



Blue Public Expenditure Review: Guidance Summary

Key messages

- A Blue Public Expenditure Review (PER) assesses how public expenditures address coastal and marine issues, aiming to improve sustainability and support economic sectors dependent on these resources.
- Blue PERs must clearly define their focus, either narrowly on specific coastal and marine activities or broadly on activities indirectly affecting the Blue Economy. They should also review previous PERs and data sources.
- They analyse public spending on coastal and marine sectors, identifying total expenditure, funding sources, trends over years, and the roles of both public and private sectors, including State-Owned Enterprises.
- Blue PERs evaluate if current public expenditure meets sector needs and can be sustained in the medium to long term. This involves considering government objectives, financial capacity, and potential for innovative financing like Blue Bonds.
- They also assess if public resources are used efficiently and effectively, employing economic efficiency analyses to ensure maximum benefit and to ensure value for money from blue expenditures.
- Lastly, Blue PERs examine the public financial management system's role in enhancing accountability, identifying weaknesses, and promoting equity in public spending to ensure fair distribution and management of resources across different subgroups.

Introduction

The overall objective of a Public Expenditure Review (PER) is to provide information on how public expenditures are used, and how to adjust this expenditure to help generate sustainability. A Blue PER focuses on how public expenditures are used to address issues relevant to coastal and marine resources, to environmental degradation (also called blue natural capital), and to a country's development aspirations which are driven by economic sectors dependent on these "blue" resources and environments. **This brief summarises the Guidance document created by the World Bank which intends to help country economists in planning and undertaking a Blue PER.**

Purpose of a Blue PER

The overall objective of a PER is not intended to develop a strategy to achieve a sustainable ocean economy (henceforth Blue Economy¹) by itself; it is one of a set of analytical works that will inform such

an effort and must be complemented by other work (e.g., ocean accounts analysis). Specifically, it will (a) show what is already being done - where and how resources are being spent to address coastal and marine problems, improve blue natural capital, and oversee coastal and marine sectors, and (b) indicate whether current efforts fall short, according to various metrics. Policy never begins with a blank slate; it must be based on existing actions. A PER will help identify which existing actions may be adequate to address problems and meet development goals; which may become adequate with minor changes; and which will require major shifts in budgetary allocations.

To the extent that entirely new actions are needed, a PER will help understand the broader policy context in which they will be implemented. PERs can also help sectors to 'bridge the divide' in understanding and prioritisation with the Ministry of Finance and other central ministries. The PER can communicate to central-agency officials (and ministers) why they should be interested in the

¹ The World Bank Group defines the Blue Economy as the sustainable and integrated development of economic sectors in healthy oceans.



Blue Economy, how public expenditure relates to it, and why it should be given greater prominence in the policy agenda and budget allocations.

What is the scope of the review?

A Blue PER, unlike most other PERs, does not fall neatly along sectoral or ministerial lines. Moreover, covering all coastal and marine issues is unlikely to be feasible. It is important, therefore, to begin by clearly establishing the focus of the analysis and the objectives of the PER.

The scope should include objectives of the review including key policy questions that it addresses, and the scope of the review (i.e., a Blue PER could take a narrow focus on coastal and marine-specific activities alone, or even on a subset of them, or a wide focus that also examines various non-coastal and marine activities that indirectly affect the potential for a Blue Economy).

A review of previous relevant PERs and data sources and analytical methods should also be done prior to starting any Blue PER.

Questions addressed by a Blue PER

There are several key questions that Blue PER should strive to answer. These questions, and the accompanying guidance, are based on the experience of undertaking PERs in other sectors, and adapted to the specific circumstances and needs of coastal and marine sectors.

1. How much does the government spend and on what?

The PER first analyses public spending on blue natural capital and coastal and marine-dependent sectors at the aggregate level. What is the total public expenditure on coastal and marine issues? As a percentage of gross domestic product (GDP)? As a share of total public expenditure?

- PERs should consider spending over several years, to get a sense of trends and variations. If a specific 'reference year' is chosen for the analysis, data for that year should be complemented by examining whether they depart from those of previous years in significant ways, and whether these changes

are part of a long-term trend, or an independent reaction to year-specific events. For the activities within the scope of the PER, identify amounts spent, breaking them down by program and by type of spending (investment vs recurrent costs).

In doing this, the PER should identify key financing sources for programs affecting the Blue Economy, either directly or indirectly, distinguishing relevant sources financing investments and those financing recurrent costs. This includes public financing sources such as allocations through the annual budget, earmarked revenue sources, if any and financing from lower levels of government through their own resources.

Activities that affect the coastal and marine sectors can be financed from government or non-governmental and external sources, and can be channelled through a variety of agents to a broad range of actors. It is essential to review overall spending by financing sources, which may include not only public funding, but also private and donor funding, where it is important for the public sector to also understand the role that the private sector plays in coastal and marine issues. For example, limited public spending on fish landing facilities has different implications when there is ample private funding for such facilities than when there is not. It is also important to know to what extent private sector spending may be encouraged by subsidies or constrained by taxes or regulations. Where State-Owned Enterprises (SOEs) play a significant role, it is also important to include their spending in the PER's analysis.

2. Relative to the government's policies, goals and sector needs; how much is spent now, and what can be afforded in the medium and long term?

A key question for the PER is whether public expenditure is adequate to address the issues in the sector. Adequacy might be measured either against specific government objectives for the sector or, more broadly, against what the government should be doing in light of the issues.



Although international and regional benchmarks are useful in terms of advocacy and cross-country analyses, the adequacy of the budget for a specific country must be carefully assessed. Benchmarking should be used cautiously because many factors affect total expenditure in the sector, such as the government's financial capacity, quality and prices of basic inputs, geographical challenges, and policies on public versus private financing. A comparison with neighbouring countries or other similar Small Island Developing States/small coastal developing states may be helpful but caution should still be taken.

The PER must also scrutinise and justify public intervention in coastal and marine sectors. There are many reasons why public intervention in coastal and marine sectors may be justified, in particular to address market failures. Understanding clearly the difference between the role of government vs the private sector should be a principal criterion governing the choice of programs for public financing and provision. What blue sector activities are better provided by the private sector rather than the public sector?

The second part of the question looks at whether the public sector can sustain current expenditure levels, and whether it could sustain the (possibly much higher) expenditure levels necessary to achieve a Blue Economy. Factors to consider include but are not limited to a country's macroeconomic projections and government's strategic priorities and the potential for innovative financing such as Blue Bonds designed to grow a Blue Economy.

A key element of a PER's efficiency analysis is identifying opportunities to increase public revenues from coastal and marine sectors while optimising public expenditures by identifying opportunities for certain blue services to be provided by the private sector. For example, how much do foreign fishing vessels pay for access to fishery resources, how are these payments calculated and do the revenues help cover the

costs of stock assessments or monitoring control and surveillance of the fishery?

3. Are public resources being used efficiently and effectively?

Resources are scarce, and an important purpose of any PER is determining whether a country is obtaining value for money from blue expenditures, regardless of their financing source. The purpose here is similar to the 'value for money' approach that the World Bank has pursued for decades in its economic analyses of investments; and that studies such as cost-benefit and cost-effectiveness analyses and impact evaluations support.

The basic value for money concept is that of obtaining the maximum benefit over time with the resources available. Value for money is high when an optimum balance exists among three elements: when costs of inputs are relatively low, productivity is high (or efficient), and successful outcomes have been achieved (or effective).

Several different types of economic efficiency analyses exist, but those most useful for PERs are analyses of allocative efficiency and technical efficiency. Allocative efficiency answers the question: Is this allocation maximising the welfare of the community? This analysis should consider both allocation across all sectors, and allocation within coastal and marine sectors. For example, are there reasons to think that spending on blue issues has higher marginal returns² than spending on other sectors?

Technical efficiency looks at getting the best outcomes at least cost. Technical efficiency can be achieved in either of two ways. The inputs used by a given intervention can be reduced to the minimum required to achieve the outcome sought. Or a different intervention can be used— one with a different combination of resources that achieves, at less cost, the outcome sought, as well as, or better than, the alternatives.

A public expenditure review is not usually expected to conduct either type of analysis, as it would

² the additional output resulting from a one-unit increase in the use of an input.



require considerable effort. Rather, the review generally relies on findings of international and in-country cost-effectiveness analysis and cost-benefit analysis to help identify instances of probable low value for money.

4. Is the public financial management system set up to enhance financial accountability?

Effective systems of Public Financial Management (PFM) can contribute to providing better inputs and improving accountability. Every spending problem is likely to have a unique set of underlying weaknesses in the PFM process. Linking such weaknesses to key spending problems can be extremely useful in stimulating necessary reforms. How do PFM processes—such as budget release, funds flow, and internal controls—apply to each of the main spending problems? What do the links between PFM arrangements and sectoral spending problems imply about the reforms needed?

The PER team should use a three-dimensional approach to analyse potential public financial management weaknesses underlying spending problems, as appropriate. A three-dimensional approach to a public financial management analysis considers the following factors: 1) the adequacy of laws, policies, and procedures (i.e., what are the shortcomings and how do these affect coastal and marine sector spending?), 2) capacities at central and decentralised levels (i.e., what public financial management training and reform mechanisms are in place at the country level and specifically in the blue sector?), and 3) who does what and the mapping of PFM roles of central ministries, decentralised agencies, and other factors (i.e., Is financial and transaction authority adequately delegated?).

PFM laws, policies, and procedures determine and regulate the behaviour of public officials and organisations implementing them. Where laws and procedures are sufficiently appropriate but practices lag, it is also necessary to consider the capacity of actors who implement these laws, and the process through which the actors bargain over the design and implementation of policies within a specific institutional setting.

5. Does public spending promote equity?

A fundamental responsibility of the state is ensuring equity and managing redistribution. Public policy can help minimise subgroup differences in outcomes. This section of the PER explores: (i) how to identify inequity, if any; (ii) whether, and how, the government spends its budget to promote equity in blue activities; and (iii) how households are responding to public policies and filling the funding gap between their needs and public spending.

Conclusion

Conducting a Blue PER can be a valuable tool for countries on their journey to a sustainable Blue Economy, whether they are merely exploring the concept or are on an established path with a set strategy. It is important, especially in light of the growing need to demonstrate environmental impacts in financial terms, to better make the case for sustainable development approaches. This initial version of the guidance document is a first step toward a more rigorous approach on Blue PER and supports its adoption on a wider scale.

Ultimately, it is hoped that utilising tools such as Blue PER drives the transformation of different blue sectors to better environmental practices and management, supporting long-term, healthy development agendas.

Additional Resource

This brief is based on the work done by The World Bank. The following resource sets out the Blue PER guidance in more detail.

1. The World Bank, Blue Public Expenditure Review Guidance Note.
<https://documents1.worldbank.org/curated/en/789491639977748921/pdf/Blue-Public-Expenditure-Review-Guidance-Note.pdf>

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