

## **FMM 03.30 Treatment of Grants, Subsidies, Financial Assistance and Contributions Expenses**

### **30.1 Authority and Prescribed Requirements**

- Public Finances (Management) Act 1995 (PFMA)
- Section 65 on conditional grants made to Provincial Governments and Local-level Governments

### **30.2 Standards and Supporting Documentation**

- IPSAS 42 – Social Benefits

### **30.3 Minimum Responsibilities**

- Parliament, Provincial Executive Council on specific annual budget allocations that are made for grants, contributions and subsidies are expressly identified based on the grant or assistance program.
- Departmental Heads establish controls that grants and contributions are used for lawful, budgeted purposes and the budgeted appropriation is expressly used for the for the purpose it was identified for.
- Heads of Finance are to monitor cash flow and ensure budget coverage before commitment and maintain complete and auditable documentation for all grant disbursements.

#### **30.3.1 Definitions**

Grants and contributions for financial assistance are provided by government to support the achievement of objectives consistent with government policy. Grants may be covered by legislation and/or subject to government discretion. A significant portion of the budget both National and Sub-national governments are dedicated to grants, contributions and financial assistance to non-government organisations and individuals.

As all grant programs involve the use of public money, we are accountable for the funds that are allocated and used, particularly ensuring that the distributions of benefits is fair.

A **grant** is a transfer of public money by a government entity to an individual, organisation, business, or another public body for a specific public purpose, without the expectation of a direct return of goods or services. Grants may be conditional (requiring reporting or performance) or unconditional, and are often used to support:

- Education (e.g. school fee assistance)
- Health and social programs
- Community development
- Public infrastructure or service delivery by non-government entities
- Transfers from National to Provincial and Local-level Governments such as the Service Improvement Program funds

In PNG, grants are often governed by administrative guidelines or ministerial determinations, and must always be budgeted and authorised in accordance with the PFMA and appropriation law.

A grant is not a procurement or a commercial contract, and it must not be used to disguise operational spending.

A **contribution** is a financial support or subsidy given to an entity or project where the government contributes jointly with other funding sources or where the government's support is one of multiple inputs toward an outcome.

Contributions are often:

- Directed to international organisations, churches, or statutory bodies
- Provided as part of shared service delivery arrangements
- Disbursed for ceremonial, diplomatic, or development cooperation purposes

Unlike grants, contributions may not always require specific reporting but must be authorised, budgeted, and transparent.

A **subsidy** is a form of grant-like assistance targeted at reducing the cost of goods or services for individuals or groups. Common subsidies include:

- School fee support

- Medical supply subsidies
- Public transport or agricultural price support These payments are often made directly to service providers on behalf of recipients.

### **30.4 Policy**

- 1. Grant, assistance and contribution expenses are recognised when paid and not on eligibility of the recipient.**
- 2. No grant, financial assistance, contribution of any kind can be paid unless there is a clear budgetary allocation made for the expenditure or program of expenditure and there are rules and grant/assistance administration guidelines in place to administer the distributions:**
  - A program-specific guideline must be approved before any payment is made.
  - The program must be aligned with government priorities and budget allocations.
  - Grants and contributions are not to be paid on an ad hoc or discretionary basis without documented criteria.
- 3. For programs which provide assistance or subsidies, there must be a formal assessment and prioritisation process for selecting recipients. Consideration must be given to geographic, gender, or vulnerability-based equity.**
- 4. For grants or contributions related to projects, infrastructure or market development initiatives, the alignment and prioritisation of the funds must be considered as part of the Provincial, District, LLG development plans.**
- 5. Where grant or contribution programs do not have adequate control or are unable to demonstrate a fair distribution of benefits, funding should be withheld or omitted from the budget.**

#### **30.4.1 School Fee and Education Support Programs**

- 6. Provincial and LLGs must have a formal policy or guideline governing school fee assistance:**

- Beneficiaries must be notified in advance of the eligibility criteria, with payment conditions clearly communicated.
- No refund of school fees is permitted unless:
  - A formal notification was issued stating that they are eligible to access the subsidy;
  - Official school receipt is attached;
  - A bank deposit slip or proof of payment is submitted.
- A standard selection process is required for identifying sponsored students.

#### **30.4.2 Disclosure of the recipient category**

### **7. Government grants and contributions must consider the nature of the recipient organisation, as this affects the level of public scrutiny, performance expectations, and reporting requirements.**

#### *30.4.2.1 Not-for-Profit Entities (NPOs, NGOs, Faith-Based Organisations)*

- Contributions to not-for-profit organisations are generally non-exchange in nature and aimed at achieving a social, humanitarian, or public interest objective.
- These entities are often supported due to their reach, capacity, or alignment with government service delivery objectives.

### **8. Administrative guidelines or MOUs should be in place to define the public benefit expected and acquittal/reporting requirements for grants or financial assistance given to not-for-profit entities.**

Example: A provincial government funds a church-run rural health clinic to improve maternal care in remote areas.

#### *30.4.2.2 For-Profit / Commercial Entities*

### **9. Contributions to for-profit or commercial organisations must be justified only when they are used to deliver a public good or meet policy outcomes, such as:**

- Infrastructure delivery

- Agriculture subsidies
- Private sector development partnerships

**10. Strict criteria, contracts, and monitoring are required to avoid misuse or appearance of favouritism or subsidy without benefit.**

Consideration should be given by the agency on returned benefit from the outcome of the grant or contribution provided.

**30.4.3 Payments made for enterprise assistance (commercial for-profit) entities**

**11. Where public funds are provided to for-profit or commercial entities — including seed funding, business development, research support, or other forms of economic empowerment — the following rules apply to protect public value and ensure financial accountability:**

- A formal grant agreement must be in place prior to any disbursement and it captures:
  - Purpose and permitted use of funds;
  - Expected outcomes or deliverables;
  - Timeframes and milestones;
  - Performance and acquittal obligations;
  - Conditions for recovery in the event of commercial success.

The entity must submit financial and program reports as agreed.

The grantor agency is responsible for monitoring compliance and enforcing recovery conditions where applicable.

**30.4.4 Recovery of funds**

There may be circumstances where moneys remitted to recipients need to be recovered, for example, when:

- Recipients are in breach of the agreement terms and conditions;
- Surplus funds remain unspent at completion of the grant; or
- Grant funds that were provided as seed funding or as an incentive to an organisation to develop commercial successful products or processes

can be repaid to the agency without impacting on the future commercial success and viability of the enterprise.

**12. Procedures must be in place to recoup funds from recipients and these are to be documented in the guidelines (and grant agreement if applicable).**

**13. Recoupment is considered revenue and is recognised in the accounts when received.**

#### *30.4.4.1 Recovery of funds provided to for-profit commercial entities*

**14. Where a grant leads to material financial benefit, and the entity's viability allows, all or a proportion of the funding must be recovered or converted to equity, licensing, or repayment, recovery should be:**

- Proportional to the gain realised;
- Triggered by pre-defined thresholds or events (e.g. profits, IP sale, dividends);
- Non-punitive and not applied in a way that risks collapse of the initiative.

### **30.5 Non-Mandatory Guidance**

To ensure transparency, fairness, and accountability in the use of public money, every public entity that administers a grants or subsidy program must establish a formal administrative policy or guideline prior to disbursement of funds. The following core elements should be included:

- Policy Purpose and Scope
- Legal and Financial Authority

#### **Eligibility and Assessment Criteria**

- Establish clear, consistent, and fair eligibility criteria (e.g. income, vulnerability, project relevance).
- Include required documents such as:
  - School fee invoices or registration confirmation.
  - NGO registration certificate.
  - Proof of residence or income, if applicable.

- Define how beneficiaries are assessed — via application, referral, or nomination process.
- Describe how equity and provincial/district fairness will be upheld in beneficiary selection.

### **Application and Selection Process**

- Describe the process for:
  - How applications are lodged and by whom.
  - Application forms and deadlines.
  - Assessment panel (if applicable).
- Where assistance is to be distributed to students or individuals, confirm the selection process is standardised across the district or province.

### **Notification and Conditions**

- Beneficiaries must be formally notified in writing of:
  - The assistance being provided.
  - Conditions for use or reporting.
  - Any prohibition on reimbursement claims unless prior approval is given.
- For school fee subsidies, no refund shall be issued unless:
  - The original receipt and bank deposit slip are submitted.

### **Payment and Disbursement**

- Confirm the method of payment (e.g. EFT to school, community group, individual account). There can be no cash payments made.
- Specify whether funds are paid in tranches or as a lump sum.
- Include controls to ensure payments are aligned with the approved recipient list and banking details are verified.

### **Monitoring and Acquittal Requirements**

- Define whether the recipient must submit a:

- Financial report (acquittal).
- Narrative or performance report.
- Include the timeline and format for acquittals.
- Clarify how future support is withheld if acquittals are not provided.

**Roles and Responsibilities**

- Assign roles to program managers, finance officers, and reviewers.
- Confirm who signs off on the approval and the payment.

**Fraud Risk and Sanctions**

- Outline fraud risks and misuse of funds scenarios.
- Identify mechanisms for recovery or reporting (e.g. FAID, Ombudsman, ICAC).

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