Blue Public Expenditure Review

Guidance Note

PROBLUE

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Authors:
The Blue Public Expenditure Review: Guidance Note was developed by Stefano Pagiola, Senior Economist, Miguel Angel Jorge, Senior Fisheries Specialist, and Juliana Castaño-Isaza, Natural Resources Management Specialist.

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For more information please contact:
problue@worldbank.org
www.worldbank.org/problue

Contents

Acronyms and abbreviations

COED	Cost of Environmental Degradation
GDP	Gross Domestic Product
LDC	Least Developed Country
MFI	Multilateral Financial Institution
NGO	Non-Governmental Organization
PEIR	Public Expenditure and Institutional Review
PER	Public Expenditure Review
PES	Payments for Ecosystem Services
PFM	Public Financial Management
PPP	Public Private Partnerships
SIDS	Small Island Developing States
SOE	State-Owned Entity
WAVES	Wealth Accounting and Valuation of Ecosystem Services

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. For the World Bank Group, the Blue Economy is defined as the sustainable and integrated development of economic sectors in healthy oceans. Climate change is integral to harnessing and protecting the Blue Economy's potential. This requires the thoughtful allocation of public resources especially in Small Island Developing States (SIDS) and Least Developed Countries (LDCs). Therefore, a **Blue PER** focuses on how public expenditures are used to address issues relevant to the oversight of coastal and marine resources, to environmental degradation (also called the blue natural capital), and to a country's development aspirations which are driven by economic sectors dependent on these "blue" resources and environments.[1]

A PER is not intended to develop a strategy to achieve a Blue Economy by itself; it is one of a set of analytical works that will inform such an effort, and must be complemented by other work (some of which may already exist). 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 prioritization with the Ministry of Finance and other central ministries

1 Coastal and marine economic activities and benefits include: fishing, aquaculture, extraction of energy and minerals, desalination, renewable energy, transport and trade, coastal development, tourism and recreation, carbon sequestration, coastal protection and waste disposal. Source: World Bank and United Nations Department of Economic and Social Affairs. 2017 *The Potential of the Blue Economy: Increasing Long-term Benefits of the Sustainable Use of Marine Resources for Small Island Developing States and Coastal Least Developed Countries*. Washington: World Bank.

(like planning or the office of the head of state). In that context, the PER is an opportunity to present the sector in terms of metrics that will motivate these central agencies to allocate political capital, reform efforts and/or financing from the budget to address constraints and develop the sector. Ultimately, the PER needs to communicate to central-agency officials (and ministers) why they should be interested in the Blue Economy, how public expenditure relates to it, and why it should be given greater prominence in the policy agenda and budget allocations.[2]

More broadly, a Blue PER could help identify and quantify:

- **Insufficient public expenditure** to achieve a Blue Economy or to prevent negative impacts on blue natural capital and externalities to coastal and marine sectors. Not considering adverse effects on coastal/marine areas and ecosystems when assessing investments may make activities such as sewage treatment appear less socially justified than they are, thus discouraging countries from undertaking them.
- **Excessive public expenditure** (for example, explicit or implicit subsidies) on activities that generate negative impacts on blue natural capital and externalities to coastal and marine sectors (for example, construction of infrastructure, transport, agriculture, etc.). Not considering adverse effects on coastal and marine areas and ecosystems when assessing investments may make such spending seem more socially justified than it is.
- **Missed opportunities** to generate public revenue from beneficiaries of blue natural capital (fees/taxes). Low fees to fishers and/or non-collection of fees are a form of subsidy, in that they reduce government revenue while encouraging fishing. Imposing and enforcing higher fees could both reduce pressure on fisheries and generate revenue that could then be used to other spending.

This guidance note is intended to help country economists in planning and undertaking a Blue PER. It is structured around several key questions that a 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.[3]

2 For example, education PERs often frame the need for more efficient and effective public spending in terms of the lost productivity from underutilized human capital, and health PERs frame it in terms of the costs of disease burden.

3 For an overview of the objectives and application of PERs, see Pradhan (1996), and Devarajan and others (2011).

To date, no PER has directly addressed coastal and marine issues[4]. This initial version of the guidance note is intended to guide the development of several Blue PER pilots, after which it will be revised in light of lessons learned.

Key questions

Key Question 1:

What is the scope of the review:
narrow or wide view of the oceanic, marine, and coastal sector?

Key Question 2:

How much does the government spend and on what?

Key Question 3:

Relative to the government's policies and goals and sector needs, how much is spent now (adequacy), and what can be afforded in the medium and long term (sustainability)?

Key Question 4:

Are public resources being used efficiently and effectively?

Key Question 5:

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

Key Question 6:

Does public spending promote equity?

4 Previous PERs can be found at the PER repository: https://openknowledge.worldbank.org/handle/10986/2109.

SECTION 1

Background and Overview of the Blue Economy

Key Question 1:

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.

This section should indicate:

- **Objectives of the review.** Define the review's objectives, including the key policy questions that it addresses.
- **Scope of the review.** The boundaries of the analysis should be decided in close consultation with the client. 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. For example, this latter could include agricultural or land-use practices and policies that contribute to marine pollution. The reasons for choosing the specific thematic boundaries selected should be explained. For example, these could be policy-based; government priorities, or practical; lack of data on other issues; a desire for 'low-hanging fruit'; budget or time constraints for the PER itself, etc. Give the reasons for excluding any important sectors, sub-sectors or topics, and assess how these exclusions might affect a comprehensive analysis and conclusions of the PER.

It will be important for the PER team to: (i) make an honest appraisal of the available resources; (ii) where necessary, make difficult choices about selectivity; and (iii) consider how these factors influence expectations on the breadth and depth of the study. It is also important to keep in mind that a Blue PER is not necessarily a one-time event; an initial PER could take a relatively narrow focus on some key issues, and future iterations could broaden the scope to additional issues.

This section should also discuss:

- **Review of previous relevant PERs.** In most sectors, this would be a discussion of major progress and remaining challenges since the last PER, acknowledging the client's reform efforts and achievements, identifying why some recommendations have not been implemented, and flagging persistent challenges. It is unlikely that there has been a prior Blue PER, but there might have been prior PERs that are at least partially relevant (for example agriculture, water, or industry). Did they include effects on coastal and marine sectors at all? If so, what did they conclude? Conversely, how did their failure to include such effects affect their conclusions?
- **Data sources and analytic methods.** These sections should describe data sources and analytic methods, and also address any challenges related to data availability and quality

An introductory background section should provide contextual information on the relevant sectors and key benefits, services, and threats (issues faced, relevant actors, etc.).

Overview of Coastal and Marine Issues

An overview of coastal and marine issues should be presented at the outset to provide basic information about the system and to set the context.

- Describe coastal and marine issues relevant in the country.
  - Coastal and marine-specific activities: these are the 'traditional' issues that immediately spring to mind when thinking of coastal and marine problems, i.e., support to fisheries, investments in coastal infrastructure, pollution of coastal waters, etc.
  - Non-coastal and marine activities: experience has shown that many problems experienced in coastal and marine areas originate outside them. For example, many agricultural and industrial activities cause marine water pollution, and many investments in infrastructure indirectly affect coastal areas. Focusing solely on 'traditional' blue issues will give a very partial view of the problems to be addressed. In SIDS and small coastal states, every activity may be closely tied to coastal and marine issues; but even in larger states with relatively small shorelines, a significant part of the non-coastal and marine economy may contribute to coastal and marine problems.
- Identify key issues of interest. Within the broad panorama of coastal and marine issues described above, some may be particularly urgent or salient (perhaps out of proportion to their relative importance in economic terms).
- Include a short description of the current economic conditions of the coastal and marine sectors (their contribution to economic growth, jobs, domestic and foreign investment, etc.).
- Include a short summary of overall economic conditions in the country that would affect public expenditures on coastal and marine areas (such as inflation, unemployment, overall budget balance, etc.). This can usually be obtained from a recent Country Economic Memorandum, for example.

Relevant actors

- Identify key public sector actors
  - Relevant line ministries, either dedicated or with significant role
  - Relevant agencies
  - Relevant sub-national actors
  - State-owned enterprises (SOEs)
  - Public-private partnerships (PPPs)
- Identify key stakeholders in key sectors
  - Communities or groups whose members are heavily dependent on fishing or other coastal and marine sectors (and their qualitative description, spatial distribution, numbers, gender differences all broken down into sub-groups as relevant).
  - Communities or groups heavily dependent on coastal/marine ecosystems for coastal protection or other services (as above).
  - Private sector firms of all sizes involved in and/or heavily dependent on coastal and marine resources (for example, for many of their inputs, and/or as an outlet for their outputs), or located in coastal and marine areas.
- Identify key programs and policies affecting the Blue Economy, either directly or indirectly
  - Investment programs.
  - Ongoing taxes and/or subsidies (including tax rebates).
  - Marine/coastal zoning, including protected areas.
  - Laws directly or indirectly affecting coastal and marine.
  - Government policies affecting coastal and marine.

Institutional context

Any discussion of public expenditure must be informed by information on the relevant institutions, laws, and policies. This requires a different skill set than analysis of expenditures (legal/institutional skills, rather than economic/financial).

The options here are to:

- carry out separate analyses of the relevant institutions, laws, and policies, in parallel with the PER (see survey approach mentioned above); or
- include individuals with the relevant skills along with additional methods and conduct a Public Expenditure and Institutional Review (PEIR).

A PER does not look at civil service administration structures, productivity, and effectiveness in a given line ministry. This level of detail into the personnel dimensions of state capabilities and operational design of the public sector is also important to identify institutional reforms that would more effectively promote a Blue Economy. This information can be derived from administrative and survey data using methodologies being developed by the Bank's Governance Global Practice and Bureaucracy Lab.

SECTION 2

Overview of Blue Financing and Spending

Key Question 2:

How much does the government spend and on what?

The public expenditure review first analyzes public spending on the oversight of 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 is previous years in significant ways, and whether these changes are part of a long-term trend, or an idiosyncratic 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).

- Work with the consolidated budget (central government and local government budgets).
- Check for off-budget expenditures.
- Work only with executed budgets for the past fiscal years because planned budgets are not necessarily executed. If you cannot access recent data for executed budgets and decide to include the preliminary figures, clearly label them as preliminary. Comparing planned/appropriated to actual spending, can help uncover

(i) inefficiencies in planning and/or spending; (ii) changing priorities within a budget year; (iii) systemic expenditure switching between or within a sector, which could signal that actual priorities differ from stated policy priorities (to the extent that these are reflected in the approved budget), and uncover key constraints to efficient and effective spending for improved outcomes.

- Use real expenditures as opposed to nominal ones if you want to track annual percentage changes in the public funds flowing into the sector.
- Consider the breakdown between capital and recurrent spending. Budget allocations for investment and non-payroll recurrent spending often illustrates a government's true priorities, or the limitations of its budget process.

Key financing sources. Identify key financing sources for programs affecting the Blue Economy, either directly or indirectly, distinguishing relevant sources financing investments and those financing recurrent costs:

- Allocations through the annual budget
- Earmarked revenue sources, if any
- Financing from lower levels of government through their own resources
- Donor financing
- Non-governmental Organizations (NGOs) and others

Private sector funding. Although private sector funding is not 'public' by definition, it is important to understand the role that the private sector plays in coastal and marine issues. Limited public spending on fish landing facilities, for example, 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.

SOE spending. Where SOEs play a significant role, it is important to include their spending in the PER's analysis. SOEs often use their own resources, as well as resources obtained from the government either explicitly (as subsidies) or implicitly (for example, through tax exemptions).

Activities that affect the coastal and marine sectors can be financed from government or non-governmental and external sources and can be channeled 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. Funding from some sources may be hard to redirect to other uses.

- **Transfers from higher to lower levels of government.** Are there fiscal transfers from the central government to local governments to finance coastal and marine sector activities?
  - Are these transfers earmarked or unconditional—i.e., must local government spend the money for specific activities or in specific ways, or can it be used as it wishes?
- **Revenues generated by coastal and marine sector activities.** Do the coastal and marine sectors generate revenue for the government through taxes, fees etc.?
  - Are such revenues kept locally or are they all funneled to the central government?
  - If they are sent to the central government, do they remain in the sector (for use by the relevant line ministry) or do they go to the general budget (to be allocated as part of the budgetary process)?
- How much do international actors finance coastal and marine sector activities? Which actors are involved (MFIs, bilateral donors, NGOs)? What is the nature of this spending? How dependent is the government on donors?
- **Budget process.** Current budgets are the result of a specific process. It is important that this process be understood, as it is likely to constrain changes to expenditures that may be needed to achieve blue objectives. Key questions include:
  - How are requests for budget allocations made and ultimately decided upon?
  - Are public expenditure allocations are derived from explicit choices by the government or dictated by legal constraints?
  - To the extent that spending on specific activities is the result of earmarked funding, bypassing the regular budget process, why was this earmarking instituted? Is the original rationale for earmarking still relevant?

- **Legal and policy constraints.** As mentioned above, public expenditures are affected by legal constraints and policy choices and may best be examined separately, in parallel, in which case, the salient points should be summarized in the PER. If no separate analysis is planned, then the PER itself should address the key points, including:
    - What laws explicitly address coastal and marine issues from a fiscal perspective? Are these laws consistent with government objectives and often reflected in long-term development plans and with the needs of addressing coastal and marine issues? What revisions in existing laws and/or new laws would be necessary/helpful to better address coastal and marine issues?
    - To what extent are the different line agencies involved in coastal and marine issues coordinating their actions? Are there effective institutional mechanisms to coordinate their work and/or harmonize their development agendas? If so, at what level do these work (an overarching planning ministry? An inter-ministerial council? Umbrella ministry? Agency heads? Technical staff?)? Is the mechanism formal or ad hoc? What power does it have to influence line-agency plans?

SECTION 3

Adequacy and Sustainability

Key Question 3:

Relative to the government's objectives and the sector's needs, how much is spent now (adequacy), and what can be afforded in the medium and long term (sustainability)?

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 (see *rationale for public sector intervention, below*).

- 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 neighboring countries or other similar SIDS/small coastal developing states may be helpful, but regional neighbors may not share the same difficulties as the country in question, and hence, may not be appropriate benchmarks.
- In many sectors, information is available on levels of spending in other countries, which can serve as comparators. Such comparators are unlikely to be available in the first round of Blue PERs, and may be scarce even later, given that coastal and marine problems are much more situation-specific than, for example, education.
- When available, Wealth Accounting and Valuation of Ecosystem Services (WAVES), Cost of Environmental Degradation (COED),

or similar studies that include data on blue natural assets can give a sense of how important blue problems are relative to those in other sectors, which can inform the assessment of financing across sectors. For example, a recent study in several West African countries found that the cost of coastal degradation was equivalent to over 5 percent of their GDP.[5]

- Adequacy of public expenditures can be assessed relative to official government objectives. However, presumably a Blue PER is being carried out to help countries achieve a Blue Economy, and in some cases government objectives may be unrealistic or fall short of what is needed to achieve this. Therefore, the adequacy and sustainability of public expenditures must also be evaluated, whenever possible, against evidence of broader needs, negative externalities and potential to result in conflicts across line ministries and respective coastal and marine sectors.

Rationale for public intervention in blue sectors

The PER must scrutinize 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. Ideally, the rationale for public intervention would have been considered prior to undertaking a Blue PER; the PER can then refer back to the assessment of the rationale for public intervention. If such an assessment has not already been done, however, then the PER itself must consider this rationale.

Market failures. A key rationale for government intervention in the blue sector is that there are substantial market failures. But not all market failures are equal, and the kind of public expenditure necessary to address them will vary accordingly. The report should distinguish:

- **Open access/collective action problem**s. There are often few or no limits to fishers entering fisheries, or increasing their fishing efforts. Regulatory constraints may be ineffective or easily avoided. Open access problems can often be addressed, at least in part,

5 Croitoru, L., J.J. Miranda, and M. Sarraf. 2019. "The cost of coastal zone degradation in West Africa: Benin, Côte d'Ivoire, Senegal, and Togo." West Africa Coastal Areas Management Program. Washington: World Bank.

by managing access or by assigning secure property rights. The allocation of communal or firm-based rights, or any effort to limit access to a traditionally common pool resource often requires significant spending on prior consultation, as well as robust spending on monitoring and enforcement once it is established.

- **Positive externalities.** Many coastal and marine ecosystems generate positive externalities—benefits that are not captured by those who manage them[6]. As a result, these ecosystems tend to be under-provided. Assigning property rights will be insufficient to solve this problem, and regulations mandating particular management practices that generate positive externalities have often proven ineffective. Governments have usually relied on short-term subsidies to encourage the adoption of such practices, but more recently have also tried longer-term incentives such as Payments for Environmental Services (PES). The implications for spending commitments are clearly different.
- **Negative externalities**. Many activities in coastal and marine areas, as well as inland, can have negative effects on coastal and marine areas. For example, water pollution caused by various activities (industry, agriculture, transport, etc.) that reaches coastal waters can affect fisheries and recreation. Where damaging activities are subsidized, removing the perverse subsidies can both improve coastal and marine conditions and reduce expenditures. In some cases, regulations might reduce the adverse impacts without requiring large expenditures, and taxes on damaging activities may reduce their extent while actually generating resources. In other cases, expenditures may be required to address the problems (e.g., to improve sewage treatment).

Earmarking/hypothecation. Some coastal and marine activities require long-term funding streams, and the effectiveness and efficiency with which they are carried out may be greatly harmed by year-to-year variations in funding (for example, spending on protected areas or PES). Earmarking specific revenue flows to finance such activities may be attractive. It may also be attractive from a political economy point of view, as it may help justify an unpopular policy action (such as raising taxes) by clearly identifying a concrete benefit (that is, funding for a particular priority/good/service). However, earmarking can lead to rigidities in the revenue envelope that may contribute to the fragmentation of the budget process,

6 Natural Capital Accounts, if available, can often give an indication of the extent to which the benefits of coastal and marine ecosystems are obtained by those who manage them and the extent to which they are externalities.

limit the degree of contestability in spending allocations, reduce the extent to which changes in policy priorities can be operationalized via adjustments in expenditure allocations, hinder the implementation of prioritization strategies, and limit transparency. The PER team needs to consciously and thoughtfully consider the benefits and costs of earmarking.

Public vs private sector provision. 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? A common example is public investment in the provision of private value chain infrastructure, such as cold storage, to facilitate the retention of product value to actors in the sector. The PER should identify these cases and elucidate the potential savings from transitioning these costs to the private sector.

SOE provision. Where certain activities or roles are assigned to SOEs, it is important to scrutinize their role, particularly when SOEs have a *de jure* or *de facto* monopoly. Are appropriate mechanisms in place to ensure SOEs are efficient and effective and to guard against rent-seeking? Are these SOEs stifling potential private sector participation? Could the SOEs' activities and roles be transitioned to the private sector?

Where government intervention is necessary, the key challenge is to find ways to prevent failure due to bureaucratic inefficiency, rent-seeking, elite capture, and other abuses.

Sustainability of expenditures on coastal and marine issues

An important question to be examined is 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:

- A country's macroeconomic projections and government's strategic priorities. The former affects the total resource envelope available now and for the next few years while the latter affects the government's decisions on how to allocate resources among different sectors.
- The extent to which public expenditures depend on concessional funding from international actors, and whether there is scope to obtain additional concessional funding for Blue Economy investments, considering the policy preferences of donors and their willingness to make long-term funding commitments.
- 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 optimizing 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? Similarly, inter-island transport in an archipelagic nation is essential to promote commerce and connectivity for many beneficial purposes and thus considered a public service, but could the desired level of connectivity be provided at a lower cost by a private actor under a PPP or concession?[7]

7 Some countries, such as New Zealand, have outsourced all data gathering and analysis related to fishery stock assessments and incorporate these costs into the fees for fishing licenses.

SECTION 4

Efficiency and Effectiveness

Key Question 4:

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).

It should be noted that efficiency and effectiveness are not the same. A service or good may be efficiently produced, but not effective.[8] Similarly, it may be effective, but not efficiently produced.[9]

Several different types of economic efficiency analyses exist, but those most useful for PERs are analyses of allocative efficiency and technical efficiency.

- *Allocative efficiency* – Section 2 reviewed how public expenditure is allocated among coastal and marine subsectors. Is this allocation

8 For example, fish landing facilities may be built cost-effectively, but be ill-suited to the needs of fishers.

9 For example, access restrictions may help protect fish stocks, but be implemented in very costly ways.

maximizing the welfare of the community? This analysis should consider both allocation across all sectors, and allocation within coastal and marine sectors. Are there reasons to think that spending on blue issues has higher marginal returns than spending on (some) other sectors? That would suggest that a re-allocation across sectors—increasing the resources devoted to coastal and marine issues—would be welfare-increasing. But it is also important to ask whether the resources allocated to coastal and marine issues are allocated efficiently among the different coastal and marine sub-sectors. Are there reasons to think that some kinds of blue spending within a sector have higher marginal returns than others (e.g. in education, spending on primary education has higher returns than spending on tertiary education; in transport, spending on feeder roads has higher returns than spending on highways). That could suggest that re-allocating existing blue spending could lead to better results, or provide guidance on how to prioritize the allocation of additional resources.

- *Technical efficiency –* The sector achieves value for money when it gets the best outcomes at least cost. Allocating resources to a sub-sector with high average returns isn't enough if those resources are then spent inefficiently. 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. Analysis of technical efficiency looks at costs, input mixes, and results. Similarly, cost-effectiveness analysis relates monetary inputs and non-monetary outputs and outcomes. Cost-benefit analysis is used when both the costs and the outcomes can be monetized. A public expenditure review is not usually expected to conduct either type of analysis, as it would 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.
- The narrower the focus of the PER, the more difficult it will be to address these questions. If only a subset of coastal and marine issues is being examined, it will be difficult to compare expenditures on those issues to those on other issues that are outside the scope of the analysis. In particular, the analysis might then be limited largely to examining technical efficiency within the few issues within its scope, rather than also considering allocative efficiency.

SECTION 5

Financial Accountability

Key Question 5:

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 analyze potential public financial management weaknesses underlying spending problems, as appropriate. PFM laws, policies, and procedures determine and regulate the behavior of public officials and organizations 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. A three-dimensional approach to a public financial management analysis considers the following factors:

- **PFM legal framework**—the adequacy of laws, policies, and procedures. What are the shortcomings and how do these affect coastal and marine sector spending? Are these laws, policies, and procedures complied with? What are the key reasons for any deviations in both PFM processes and outputs? Are certain political

economy factors at play? Why do oversight agencies fail to pick up these deviations?

- **PFM capacity**—capacities at central and decentralized levels. What public financial management training and reform mechanisms are in place at the country level and specifically in the blue sector? How well does the PFM Information System enable the implementation of the public financial management legal framework?
- **Institutional setup**—who does what and the mapping of PFM roles of central ministries, decentralized agencies, and other factors. Is financial and transaction authority adequately delegated? What role and impact do civil society, unions, media, and the international community have as pressure groups to influence policy formulation and program implementation? Map the impact of institutional and individual actors' interests on public financial management.

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SECTION 6

Equity

Key Question 6:

Key Question 6: Does public spending promote equity?

A fundamental responsibility of the state is ensuring equity and managing redistribution. Public policy can help minimize subgroup differences in outcomes. This section 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 note 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 utilizing tools such as Blue PER drives the transformation of different blue sectors to better environmental practices and management, supporting long-term, healthy development agendas.

PER References

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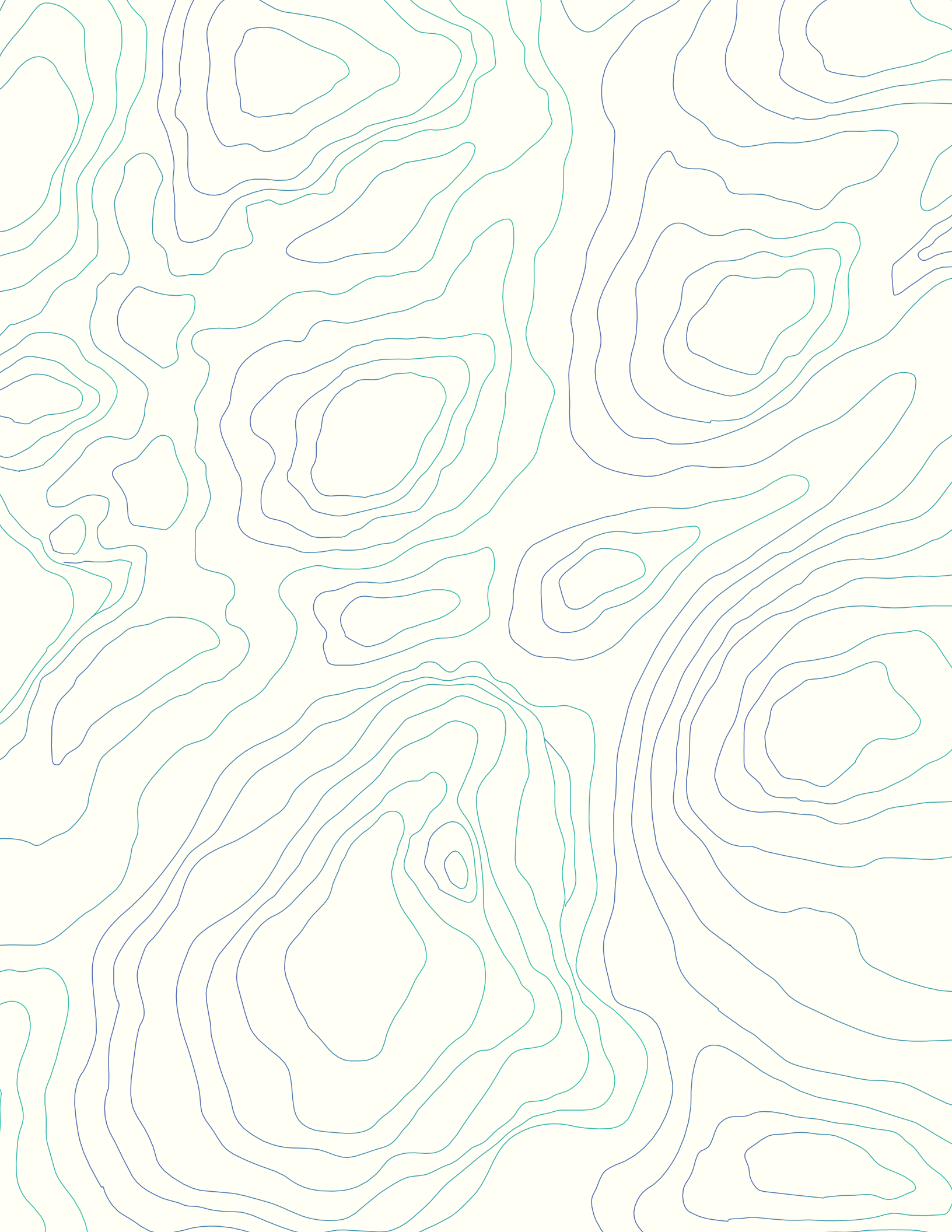
Online resources

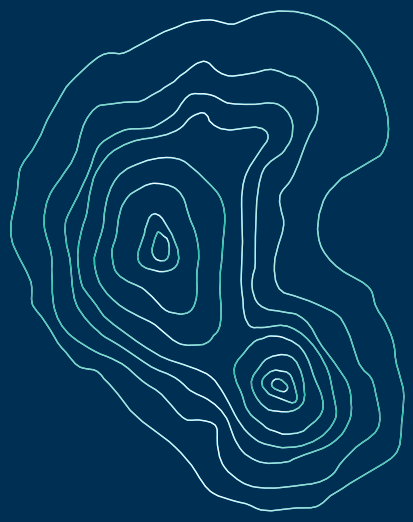
PER website

http://boost.worldbank.org/tools-resources/public-expenditure-review

Repository of PERs

https://openknowledge.worldbank.org/handle/10986/2109





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Guidance Note

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For more information please contact:
problue@worldbank.org
www.worldbank.org/problue