.

Waste policies also need to be reviewed and updated to reduce the amount of unrecyclable packaging coming to Tuvalu, and increasing recycling. A policy to user-pays system for waste disposal would also encourage responsible purchasing and disposal habits among the population, as well as fund the waste equipment and transport costs. Establishing the waste unit as a public entity may serve collective interests.

TTFAC heard the Climate Change Department has project concepts being developed which include management of piggery waste in climate friendly ways, including potentially a bioreactor for energy production. Such plans should be fast-tracked. They will add credibility to the government's climate change efforts by demonstrating that even small carbon emitters can contribute to reducing the problem.

## Priority 18 Support for the maintenance of Tuvalu values, cultures, tradition, traditional knowledge, customs, norms and language

In line with Priority 18, the 2024-2025 budget emphasizes strengthening institutional mechanisms within Tuvalu's cultural sector. As a signatory of the UNESCO Convention for the Safeguarding of Intangible Cultural Heritage, and with the recent ratification of the UNESCO World Heritage Convention in 2023, Tuvalu is taking significant steps to protect its heritage. The government is also considering further commitment by potentially signing the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions. These actions underscore Tuvalu's dedication to preserving its unique cultural heritage.

However, practical challenges limit the implementation of these initiatives. The current budget for cultural maintenance and preservation is below \$200,000, which is primarily allocated to support a staff of six. Compounding this limitation, the Principal Culture Officer is currently on study leave, and an additional vacancy remains unfilled, restricting department capacity.

While cultural preservation has been acknowledged as a top government priority, the constrained budget and staffing challenges suggest that resources fall short of fully supporting the stated priority. The Ministry of Home Affairs, Climate Change, and Environment, responsible for this mandate, has a ministry budget of \$12,633,380, only a small portion directly supports cultural initiatives, and its operations feel like an afterthought rather than a key pillar of Te Kete.

## Priority 19 Assessment of the progress of existing infrastructure

The Public Works Department (PWD) has developed an app and begun the process to inventory government infrastructure in Funafuti in accordance with priority 19. This effort will eventually extend to the outer islands to complete the inventory of government assets. Once fully operational, the inventory process is expected to feed into long-term infrastructure planning and assessment, although the timeline for completion remains unclear.

In parallel, it would be beneficial for the government to task the National Infrastructure Steering Committee, with support from the Central Procurement Management Office (CPMO), to review the "Tuvalu Infrastructure Investment Plan 2020–2025." This review should aim to confirm investment priorities for the next ten years, aligning them with current infrastructure as assessed by the inventory and future needs.

A critical area of concern is the state of Tuvalu's power supply, which has direct implications for national security. Funafuti is currently operating with three generators, providing a total capacity of 1.8 MW. This limited power supply presents a significant vulnerability, particularly as it impacts essential services and the resilience of the infrastructure. Without reliable energy, Tuvalu faces challenges in maintaining security, economic stability, and the well-being of its population.



Compounding this issue, the three existing 600kw gensets are being run continuously to meet demand, with no redundant capacity available to allow for downtime. All three gensets are also overdue for major overhauls, further jeopardising the system.

To manage rising costs, the government is subsidising Tuvalu Electricity Corporation (TEC) fuel purchases by \$3 million in the current annual budget. However, a recent electricity pricing study suggests that the base price for electricity could be set at 85 cents per unit, a substantial increase from the current lowest price of 29 cents per unit. With diesel comprising 75% of TEC's costs, the current pricing model is unsustainable, as revenues will not cover diesel expenses, let alone operational costs, long-term maintenance, or capital improvements. It is critical that the Government of Tuvalu (GoT) reassesses its approach to ensure a viable path forward, including the implementation of a user-pays system.

In addition to the financial concerns, there are reports of energy losses within the distribution network, further exacerbating the situation. The high cost of energy in Funafuti is

contributing significantly to the rising cost of living, placing considerable pressure on households.

*Renewable projects are in motion, but the power crisis demands immediate action*

While long-term renewable energy projects, including solar initiatives and wave energy feasibility studies, continue to progress, the urgency of addressing the current power supply crisis cannot be overstated. Investment must be directed toward both enhancing generator capacity and advancing sustainable energy solutions to secure Tuvalu's future energy needs and safeguard national security.

### Priority 20 Affirmation of the special relationship of Tuvalu with the Republic of Taiwan

Tuvalu continues to value its longstanding and special relationship with Taiwan, which remains a major engagement partner in various sectors. This relationship is built on shared values and mutual respect, with Taiwan playing a key role in supporting Tuvalu's development and international standing. In recognition of this strong partnership, the Prime Minister of Tuvalu had the privilege of being the guest of honour at Taiwan's National Day celebrations in October 2024, further strengthening the bonds between the two nations. This occasion symbolizes the continued importance of bilateral diplomatic ties and the mutual benefits both countries gain from this enduring friendship.

### Priority 21 The Falepili Union Treaty between Tuvalu and Australia

There is much excitement, and some anxiety, surrounding the Falepili Union Treaty. While significant groundwork has been laid, there remains more to be done between the two governments to finalize the settings under which the Treaty will operate. This presents a timely opportunity to ensure that these settings, particularly those related to people movement, provide the greatest benefit to Tuvalu. The Committee heard of the regular officials' meetings between both countries, but not a clear strategy from the GoT on how it can maximise the benefits of the Treaty for the people of Tuvalu. In its meetings with individual senior officers of different ministries, TTFAC heard good ideas on issues of education, skills development and health.

*set a clear treaty vision and guide negotiations to shape Falepili's impact on Tuvaluan well-being*

TTFAC believes now is the moment for Tuvalu to prepare and articulate a clear vision for the Treaty, to frame its negotiations on the implementation with its treaty partner and inform a baseline study on the impacts of Falepili on the well-being of all Tuvaluans. The development of a vision would be a practical issue that the DCC could use to strengthen its own performance.

## APPENDIX A - LIST OF INTERVIEWEES

Name	Designation
Asau Leauma	Deputy Secretary for Finance
Loisi Seluka Kenieti	Deputy Secretary for Finance
Kelena Tapa	Director for Planning, Budget and Aid Coordination
Seipua Scott	Acting Government Accountant
Foini Tusela	Operational Procurement Officer
Siava Tekafa	Director CPMO
Sania Teisini	Director of Revenue and Custom
Tauisi Taupoo	Permanent Secretary for Finance and Economic Development
Nuausala Nuasala	Permanent Secretary for Natural Resources Development
Pasuna Auina	Permanent Secretary for Ministry of Foreign affair, labour and Trade
Simalua Enele	Assistant Secretary for Public Works and Infrastructure Development
Loloma Homasi	Deputy Secretary for Transport, Energy, Communication and Innovation
Natano Elisala	Deputy Secretary for Ministry of Health and Social Welfare
Imase Kaunatu	Auditor General
Iunipa Teatu	Deputy Secretary for Ministry of Education, Youth and Sports
Liliane Tine	Tuvalu National Women's Council Coordinator
Alapati Taupo	Manager Finance - Tuvalu Telecommunication Corporation
Letasi Iulai	ADB Country Officer
Fakavae Taomia	WB Country Officer
Pamela Lysaught	TuLEP PM
Luamano Lusama	TuLEP DPM
Betty Vave	TAPQE Country Manager
Miriama Waga	TAPQE Deputy Team Leader
Siose P Teo	GM National Bank of Tuvalu

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Mafalu Lotolua	GMGM Tuvalu Electricity Corporation
Tenanoia Simona	GMGM Tuvalu Telecommunication Corporation
Sokotia Kulene	Director of Gender Department
Richard Gokrun	TUCAN Project
Epu Falega	Director of Waste Management
Suria Elisala	Project Manager - Tuvalu Health System Strengthening Project
Michael Batty	TA - Fisheries Department
Taulosa Tili	Ag. Director - Culture Department

## APPENDIX B - ABBREVIATIONS

Abbreviation	Description
AI	Artificial Intelligence
ANS	Assessment of National Systems (by DFAT)
CEO	Chief Executive Officer
CIF	Consolidated Investment Fund
CPI	Consumer Price Index
CPMO	Central Project Management Office
CPU	Central Procurement Unit
DCC	Development Coordinating Committee
DFAT	(Australian) Department of Foreign Affairs and Trade
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FY	Fiscal Year
GCF	Green Climate Fund
GDP	Gross Domestic Production
GoT	Government of Tuvalu
ICT	Information & Communications Technology
IOM	International Organisation for Migration
LTAP	Tuvalu's Long Term Adaptation Project
MOF	Ministry of Finance and Economic Development
M&E	Monitoring and evaluation
NBT	National Bank of Tuvalu
OPM	Office of the Prime Minister
PFM	Public Financial Management
PRM	Policy Reform Matrix
PSC	Public Service Commission
PWD	Public Works Department
TA	Technical Adviser/technical advice or technical assistance
TAPQE	Tuvalu Australia Partnership for Quality Education
TCAP	Tuvalu Coastal Adaptation Project

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TCT	Tuvalu Consumption Tax
TEC	Tuvalu Energy Corporation
TDF	Tuvalu Development Fund
TOMRS	Tuvalu Overseas Medical Referral Scheme
TTC	Tuvalu Telecom Corporation
TTF	Tuvalu Trust Fund
TTFAC	Tuvalu Trust Fund Advisory Committee
TuLeP	Tuvalu Learning Program
UN	United Nations
UNDP	United Nations Development Programme
VDS	Vessel Days Scheme
WASH	Water, Sanitation and Hygiene
WB	World Bank
WHO	World Health Organisation

## APPENDIX C - SNAPSHOT OF OUR PROGRESS ON THE 21 PRIORITIES

### 21 PRIORITIES



#### LEGEND

URGENT CRITICAL ISSUE

CRITICAL ISSUE



the progress dial visually represents how much progress has been made toward priority completion

## APPENDIX D - 21 PRIORITIES MAPPED TO TE KETE



# *Appendix 3*

# 51<sup>ST</sup> REPORT

to the

Government of Tuvalu



**TUVALU TRUST FUND ADVISORY COMMITTEE**

**APRIL 2025**



#### Acknowledgements

Fakakfetai lasi to Violeti Faauila, Ioele Fepuali, Loise Tinilau, Galu Talakatoa, and Emilio Eliapo for all of your assistance particularly on Mission 51 in Funafuti. Thank you to our Team Leader Stuart Schaefer who celebrated his final mission with TTFAC - *Ulu kite fatu e malu ei koe.*



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## 1. EXECUTIVE SUMMARY

Since our last visit in October 2024, there has been a notable acceleration in progress across key sectors in Tuvalu. Much of the current impetus appears to be driven by a commitment to delivering on the 21 strategic priorities outlined in the Government of Tuvalu's Statement of Priorities. This is occurring within a changing and volatile global context that will make economic growth and improvements in living standards harder in Tuvalu. This makes continuous government reform efforts, strengthened focus on economic growth and public enterprise efficiencies critical in the months ahead.

Locally, underlying public financial management issues need to be fixed as they are a brake on service delivery. Structural issues of the budget need to be addressed to ensure sustainability.

Donor partners are mobilising more resources for Tuvalu. The good news of the increased capital expenditure including the probability of maintenance funding, and more advisory support adding to the government's policy momentum, needs to be complemented with more leadership and direction of donor efforts by the government. Some early signs of greater leadership by the government can be further strengthened. Good initial thinking on the Policy Reform Matrix needs to be followed through by shortening and focusing on the underlying constraints to economic growth. The work on the PRM should be complemented with other donor coordination efforts.

## 2. INTRODUCTION

The 51st mission of the Tuvalu Trust Fund Advisory Committee (TTFAC) was conducted from 1<sup>st</sup> to 15<sup>th</sup> April 2025, building on the momentum of previous missions and continuing the Committee's support to the Government of Tuvalu (GoT) during a period of ambitious reform and challenging fiscal conditions.

The mission included advisory committee members, Stuart Schaefer (Team Leader), Talavai Iona and Tarita Hutchinson. The Committee expresses its deep appreciation to the Minister of Finance, Secretary to Government, the Tuvalu Trust Fund Secretariat, and all interviewees who generously shared their insights. A full list of stakeholders consulted is provided in Appendix A.

TTFAC reiterates its commitment to providing clear and forward-looking advice to support the sound management of the Trust and its supporting instruments, particularly the Consolidated Investment Fund (CIF). This report focuses on areas where the Fund's role is most relevant,

including fiscal planning, government effectiveness, donor coordination, and the operationalisation of key infrastructure and public services.

As with previous reports, the 51st Report provides commentary and recommendations framed around Te Kete and the 21 Strategic Priorities, with an emphasis on practical actions to improve policy coherence, fiscal resilience, and accountability. Our work is anchored in the shared vision of a sustainable and sovereign Tuvalu, responsive to the needs of its people and resilient to the challenges ahead.

### 3. RECOMMENDATIONS

TTFAC makes the following recommendations, noting PFM recommendations in our last report not yet addressed remain important, and will be actioned over the coming months with the support of the DFAT-funded Te Ao program.

- TTFAC maintains that medium-term fiscal planning and budget credibility would be significantly strengthened by transitioning to a rolling three-year budget framework—a position that is supported by the Budget Team.
- TEC and GoT need to jointly agree on the financial accounts and establish a robust operating model.
- The government engages a fuel pricing specialist to assess the current procurement system and evaluate whether options exist for negotiating better terms—such as through single-supplier contracts or regulated pricing frameworks.
- Given that Samoa, Nauru, and the Cook Islands also use TechOne, TTFAC suggests the creation of a sub-regional learning cohort – with donor support – to share experiences and, if necessary, engage the provider collectively to strengthen leverage and improve service outcomes.
- TTFAC supports expanding the use of panel contracts by the government as part of its efforts to make procurement more efficient.
- TTFAC recommends the pros and cons of a separate maintenance fund be investigated.

## 4. CONTEXT

### 4.1. Global

The mission was undertaken during a volatile period for the world economy. President Trump introduced significant tariffs for goods entering the USA and then paused them. Markets swung wildly. Commentators linked President Trump's economic policies with geopolitical alliances. The introduction of tariffs was the latest headline grabbing change by the new president since starting his term. Others included gutting USAID and its funding and reversing climate change and DEI policies. More turmoil is ahead. We can expect to live in a period of erratic decision-making across a variety of policy fronts for the remainder of this US presidency.

The impact of this on Tuvalu has already been seen. It is unclear if the US Fisheries Treaty payments will be made this and next financial year (totalling USD9 million). USAID's Climate Ready BOSS, a Pacific climate finance program was cancelled in January. Not only are the BOSS's activities cancelled, but the program would have supported Tuvalu to gain access to more climate finance. Climate finance will also reduce worldwide because of President Trump's policies on overseas development funding for multilateral organisations, and particularly those funding climate change activities. *There is potential further change ahead as US policy on International Development Banks is currently subject to review.*

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*further change ahead as US policy on International Development Banks is subject to review*

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By recognising we are now in a multipolar world Trump's administration has implicitly called out the diminishing world dominance of the USA. As a country it will continue to be inward focussed following the capricious Trump presidency. President Biden did not reverse the tariffs introduced by Trump in his first term. Trump's policies are significantly changing the global economic ecosystem that has developed over the last 80 years. Whichever president follows Trump, we can expect trade limiting policies to continue and costs of production to remain higher than they otherwise need to be or have been.

Worldwide people should expect standards of living to remain static or go backwards. In Tuvalu cost of living pressures started during and immediately following COVID, and which looked to be reducing, will continue.

The US Administration's demonising of diversity and inclusion policies and programs will need to be carefully picked through. The economic and social benefits from improved diversity are

well documented. Maintaining gender equity, disability and inclusion programs without attracting the ire of the US government will be important.

#### 4.2. Tuvalu (including Milestones and Momentum)

The mission occurred just over one year since the formation of the new government in Tuvalu. Since our last visit in October 2024, there has been a notable acceleration in progress across key sectors in Tuvalu. It is evident that the government's clear strategic vision, combined with a high level of Cabinet engagement and the stability provided by the appointment of Permanent Secretaries across all ministries, has significantly advanced implementation efforts. Much of the current momentum appears to be driven by a shared commitment to delivering on the 21 strategic priorities outlined in the Statement of Priorities, and it is encouraging to see visible results on the ground.

This renewed energy is reflected in the increased coordination among ministries, improved planning, and a stronger focus on delivery. There is a palpable sense of ownership at the leadership level, and the machinery of government appears to be more aligned and responsive. This has created a conducive environment for development partners to engage more effectively with the Tuvalu Government in delivering sustainable outcomes.



#### 4.3. Public Financial Management

The momentum of the government's reform efforts is stymied by underlying PFM challenges which have been growing over several years. The ANS (Assessment of National Systems), PEFA (Public Expenditure and Financial Accountability), and TTFAC 50th Report all converge on key public financial management (PFM) challenges, offering a cohesive picture of systemic issues in Tuvalu's financial governance landscape. A central concern across all three reports is the *structural weakness* in the national budget. All identify that recurrent expenditure significantly outweighs capital investment, with domestic revenues consistently falling short of total expenditures. This over-reliance on external budget support is flagged as unsustainable. The PEFA and ANS both highlight the underperformance of fiscal indicators, while the TTFAC calls

for medium-term structural adjustment and introduces a three-year budget cycle as a solution to address the worsening domestic deficit and enhance fiscal discipline.

Another shared theme is the need to improve procurement processes and public investment management. The PEFA notes weaknesses in the execution of the capital budget and a lack of reliable procurement planning and execution. Similarly, the TTFAC report details widespread non-compliance with procurement protocols, staff turnover, and outdated thresholds, leading to delays and inefficiencies. We recommended urgently filling vacant roles in the Central Procurement Unit and exploring panel contracts to streamline repetitive procurement. The ANS reinforces these concerns by pointing to fragmentation and a lack of consistent procurement oversight, further complicating the government's ability to deliver value-for-money infrastructure and services.

Finally, system inefficiencies in financial management and governance processes are acknowledged in all three assessments. The FMIS (Financial Management Information System) is identified as underutilised and misaligned with the current Finance Instructions, creating operational bottlenecks. The TTFAC emphasised the need for a functional alignment between FMIS workflows and updated financial regulations, while PEFA and ANS recommend capacity building and increased system integration to support more timely and accurate financial reporting. All three reports also raise concerns about coordination within government and between ministries, especially in relation to donor engagement, noting that fragmented leadership and communication gap risk undermining reform efforts and absorbing external aid effectively.

## 5. NEXT MISSION

The upcoming TTFAC mission, scheduled from 29 September to 17 October, will include a range of priority follow-ups and field visits. A key component of the mission is proposed to be visits to the Outer Islands of Vaitupu, Nanumea, and Nanumaga to assess development progress on-site. The mission will also seek updates on several strategic areas including the Falepili Union labour mobility initiative, ongoing public financial management (PFM) reforms, and the Marine Sector Master Plan. Further updates will be requested on national statistics and the government's national infrastructure plan. A closer review of the performance and strategic direction of government-owned enterprises will be undertaken, with a particular focus on the Tuvalu Energy Corporation (TEC), as part of efforts to strengthen SOE performance and financial sustainability.

## 6. FISCAL UPDATE

### 6.1. Medium Term Fiscal Framework (MTFF)

During the Committee's visit, budget consultations with line ministries were actively underway. Preceding the budget rounds, Parliament approved an additional appropriation of \$8.6 million<sup>1</sup>. This adjustment was anticipated, given the initial under-allocation to TOMRS and the TEC subsidy. The supplementary appropriation is expected to be financed through windfall revenues estimated at \$16 million<sup>2</sup>. However, this fiscal space will be partially offset by an anticipated \$5 million shortfall in fishing license revenues due to the uncertainty surrounding the US Treaty.

While the net effect is likely to result in a modest improvement in the outturn for the 2024/2025 fiscal year, the supplementary budget underscores several persistent structural challenges. These include a growing domestic budget deficit—projected to reach 53% of domestic revenues—a continued lack of budget credibility due to systematic under-budgeting for major expenditure items, and a high degree of uncertainty associated with both external budget support and, to a lesser extent, fisheries-related revenue streams. We urge the government to carefully consider these challenges in its fiscal policy.

<sup>1</sup> \$6.9 million to TOMRS, \$926K to TEC subsidy, and \$766K to the Marine Department for shipping services

<sup>2</sup> Budget supports of \$11.4 million from the World Bank and \$3.5 million from MFAT, and an extra \$1 million from tax and customs collections

As of the time of writing, the Medium-Term Fiscal Framework (MTFF) remains under formulation, pending the conclusion of the 2025/2026 budget negotiations. Preliminary budget submissions have significantly exceeded the indicative expenditure ceiling, reflecting both historically conservative ceilings for key expenditure areas—such as the TOMRS and infrastructure maintenance—and a negotiation culture in which agencies submit ambitious estimates with the expectation of downward adjustments toward the ceiling. The forward-year assumptions underpinning the MTFF will need to account for sustained inflationary pressures stemming from ongoing global trade tensions, which appear likely to persist.

TTFAC was informed that a workforce planning exercise is underway to identify structurally vacant positions for defunding. This represents a critical step toward moderating the growing wage bill, improving fiscal sustainability, and reallocating resources toward capital investment and building resilience against climate change.

**TTFAC maintains that medium-term fiscal planning and budget credibility would be significantly strengthened by transitioning to a rolling three-year budget framework—a position that is supported by the Budget Team.** This reform could be initiated with the 2026/2027 budget cycle, beginning with the articulation of clear medium-term fiscal objectives and policy priorities to build political consensus, ideally by August of the current year.

## **6.2. Enhancing Transparency and Public Participation in the Budget Process**

Transparency is a foundational principle of sound public financial management. It facilitates public understanding of government priorities and trade-offs in both revenue generation and expenditure allocation. The recent findings from the Assessment of National Systems (ANS) and Public Expenditure and Financial Accountability (PEFA) assessment highlight a systemic lack of parliamentary and public oversight in Tuvalu's budget process, which is closely associated with reduced budget credibility. Furthermore, the Minister of Finance has expressed a clear interest in exploring mechanisms to enhance public engagement during budget formulation.

Strengthening transparency through structured public participation not only promotes accountability but also enhances government responsiveness, improves perceptions of public sector performance, and builds trust in fiscal policy. However, these efforts must be well-designed and context appropriate. Ill-conceived or tokenistic approaches risk wasting limited administrative and financial resources and may further erode public confidence if citizens perceive that their input is not meaningfully considered.

Increased public participation can be facilitated through a range of mechanisms, including town hall meetings, citizen satisfaction surveys, focus group discussions, digital engagement (e.g., social media and online platforms), and participatory review processes. For Tuvalu, initial

efforts could include low-cost approach to deepen inclusion by inviting selected community or civil society representatives to participate during the scrutiny of line ministry budget submissions. Other efforts could include institutionalising public consultations within the annual budget calendar, by introducing town hall sessions and sector-specific dialogues early in the budget formulation process—ideally before final budget decisions are made—to inform and educate the public about the underlying fiscal strategy, the budget’s core components, and key revenue sources. Over time, these efforts can be scaled up to include mechanisms for structured feedback, such as online surveys, stakeholder roundtables, and community-based consultation events. Furthermore, transparency should extend into budget execution. Citizens should be afforded opportunities to raise questions and receive updates on the status of budget implementation throughout the fiscal year, thereby reinforcing a culture of continuous accountability.

### 6.3. Line Ministries to Operate Own Budgets

The Minister of Finance raised the prospect of decentralizing budget execution authority to line ministries, like the current arrangement for overseas Missions. This proposal stems from ongoing frustrations over delays in payment processing by Treasury and Finance Headquarters, some of which are compounded by limitations within the FMIS.

While the desire for such reform is understandable, TTFAC identifies significant risks associated with decentralization in the current context. The primary constraint is the limited availability of personnel with adequate accounting and financial management skills to ensure effective internal controls. Treasury itself continues to face challenges in recruiting and retaining qualified accountants, and PFM challenges persist even within the overseas Missions.

Moreover, recent assessments under the ANS and PEFA frameworks indicate a broader decline in PFM standards across government. In this environment, further decentralization of Treasury and budget control functions could exacerbate existing weaknesses. TTFAC advises that such reforms are revisited when foundational PFM systems and capacity are restored to reasonable standards.

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*further decentralization of Treasury and budget control functions could exacerbate existing weaknesses*

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TTFAC also heard of Kapule frustration with using government procurement systems, and for the outer islands' desire to work outside of them. This seemed to reflect the limited capacity within Kapule's. Supporting Kapule's to be able to use procurement systems and streamlining processes is required rather than working outside the system. TTFAC understands the Ministry of Home Affairs has engaged a consultant to look at these issues. TTFAC proposes to better understand the issues on its next mission.

## 7. STRATEGIC PRIORITIES

### 7.1. Summary of Progress on the 21 Strategic Priorities

The government completed an internal review of progress against the 21 priorities on the first-year anniversary of the new government based on information of the 120 indicators. Areas showing the most substantial advancement include climate resilience, shipping services, and international partnerships—particularly the Falepili Union with Australia and the enduring relationship with Taiwan. Projects such as the arrival of the Manu Sina vessel, classroom upgrades, rollout of 4G across outer islands, increase in renewable energy to 20% of capacity and progress on the submarine cable have all contributed to improved service delivery and national resilience. Several annual targets have reached 100%, indicating strong traction in the first phase of implementation.

However, systemic challenges persist, particularly in healthcare provision, cost of living mitigation, and electoral reform. Capacity shortfalls, delayed technical assistance, and limited financial resources have constrained broader progress, with several priorities still under 30% completion overall. Despite this, the government has demonstrated transparency and adaptability by integrating emerging priorities, committing to a rigorous monitoring framework, and engaging development partners for sustained reform. With strong Cabinet engagement and inter-ministerial collaboration, Tuvalu is well-positioned to convert early momentum into long-term, inclusive development gains.

The internal review is a fair assessment, although we were not able to confirm that work on electoral and public sector reforms, particularly workforce planning and specific programmes on culture and equity across all the population are being sufficiently addressed and highlights constraints to overcome. The review will be followed by a mid-term review of Te Kete in the last quarter of the calendar year. It will be important for the Te Kete review to further integrate the 21 priorities into the long-term planning document and ensure that the lower-level sector and corporate plans are in place and driving practical implementation of development for the people of Tuvalu.

Below TTFAC makes comment on progress against the priorities in two ways. Those priorities which we believe are important over the next year are dealt with in brief. Covered more fully are priorities which were included in the TOR of the mission.

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## CLIMATE CHANGE

TCAP1a funding has been confirmed, ensuring project continuity. TCAP funding looks to be secure at present, even with the withdrawal of US support. There remains the opportunity for Tuvalu to strengthen its commitment to climate resilience through additional budget allocation.

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## INTERNET

Vaka cable landfall is complete. The onshore cable infrastructure is under construction and internet connectivity through the cable is expected around July 2025, with the full rollout



targeted by Q1 2026. The *Community Gateway* Starlink ground station should be operational in the coming months, and this should result in improved internet speeds across Funafuti. The current satellite Kacific services should be discontinued by June 2025 with customers being migrated to the Community Gateway service. Further price drops are possible after the Vaka cable becomes fully operational. Additional work needs to be completed on ongoing operational and maintenance costs to determine if price reductions are possible.

The higher internet capacity and speeds will enable transformations in service delivery. Cloud-based systems such as FMIS and the Automated System for Customs Data (ASYCUDA) to work better and generate service efficiencies. Telemedicine services will improve. Core banking systems will also be able to be strengthened. Remote support for software packages like FMIS will become the norm.

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## PUBLIC SERVICES

The review of the public service has not started. Moreover, the TOR for the review has not been completed. While on mission TTFAC provided its ideas that it developed in April 2024 for

the scope of the review to the new Secretary for the Office of Prime Minister. The ideas were likely lost in changeover of officials in that ministry.

In the meantime, vacancies remained high (341) as the government prepared the 2025/2026 budget. TTFAC heard workforce planning was underway, and this would inform how vacancies were dealt with in the budget.

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## INFRASTRUCTURE

TTFAC heard planning for the next iteration of the National Infrastructure Plan has started. The demands of the plan will increase over the coming years given the significant capital investment by donors and the increased amount of land available from reclamation. The plan will need to have a long-term focus as well as deal with medium- and short-term needs. The government will need to work hard to get beyond a list of infrastructure that is characteristic of many such plans. TTFAC hopes individual projects will only be considered for inclusion in the



plan if they have been subject to high level feasibility and cost-benefit analysis, and that more in-depth analysis is completed before political and budget commitment for them is made.

The proposed process to develop the Infrastructure Plan includes governance arrangements that incorporates donors. This is useful. Donors will need to be brought along the journey of the Plan's development and implementation if coordinated infrastructure delivery is going to be achieved. Nevertheless, the government will need to be in the lead.

The governance arrangements overseeing the implementation of the Plan need to get the balance right between focus on the future as well as activities underway, and be clear in how infrastructure (and its maintenance) is planned for in the medium-term budget. Current oversight of government infrastructure development is limited in its focus on the future.

Land reclamation has highlighted the lack of a clear place within government with responsibility for land use planning. With plans for significant land reclamation over the coming years, this needs to be addressed.

## MARITIME SECTOR REFORM AND INVESTMENT

TTFAC's mission coincided with the deployment of the MV Manu Sina, a newly acquired, fuel-efficient vessel equipped with advanced maritime technologies. Procured under the Asian Development Bank's (ADB) Strengthening Domestic Shipping Project, the vessel constitutes a strategic investment in national transport infrastructure. It is designed to address longstanding inefficiencies in inter-island connectivity, enhance the safety and reliability of domestic maritime services, and support broader national objectives related to trade facilitation, social inclusion, and climate and disaster resilience. Significantly, this marks the first time ADB has directly procured a vessel for any of its member countries—signalling Tuvalu's role and leadership in innovative aid delivery mechanisms.

The MV Manu Sina is also the first government-owned vessel in Tuvalu to be insured by a Lloyd's syndicate, setting a new benchmark for asset risk management in the public sector. The insurance package includes liability for damages and loss of life, thereby embedding commercial-level accountability standards within the state-owned maritime fleet. This move



introduces performance-based incentives for compliance with international maritime regulations—particularly the IMO's Standards of Training, Certification, and Watchkeeping for Seafarers (STCW)—and is expected to generate positive spillover effects across the sector. However, maintaining such insurance coverage imposes ongoing financial obligations beyond premium payments, including adherence to technical and operational standards required to retain classification status.

The success of these reforms reflects commendable leadership and coordination by the responsible Ministry. This has, in turn, mobilized increased engagement from Tuvalu's development partners. ADB has committed to financing the maintenance of the MV Manu Sina for an initial four-year period, a commitment that aligns with the TTFAC's position that development partners should support full life-cycle costs of infrastructure assets. But the government must take the lead by making sufficient allocation for maintenance in its budget. We make more detailed comments on maintenance in a dedicated sub-heading below.

In addition to vessel maintenance, ADB will most likely support institutional strengthening through the recruitment of an Operations Manager, and a Marine Engineer who will lead the establishment of a shore-based maintenance workshop. This facility will be supported by a computerized maintenance management system and integrated ticketing mechanism to streamline repair operations and improve asset uptime. Concurrently, the World Bank has deployed a TA with expertise in both shipping and port operations to assist in implementing operational reforms across the maritime sector.

These investments are underpinned by the strict enforcement of Tuvalu's Shipping Policy. Notably, the Minister's recusal from administrative oversight has depoliticized key operational decisions (and is an example that could be considered for the TOMRS), resulting in a significant reduction in discretionary vessel diversions—now limited to emergency fuel deliveries and medical evacuations. Planning efforts are ongoing to eliminate fuel-related diversions entirely through improved supply chain coordination. However, the question of cost responsibility for such diversions remains unresolved. TTFAC recommends that the financial burden of diversions be allocated transparently to the responsible agencies, in line with principles of fiscal accountability.

Despite these significant achievements, structural challenges remain. The sector continues to face constraints in recruiting and retaining certified seafarers. TTFAC endorses the Ministry's exploration of a sector-specific human resources model that is not necessarily restricted by the Government Administrative Orders (GAO) or Public Service Commission (PSC) rules. A more flexible and industry-aligned approach to employment conditions is seen as essential for sustaining a professional maritime workforce and ensuring the long-term viability of the sector.

Such an approach would also support the Marine Department in adopting a more commercially responsive operating model. This includes establishing a clear understanding of its various customer segments and aligning service schedules and budget planning accordingly. Critically, success hinges on a commitment to implementing full life-cycle costing for maritime assets, incorporating ongoing operational costs, maintenance, and eventual asset replacement.

The Ministry also needs to undertake strategic decision-making regarding the optimal fleet size, balancing service delivery requirements against the fiscal implications of ongoing operational and maintenance costs. This includes evaluating the cost-effectiveness of retaining aging or damaged vessels and making evidence-based decisions on decommissioning assets that pose financial or safety liabilities to the Government. All these priorities will be fleshed out in a Master Sector Plan that will soon be developed.

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#### TUVALU OVERSEAS MEDICAL REFERRAL SCHEME (TOMRS)

The government review of the Tuvalu Overseas Medical Referral Scheme (TOMRS) is now complete and has been endorsed by government. It follows the 2023 Audit of the program and a TOMRS policy review in 2021.

The review is an excellent document, clearly outlining the numerous issues that need to be considered and addressed to make the TOMRS effective, efficient and sustainable. The review builds on the valuable Audit but is much more comprehensive. The scope of the recommendations is very wide. Some of the recommendations can be actioned immediately, and TTFAC heard from Ministry of Health staff of how invoicing is now being more carefully managed.

Other recommendations will require further analysis and options presented to government on the best way forward. A possible insurance scheme associated with TOMRS is something that requires further investigation. Still others require sustained commitment. For example, the review recommends increased priority by the government on primary health programs. Such programs are known for their cost effectiveness but often deliver change slowly: they are generational in their impact.

Government endorsement of the report and its recommendations is a good start. It does, however, need to actively manage the implementation of the recommendations.

It cannot expect the TOMRS implementation team to do this. The TOMRS team is busy keeping the scheme going and delivering incremental improvements. Rather TTFAC recommends a Project Management Unit be established to implement the recommendations. TTFAC heard a strategy for implementation of TOMRS review recommendations is planned. The first step of the PMU could be to develop for Cabinet endorsement the strategy to prioritise, implement and report regularly (six-monthly) on progress to the DCC and Cabinet. The PMU will need budget to operate and engage more expertise to further consider issues such as insurance models.

In the meantime, the TOMRS has again frustrated the Minister for Finance this financial year with the need for supplementary funding. The huge budget impost of the Scheme will take some years to get under control. Expenditure next year is likely to be of the same quantum as 2024/25. The 2025/26 budget should reflect costs incurred in this financial year.

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## STATUTORY CORPORATIONS

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### GENERAL OVERVIEW

The governance of Public Enterprises (PEs) in Tuvalu continues to raise concern, particularly around the absence of a consistent and systematic approach to monitoring and evaluation. Despite past reform efforts, the general performance of PEs remains uneven, with accountability mechanisms underutilised and many enterprises not participating in the budget process or meeting reporting obligations. Encouragingly, the recent arrival of the Technical Assistance (TA) specialist presents an important opportunity to establish a more structured assessment of the sector. We are mindful not to pre-empt their findings and recommend that sufficient space be given for the TA to complete their performance review and propose a sequenced implementation plan.

That said, TTFAC has met with several PE stakeholders, and a broad sentiment is emerging. Some entities appear better placed than others to operate with greater independence from government, and there are variations in the extent to which Boards are exercising oversight and fulfilling their roles effectively. While technical issues, capacity gaps, and unclear mandates persist across the sector, the deeper issue appears to be that governors are struggling under the weight of responsibility. Without strengthened support systems, clear expectations, and an empowered governance framework, PEs will remain vulnerable to ad hoc decision-making and policy capture. This reinforces the need to take a holistic and inclusive approach to reform that ensures long-term sustainability, builds capacity, and establishes confidence in public enterprise governance.

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#### TUVALU ENERGY CORPORATION & THE ENERGY SITUATION

GoT has continued to make headway in energy with WB and ADB's commitment to the sector plan for 100% renewables by 2030. Tuvalu Energy Corporation as the implementing agency on this strategic project has converted 20% of its current Funafuti capacity to solar with battery storage going live on 1 March 2025, and expecting battery storage to make up 32% of capacity by December 2025.



These developments should help reduce monthly bulk fuel costs. Additionally, the ability to rotate diesel generators for scheduled maintenance—alongside a full overhaul planned later in the year—is expected to further improve operational efficiency and yield fuel savings.

Despite these advances, electricity tariffs remain frozen at 2007 levels. Current pricing sits approximately 56 cents per unit below the rate proposed in the 2023 tariff review. Consequently, GoT continues to subsidise electricity nationwide, with subsidies pushing TEC into effective insolvency as of its latest available accounts (31 December 2022). While there is an implicit understanding that TEC will remain a going concern, supported by GoT's annual budgetary transfers, the sustainability of this arrangement is under strain.

The lack of movement on tariff reform is clouding TEC's ability to operate effectively and raises the question of whether TEC should remain a public enterprise or revert to direct oversight under the Ministry of MTECI. It is unclear whether the current SOE review will address this in sufficient detail; a dedicated review for TEC is needed to chart a clearer future. As part of this, **TEC and GoT need to jointly agree on the financial accounts and establish a robust operating model.** This includes reaching consensus on the level and scope of community service obligations (CSOs), underpinned by transparent definitions and costings. Clear agreement on these parameters will be key to improving TEC's efficiency and ensuring that any subsidies are properly targeted and justified.



A further structural challenge is Tuvalu's bulk fuel supply, where the government has limited leverage over import pricing. This dependency on international markets exposes the country to price volatility and erodes energy affordability. **The mission recommends engaging a fuel pricing specialist to assess the current procurement system and evaluate whether options exist for negotiating better terms—such as through single-supplier contracts or regulated pricing frameworks.** Reforming the pricing mechanism could deliver meaningful cost savings and improve the country's resilience to external shocks.

#### TUVALU BROADCASTING CORPORATION

TVBC currently operates as a small yet essential community service, with its structure and function straddling the boundaries between a public enterprise under PERMU oversight and a government service contributing to the enabling environment. Despite being classified as a public enterprise, TVBC receives only a modest subsidy, has outdated infrastructure, and faces statutory restrictions that cap advertising revenue at 25%. Its former subscription TV service once earned over \$200k annually from 500 subscribers but collapsed due to faulty equipment and lack of ongoing support. The corporation now generates limited revenue (\$18k from Australian Broadcasting Corporation), has growing debts (including with TEC and NPF), and suffers from a lack of financial clarity, with no accessible audited accounts and minimal participation in formal budget processes.



The organisation is responsible for TV, radio, and social media communications, and is seen by its leadership as vital for democratic governance, anti-corruption efforts, and public communication—particularly during disasters. However, it is hampered by governance uncertainty (even the Minister was unclear on current board leadership), limited staff training, and precarious funding. TVBC is currently seeking donor support (e.g. JICA) to update equipment, and a technical advisor to help develop a viable online TV business plan. The dual identity of the corporation—part public enterprise, part public service—appears to be at the heart of the government’s conundrum for long-term sustainability planning.

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## FALEPILI UNION

Since the last report, the Falepili Union has made tangible progress across several fronts, demonstrating a growing partnership between Tuvalu and Australia. Most notably, the mobility pathway is now operational, with the visa ballot process officially set to open on 1 July. This significant milestone is supported by a comprehensive programme from DFAT, which includes public information materials and a robust selection process that will grant permanent residency to successful applicants. A joint committee—bringing together representatives from both governments—has been established to guide the implementation of key aspects of the agreement, including security, mobility, development, and climate resilience.

A dedicated Falepili Implementation Unit is being designed within Tuvalu’s Foreign Affairs and associated ministries, with plans to recruit a seven-member team by 2026. This unit will be critical in coordinating activities and ensuring the Union’s initiatives are aligned with Tuvalu’s



national priorities and the Australian Development Partner Plan. Although early visibility of the unit remains limited, promotional materials are in production and stakeholder consultations are underway. Recruitment for senior roles, including international appointments, signals long-term investment in capability and governance. The placement of staff across core ministries such as Development, Finance, and Labour ensures a whole-of-government approach.

Importantly, both governments are considering how best to measure the impact of the Falepili Union on key aspects of Tuvaluan life—particularly service delivery, economic mobility, and institutional resilience. Early thinking around

a joint monitoring framework is underway, and this will be essential to tracking tangible outcomes for Tuvaluan families and communities over time. Another priority area is the establishment of more efficient, lower-cost remittance pathways to ensure that benefits from the mobility scheme flow back into the economy and reach those who remain in Tuvalu.

Australia's commitment to the Falepili Union appears strong and enduring, with bipartisan support enshrined in parliamentary processes. The Australian High Commissioner reaffirmed this during recent meetings, noting ongoing support in development areas like digital economy, tax revenue generation, and private sector growth. Additionally, conversations are advancing around strengthening governance in the SOE sector, enhancing board diversity, and professionalising oversight functions. As the Union moves from agreement to implementation, the spirit of mutual benefit and regional solidarity is taking shape—offering Tuvaluans new pathways for opportunity and development.

## 8. PFM ISSUES

The Minister of Finance and senior Ministry leadership are fully aware of the ANS and PEFA findings and have begun addressing immediate PFM challenges with development partners' support. A DFAT-funded Senior PFM Advisor has been recruited (as part of a new project 'Te Ao') and will arrive shortly who will be initially tasked to pull together a PFM Roadmap. Meanwhile, a request for short-term technical assistance to reconcile multiple accounts is also pending. TTFAC understands these efforts form part of a broader economic governance partnership between the Government and DFAT that will soon be finalized.

ADB is also providing technical assistance, including in procurement. To address FMIS limitations, the Secretary of Finance is also seeking a dedicated TA to build Treasury's capacity to utilise all TechOne functions. **Given that Samoa, Nauru, and the Cook Islands also use TechOne, TTFAC suggests the creation of a sub-regional learning cohort – with donor support – to share experiences and, if necessary, engage the provider collectively to strengthen leverage and improve service outcomes.**

### 8.1. Cash Management

In March this year, Parliament passed an amendment to the Borrowing and Guarantees Act to formalize the longstanding practice of permitting temporary overdrafts on the Government's operational account at the National Bank of Tuvalu without requiring prior parliamentary approval. While this legislative change codifies existing practice, TTFAC maintains its position cautioning the use of overdrafts—even on a temporary basis—due to the associated fiscal risks. Instead, TTFAC recalls its recommendation that short-term liquidity shortfalls be managed through withdrawals from the Consolidated Investment Fund (CIF), with subsequent

replenishment during periods of cash surplus. This approach promotes sound cash management practices within Treasury and mitigates the risk of accumulating off-balance-sheet liabilities that may become difficult to regularize.

Furthermore, TTFAC advises that all TTF distributions be transferred directly into the CIF, unless the Government intends to re-invest the proceeds. In such cases, the re-invested amount should be formally appropriated and recorded as Tuvalu's additional contribution to the TTF, thereby maintaining transparency and budgetary discipline.

Regarding outstanding payments to the Tuvalu Development Fund (TDF) from the Consolidated Fund (CF), the Ministry of Finance has indicated that reconciliation of the TDF account is a necessary precondition before any residual balances can be paid from the CF. TTFAC notes that the Secretary of Finance has requested short-term technical assistance from DFAT to complete all outstanding reconciliations, including for two special funds the Minister of Finance now proposes to close. The closure of special funds is partially in response to the limited institutional capacity within Treasury to manage and reconcile multiple accounts.

## 8.2. Procurement

The procurement function received a 'very high risk' rating in the recent ANS assessment, largely due to the high rate of exemptions granted—estimated at 70% of major procurements. TTFAC concurs with this assessment.

Delays arising from existing procurement procedures continue to hinder implementation. **TTFAC supports expanding the use of panel contracts**, building on the CPU's experience with Motufoua Secondary School rations. Similar arrangements could be applied to recurring procurements such as medical supplies, travel services, and potentially building materials, with appropriate technical guidance.

The Special Infrastructure Fund, established in 2019 to roll over unspent capital appropriations, has underperformed after an initially promising start. Weak oversight, poor accounting practices, and unresolved reconciliation issues have undermined its effectiveness. The Minister has directed the fund's closure, requiring line ministries to improve planning and align annual budgets with procurement plans and delivery capacity. These efforts could be further supported by the proposed 3-year budget cycle.

Earlier this year, the Chair of the Procurement Review Committee issued a circular mandating timely submission of procurement plans for major items, with non-compliance subject to disciplinary action—a measure TTFAC strongly supports.

To further strengthen procurement integrity, the Minister has also directed improvements to the online bid submission and opening process to mitigate fraud risks. TTFAC endorses this directive to improve transparency and accountability.

### 8.3. Revenue Management

**Domestic Tax Collection Issues:** Tuvalu’s domestic tax administration faces persistent challenges in compliance and systems. Taxpayer compliance remains weak – notably among local companies – with many businesses filing returns late and incurring penalties, reflecting enforcement gaps. Audit coverage and practices are limited, further constraining the Inland Revenue Department’s ability to detect under-reporting. Compounding these issues, the Revenue Management System (RMS) has been non-functional for over two years. The government continues to pay for the RMS maintenance contract despite the system being unusable, and officials have reverted to manual receipting of tax payments. Recognising these problems, the authorities are considering a PFTAC-supported feasibility study to consider a way forward for the revenue management system.

**Customs and Broader Tax Collection Issues:** Inefficiencies in border taxation and broader collection also undermine revenue reliability and the business climate. Customs duties are a vital income source, and the customs service uses the ASYCUDA platform to manage import data. However, this system’s effectiveness is constrained by unstable internet connectivity, leading to frequent operational outages (as staff note, “sunny days work fine and cloudy days not so good”).

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*sunny days work fine and cloudy days not so good*

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While major foreign contractors in Tuvalu are generally compliant with tax and duty obligations, there is still *slippage* in both customs and domestic tax collections – not all owed revenues are being captured. These leakages erode the consistency of revenue inflows, posing risks to fiscal planning and potentially denting private sector confidence in the predictability of tax policy. This situation is especially concerning as Tuvalu seeks to expand its private sector, which will depend on a stable and fair tax and customs environment for growth.

### 8.4. Maintenance

TTFAC has long championed a stronger approach to maintenance by the government and donors alike. Donors have been reluctant to fund maintenance of their capital investments to date, considering this a responsibility of government. TTFAC has previously noted the lack of cost effectiveness of this approach, as maintenance has not been budgeted. The very high maintenance bill of \$7 million for Nivanga III in 2023 ultimately paid by New Zealand is an example.

During its mission, TTFAC received indications maintenance is a higher priority of the government. In the pride of the moment of taking delivery of an important asset such as the *Manu Sina*, it can be easy to commit to its proper maintenance, but the government does seem to have added to the commitment with the allocation of resources for the ship's maintenance in the near



term. TTFAC also heard the ADB is planning an infrastructure maintenance project as part of its next funding cycle. The project would be for maritime (wharves and ships) and energy infrastructure delivered with ADB funding.

Secretary for Finance amid considering the many priorities of the 2025/26 budget, was less seized of the need to prioritise maintenance. The very high maintenance bill for *Nivanga III* is easy to forget when line ministry plans for maintenance exceed the budget envelope.

TTFAC wonder how the government and donors can move forward together building on the ADB project. It was asked about the possibility of establishing a maintenance fund which could take contributions from donors and government. Such a fund, with donor contributions matched in some way with government contributions, could give confidence to donors that money set aside for maintenance of a particular asset would be used for that purpose. The fund would also enable the government to 'bank' maintenance funding for those years in which significant work is required (ships, for example require minimal maintenance in the first year, a base level in years 2 and 4, increased amounts in year three, and significant amounts in year 5). Donors could include the cost of a nominal number of years of maintenance in the project budget for the capital item and expend the money within the project time frame. There is a precedent for such a fund. The Japanese TEC fuel subsidy, currently in abeyance, has in the past been linked to the government committing counterpart funding to maintenance.

That said, such a fund would divert funds outside of the government financial management system and be another fund that would be required to be managed accountably. **TTFAC recommends the pros and cons of a maintenance fund be investigated.**

## 9. ARISING ISSUES

### 9.1. Policy Reform Matrix

TTFAC was briefed on the status of the PRM. The government and participating donors sensibly have agreed to keep the current triggers in place for the remainder of the Tuvalu financial year. They will be meeting in the coming months, possibly in September, to consider refine the matrix.

A recent addition to the matrix is a draft statement of principles for the reforms and PRM process. This is a very useful document, particularly as government and donor officials regularly change, for bringing a single agreed view and continuity to the role of the PRM.

The statement could be enhanced by starting with a section on the objectives/purpose, then define PRM principles, and then confirm operating procedures.

The objective of the PRM should be to support the government to address the underlying constraints to Tuvalu's economic and social development through a small number of reforms.

The PRM is a way for donors and Tuvalu to work together on the reforms. Continuous dialogue on the reforms is part of this. Triggers will measure progress and be decisions by Cabinet or Parliament on key reforms but should also consider the ongoing dialogue and efforts to achieve the policy reforms. Achieving funding release because of the reforms should not be the main purpose of the PRM.



Individual reforms need to be followed by implementation to avoid triggers leaving Tuvalu with good policy but no change for its people. TTFAC suggests the matrix identifies how the government will implement reforms with the support of individual donors.

TTFAC endorses strong Government of Tuvalu ownership of the reforms and for the PRM to be a short document. Currently the PRM documents too many reforms. This reflects that there is much reform underway across government.

Listing so many reforms does, however, dilute attention from key underlying reforms needed by Tuvalu. The Finance Minister made clear to TTFAC of his desire to move away from the need for budget support over time, through the development of the economy. This suggests to TTFAC the reforms should be limited to supporting:

- structural change of the budget to free up funds for the government to make investment;
- SOEs and PEs deliver a stronger backbone of services for the economy; and
- encourage the development of the private sector.

This is not to say that broader reforms (such as building standards or coconut rehabilitation) should not be recognised for their contribution to Tuvalu meeting the requirements for budget support of different donors. But perhaps they could be reported on in a six-monthly synthesis report.

## 9.2. Adviser Fatigue, “Mission Free” Periods and Mobilisation Timeframes

The Committee noted growing concern among senior officials about "adviser fatigue" — a condition arising from the high volume of external advisers embedded across government, often working on overlapping mandates with variable timeframes. While the technical support provided by advisers is valued, the cumulative impact of constant induction, re-briefing, and workstream co-ordination imposes a significant burden on already stretched ministries. This results not only in duplication but also in fatigue among Tuvaluan staff tasked with managing multiple advisors.

In response, the GoT may wish to consider re-introducing a “mission-free” period into the national calendar — particularly during budget development — when no external missions are accepted and overseas travel by GoT officials is restricted. This would allow government staff to focus on critical national processes without disruption. Additionally, regular portfolio reviews of donor programmes are proving to be a valuable tool for monitoring progress and better understanding how various donor interventions align with one another. This approach is complementary to — but not a substitute for — broader donor coordination mechanisms, including the PRM.

The challenge of adviser fatigue is further compounded by the rapid turnover of technical assistance personnel, which limits institutional memory and continuity of advice. Simultaneously, several key reform roles remain vacant due to delays in adviser mobilisation, undermining momentum and forcing ministries to pause processes or depend on temporary, under-resourced arrangements. The Government is seeking greater agility and responsiveness from development partners and, in this regard, TTFAC encourages the development of shared

adviser pipelines, co-ordinated induction processes, and co-investment in building local capacity to reduce long-term reliance on external assistance.

### **9.3. Project Management**

There are several initiatives across government which require strong project management for them to deliver benefits in a timely manner. TTFAC supports the consideration of a dedicated Special Projects Team within government to drive the planning and implementation of high-impact initiatives. This team would operate as a centre of excellence, bringing together skilled financial analysts and experienced project managers to deliver targeted, time-bound projects aligned with national priorities. The intent is to strengthen in-house capacity to design and execute complex government reforms efficiently, particularly where cross-ministry coordination and rigorous financial oversight are required.

Initial priorities for this team could include key digital transformation projects such as upgrading Financial Management Information Systems (FMIS), improving integration across government data platforms, and developing a comprehensive database for the Tuvalu Overseas Medical Referral Scheme (TOMRS). By embedding financial and project management expertise into the design and rollout phases, the government can improve cost control, enhance transparency, and ensure long-term sustainability of public investments. This team would also serve as a crucial link between strategic planning and on-the-ground delivery, providing critical capacity where and when needed.

## APPENDIX A - LIST OF INTERVIEWEES

Name	Designation
Alafou Silo	Tuvalu Broadcasting Corporation - Chair
Alapati Taupo	Tuvalu Telecom Corporation - Chief Financial Officer
Bernett Simeona	Tuvalu Telecom Corporation - Acting Chief Executive Corporation and Chief Technology Officer
Captain Yoss Leclerc	World Bank Technical Adviser Micro Project - Marine Specialist
Craig Lawrence	Asian Development Bank - Technical Adviser to Public Enterprise Reform Monitoring Unit
David Charlton	His Excellency the Australian High Commissioner to Tuvalu
Dr Wang	DFAT AUSP3 Technical Advisor to Ministry of Finance and Economic Development - COLA Review
Falema Piita	Ministry of Finance and Economic Development Department of Budget & Planning – Sector Economist
Fakatauafe Teikauea	National Bank of Tuvalu - Lending Manager
Fakavae Taomia losia	World Bank - Tuvalu Liaison Officer
Fenuatapu Peleti	Ministry of Finance and Economic Development Public Enterprise Reform Monitoring Unit - Director
Fouini Vaiola	Ministry of Finance and Economic Development Department of Procurement – Operational Procurement Officer
Fulimai Poolo-luliano	Ministry of Finance and Economic Development Department of Planning & Budget - Senior Economist
Fulitua Fakasoa	Ministry of Natural Resources Fisheries Division - Acting Director
Hon Panapasi Nelesone	Deputy Prime Minister and Minister of Finance and Economic Development
James Guy	Ministry of Public Works, Infrastructure Development and Water Public Works Department - Technical Advisor
Kaz Leon Aremka	Dunsford Marine Limited - Managing Director & Marine Chief Engineer
Kelena Tapa	Ministry of Finance and Economic Development – Assistant Secretary
Leilani Resture	Ministry of Finance and Economic Development Inland Revenue & Customs - Tax Auditor
Letasi Iulai	Asian Development Bank - Tuvalu Pacific Country Office Country Team Leader
Loisi Seluka Kenieti	Ministry of Finance and Economic Development - Deputy Secretary
Mafalu Lotolua	Tuvalu Energy Corporation - General Manager
Matagali Limalofa	Ministry of Finance and Economic Development Department of Budget & Planning – Sector Economist
Mataliki Enesi	Ministry of Finance and Economic Development Department of Budget & Planning – Sector Economist
Michael Batty	Ministry of Natural Resources Fisheries Division – Technical Advisor
Niuatui Niuatui	European Union – Team Leader Support Measures Landell Mills International
Nuausala Nuausala	Ministry of Finance and Economic Development - Permanent Secretary
Pasuna Tuaga	Ministry of Foreign Affairs - Permanent Secretary

<b>Peniuna Kaitu</b>	Ministry of Finance and Economic Development - Department of Treasury - Government Accountant
<b>Pepetua Latasi</b>	Ministry of Home Affairs, Climate Change & Environment - Permanent Secretary
<b>Peteli Tauati</b>	National Bank of Tuvalu - Finance Manager
<b>Pisi Seleganiu</b>	Ministry of Public Works, Infrastructure Development and Water Public Works Department - Director of Public Works
<b>Redina Auina</b>	Ministry of Finance and Economic Development Department of Budget & Planning – Sector Economist
<b>Ryan Temate</b>	Ministry of Finance and Economic Development Department of Budget & Planning – Sector Economist
<b>Sania Taumaheke</b>	Ministry of Finance and Economic Development - Department of Procurement - Director
<b>Savali Lonolona Matio</b>	Ministry of Health and Social Welfare - Acting Secretary
<b>Savali Toaki</b>	Ministry of Finance and Economic Development Department of Budget & Planning – Sector Economist
<b>Seipua Scott</b>	Ministry of Finance and Economic Development - Department of Treasury - Financial Reporting Team Manager
<b>Sepoe Tumua</b>	Ministry of Home Affairs, Climate Change & Environment Home Affairs Department, Director of Rural Development
<b>Simalua Enele</b>	Ministry of Transport, Energy, Communications and Innovation - Permanent Secretary
<b>Soana Eli</b>	Ministry of Finance and Economic Development Department of Budget & Planning – Sector Economist
<b>Talake Teo</b>	Ministry of Finance and Economic Development - Assistant Secretary
<b>Tebeki Teaukai</b>	Ministry of Finance and Economic Development Department of Inland Revenue & Customs - Customs Officer
<b>Teio Teaukai</b>	Ministry of Health and Social Welfare – TOMRS Coordinator
<b>Tinaraoi Toafa</b>	Ministry of Finance and Economic Development Department of Budget & Planning – Acting Director
<b>Trevor Larkin</b>	Canwell Pacific Maritime Pty Ltd - Maritime Consultant to Ministry of Transport, Energy, Communications and Innovation
<b>Tufoua Panapa</b>	Office of the Prime Minister - Secretary to Government
<b>Yvett Isaac</b>	Tuvalu Broadcasting Corporation - Chief Executive Officer

## APPENDIX B - ABBREVIATIONS

Abbreviation	Description
AI	Artificial Intelligence
ANS	Assessment of National Systems (by DFAT)
ASYCUDA	Automated System for Customs Data
BOSS	USAID Climate Ready Big Ocean State Sustainability
CEDAW	United Nations treaty – The Convention on the Elimination of all forms of Discrimination Against Women
CEO	Chief Executive Officer
CF	Consolidated Fund
CIF	Consolidated Investment Fund
COLA	Cost of living adjustment
CPI	Consumer Price Index
CPMO	Central Project Management Office
CPU	Central Procurement Unit
DCC	Development Coordinating Committee
DEI	Diversity, equity and inclusion
DFAT	(Australian) Department of Foreign Affairs and Trade
DPP	Development Partnership Plan 2025-2030 (DFAT)
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FMIS	Financial Management Information System
FU	Falepili Union – Bi-lateral Treaty between Australia and Tuvalu
FY	Fiscal Year
GCF	Green Climate Fund
GDP	Gross Domestic Production
GoT	Government of Tuvalu
ICT	Information & Communications Technology
IOM	International Organisation for Migration
JICA	Japan International Cooperation Agency
LTAP	Tuvalu's Long Term Adaptation Project
MOF	Ministry of Finance and Economic Development

MTECI	Ministry of Transport, Energy, Communications and Innovation
M&E	Monitoring and evaluation
NBT	National Bank of Tuvalu
NPF	National Provident Fund
OIS	Outer islands (refers to islands outside of Fongafale)
OPM	Office of the Prime Minister
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PERMU	Public Enterprise Reform Monitoring Unit
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PMU	Project Management Unit
PRM	Policy Reform Matrix
PSC	Public Service Commission
PWD	Public Works Department
RMS	Revenue Management System
SOE	State Owned Enterprises
SPREP	Secretariat of the Pacific Regional Environment Programme
TA	Technical Adviser/technical advice or technical assistance
TAPQE	Tuvalu Australia Partnership for Quality Education
TCAP	Tuvalu Coastal Adaptation Project
TCT	Tuvalu Consumption Tax
TEC	Tuvalu Energy Corporation
TDF	Tuvalu Development Fund
TOMRS	Tuvalu Overseas Medical Referral Scheme
ToR	Terms of Reference
TTC	Tuvalu Telecom Corporation
TTF	Tuvalu Trust Fund
TTFAC	Tuvalu Trust Fund Advisory Committee
TuLeP	Tuvalu Learning Program
TVBC	Tuvalu Broadcasting Corporation
UN	United Nations
UNDP	United Nations Development Programme

USAid	United States Agency for International Development
VDS	Vessel Days Scheme
WASH	Water, Sanitation and Hygiene
WB	World Bank
WHO	World Health Organisation





