

## **FMM 02.3 ESG – Environmental, Social and Governance Sustainability**

As an interrelated part, PFM needs to coexist and support improvements in how we govern and the incorporation of ESG helps align financial management with broader societal goals, such as environmental sustainability, social equity, and transparent governance.

Doing so not only addresses immediate financial concerns but also promotes long-term economic stability and ethical accountability.

In PFM, environmental considerations involve:

- integrating sustainable practices into government operations. This includes prioritising eco-friendly procurement, investing in renewable energy projects, and ensuring that public infrastructure projects meet environmental standards. For example, implementing green building standards for government facilities can reduce energy consumption and environmental impact.

Social aspects focus on promoting inclusivity and equitable service delivery. This involves:

- allocating budgetary resources to social programs that address disparities in healthcare, education, and social welfare. Public financial decisions should also consider the social impact of policies.

### **3.1 Financial Sustainability**

Financial sustainability in PFM refers to the ability of the government to maintain and manage its financial resources in a way that ensures long-term fiscal health and the ability to meet its obligations to citizens and creditors.

We don't think only about the short term budget and expenditure but the financial decisions we are making now and their impact on our citizens and our agencies financial results in the future.

In PNG, financial sustainability is managed through a combination of budgetary practices, fiscal policies, and legislative frameworks.

The *PNG Fiscal Responsibility Act 2006* is the Government's framework for sustainability. It mandates the government to maintain prudent levels of debt and deficits, ensuring that public finances are managed sustainably, such as Section 4:

*PRINCIPLES FOR THE SOUND FISCAL MANAGEMENT.*

*The principles for the sound fiscal management and implementation of the Government's Budgets are that:-*

*(a) Government will live within its means by producing a budget that is affordable and sustainable;*

*(b) Government will maintain the integrity of the tax system;*

*(c) Government will not raise the overall level of debt during its term; (d) the Budget will be in balance over the term of the Government;*

*(e) budget expenditures will be consistent with agreed national and sectoral priorities;*

*(f) Government will limit its ownership role and direct participation in service delivery to core areas where there is a clear rationale for public intervention;*

*(g) Government will provide a regulatory framework that encourages and supports the private sector.*

### **3.1.1 How do we ensure financial sustainability**

Key aspects of managing financial sustainability include:

1. Complying with the Fiscal Responsibility Act and PFMA that sets the legal framework for maintaining fiscal discipline. It requires regular reporting on the government's fiscal performance, setting limits on public debt, and ensuring transparency in the use of public funds.
2. The budget process in PNG is designed to align spending with national priorities while maintaining fiscal discipline. This includes medium-term expenditure frameworks that project revenues and expenditures over multiple years, allowing for better planning and sustainability.
3. Identifying and managing fiscal risks, such as economic shocks, natural disasters, and other uncertainties, is essential. This involves setting aside

contingency funds and having robust mechanisms in place to respond to financial emergencies.

4. Regular audits, public disclosure of financial information, and legislative oversight are critical to maintaining public trust and ensuring that financial management practices are sustainable and accountable.
5. Implementation of audit findings.
6. Managing public debt levels to ensure that they are sustainable and that the government can meet its debt obligations without compromising other public services is a key aspect of financial sustainability.

Under the Fiscal Responsibility Act 2006, no NEC submission that will have any financial implications on the State can be considered by National Executive Council without firstly consulting with the Treasurer. This is a measure to ensure fiscal sustainability of any major decision making.

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