

FMM 03.42 Borrowings, Loans, On-Lending and State Guarantees

42.1 Authority and Prescribed Requirements

- Public Finances (Management) Act 1995 (PFMA)
 - Part IV Borrowing, Guarantees and Loans by the State.
 - Section 54 on Borrowing, Guarantees and Loans of statutory bodies.
 - Section 67 on Borrowing, Guarantees and Loans of Provincial and Local Level Governments including subsidiary statutory bodies and commercial enterprises.
 - PPP Act 2014 – governs arrangements for public private partnerships.
- Fiscal Responsibility Act 2006
- Loans (Overseas Borrowings) Act 1973
- Loans and Assistance (International Agencies) Act 1971
- Loans Securities Act 1960

42.2 Standards and Supporting Documentation

- Instructions on the management of the debt management system – Meridian with Department of Treasury
- Treasury guidelines on:
 - State Guarantees Policy 2021
 - State Guarantees Guidance Note 2022
 - State On-lending Policy 2024
 - State On-lending Guidance Note 2024

42.3 Minimum Responsibilities

Treasurer executes loans on behalf of the State following approval of the National Executive Council.

Department of Treasury monitors and reports on government liabilities, including public debt and guarantees.

Department of Finance is required to ensure agencies can accurately record and disclose borrowings and loans in IFMS.

Agency department heads:

- Identify and record all liabilities, including contracts, payables, and contingent obligations.
- Ensure liabilities are settled within approved budget limits.
- Submit financial reports detailing outstanding liabilities.

In accordance with Section 5 of the Fiscal Responsibility Act 2506, no Government agency, statutory authority, or public enterprise may table a submission to National Executive Council which has fiscal implications for the State without consultation with the Treasurer of this submission. The Department of Treasury is required to provide written notice of this consultation for attachment to the NEC Submission.

42.4 Mandated Policy

- 1. The National Procurement Act 2018 requires the issuance of a Certificate of Expediency by the National Procurement Commission Board for any procurement that is related to borrowings, loans or guarantees.**

Borrowing refers to any arrangement — formal or informal — that results in the State or a public body incurring a present obligation to make future payments of

money in exchange for current or past goods, services, or assets, regardless of whether the arrangement is explicitly termed a loan, such as:

- Loans and advances from banks, financial institutions, or other lenders;
- Writing a 'letter of comfort', memorandum of understanding or indemnity to take on a liability or guarantee a future payment, however vague that gives rise to a moral or legal obligation;
- Issuance of bonds or other debt securities;
- Supplier or contractor arrangements that defer payment over time (e.g. "pay later" terms embedded in contracts);
- Public-Private Partnerships that involve deferred government payment obligations;
- Finance leases and hire-purchase arrangements where the government assumes responsibility for long-term payments;
- Build-Own-Operate-Transfer and Build-Lease-Transfer schemes where payments are contractually committed over time.

2. No Government agency, statutory authority, or public enterprise may borrow funds — either domestically or internationally — unless specifically authorised by law and executed by the Treasurer in accordance with Section 209 of the Constitution and the PFMA.

3. All borrowings must be approved by the National Executive Council (NEC) and executed by the Treasurer on behalf of the State.

4. The Treasurer may provide a State Guarantee of repayment of funds only where the transaction is firstly approved by the National Executive Council and the purpose is demonstrably for the benefit of the State. Guarantees are tightly controlled and are not a routine financing mechanism.

5. In cases where the State borrows and subsequently on-lends funds to a statutory authority, State-Owned Enterprise (SOE), or subnational government:

- The on-lending arrangement must be approved by the National Executive Council;
- A formal On-Lending Agreement must be executed by the Treasurer and managed by the Department of Treasury;
- The borrower (e.g. SOE or provincial government) must be credit-assessed and subject to repayment monitoring;
- The terms (interest, maturity, etc.) must mirror or improve on the original financing terms to protect State interests.

6. All liability arrangements — including concessional loans, sovereign guarantees, and on-lending mechanisms — are subject to the following:

- Debt Management Strategy and Medium-Term Debt Strategy (MTDS) issued by Treasury;
- All related loan legislation including the Fiscal Responsibility Act 2006;
- Treasury Instructions and Policies under the PFMA;
- Annual Public Debt Reports presented to Parliament;
- National Budget Strategy Paper.

7. Any agency or public body receiving a guarantee or on-lent funds must:

- Report quarterly on usage, repayments, and risk exposure;
- Record the liability in its financial statements in accordance with IPSAS or the prescribed accounting framework;
- Ensure the liability is disclosed in agency-specific financial reporting to DoF and during external audit reviews.

8. The Treasury department head responsible for the recording and monitoring of all State borrowings, State Guarantees and State On-lending.

9. The Treasury department head is required to maintain a register of all State borrowings, State Guarantees and State On-lending.

42.4.1 Notifying liabilities to Parliament

10. Under the Loan and Securities Act 1976, the Treasurer is required to table loan agreements in Parliament after execution:

Obligation	Law	Timing	Notes
Table loan agreements in Parliament	<i>Loans Securities Act s11</i>	After execution	Required for transparency
Report debt levels and liabilities	<i>PFMA s15</i>	Annually and quarterly	Budget papers – Appropriations Act
Publish fiscal strategy and debt sustainability targets	<i>Fiscal Responsibility Act 2006</i>	Annually and mid-year	MYEFO, FBO, Fiscal Strategy Paper
Obtain authorisation to borrow	<i>PFMA, Loans Securities Act</i>	Before borrowing	Via NEC

42.5 Non-Mandatory Guidance

The Treasurer and the Department of Treasury has complete control to establish the policy and processes that guide any borrowing, loan, guarantee and State on-lending and has published a series of guidelines on various arrangements.

The Treasurer has the discretion to notify Parliament of any liability that may be considered contentious or potentially repercussive. This can happen when:

- **The type of liability is unusual or unfamiliar;**
- **Is of such a size, relative to the National Budget, that Parliament should be given notice;**
- **Arises under any specific statutory powers which require Parliament to be notified.**

Further Information	enquiries@treasury.gov.pg
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