Journal of Economics and Sustainable Development
ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) DOI: 10.7176/JESD
Vol.10, No.14, 2019

Growth Effects of Non-Devolved Government Expenditure: Evidence from ARDL Approach to Co integration

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Abstract
Although it is theoretically expected that fiscal decentralization leads to efficient provision of local public services and induces economic growth, there is a mixed outcome of the non-devolved and devolved effect on economic expansion across earlier empirical studies. This could be due to non growth-enhancing expenditures that crowd-out outlays that are meant to boost economic growth. Further, devolved allocation is small, about 15 % of total revenue, to full stimulate economic growth in Kenya. However, national government spends a substantial amount in counties to complement devolved expenditure. Therefore, the issue of which non-devolved expenditure by national government can foster permanent movements in county economic growth becomes core. The panel ARDL and Kao co integration technique were used to test the linkage between non-devolved expenditure and economic growth in Kenya during the period, 2013-2017. The panel ARDL regression results revealed that the effect of non-devolved expenditure on economic growth was positive and significant in both long-run and short-run. The findings provide a basis for recommendation on the need for national government to increase budget allocation and execution in counties to complement devolved expenditure and also stimulate county economic growth in long-run.
Keywords: Non-devolved, Economic growth, Kenya, ARDL, Expenditure, Panel
DOI: 10.7176/JESD/10-14-12
Publication date:July 31st 2019

1. Introduction

Devolution is expected to make county public expenditure more efficient (Omolo, 2010; ICPAK, 2014), create opportunities for county government to mobilize around sustainable development goals (Muriu, 2013) and contribute to a better coordination between various county stakeholders. In addition, significantly, devolution is expected to provide each devolved unit the autonomy to pursue a development strategy tailored to its own economic strength (Muriu, 2013; KIPPRA, 2016), thus contributing to greater national economic increase (Omolo, 2010).

With reference to African experiences, it is said that decentralization programmes have failed to unravel the economic, political and institutional challenges of African development (Omolo, 2010; Muriu, 2013). At the same time, antagonists of devolution argue that devolution can undermine growth potential through: capture of benefit by county elites; poor managerial and technical capacity; high bureaucratic burden; and separation of spending and taxing responsibilities. This can undermine efficiency and lead to arrears; and newly created counties that may face capacity constraints (Iftikhar, 2011; World Bank, 2016; OCOB, 2019). Thus, need for continued spending (non-devolved) in counties by national government in Kenya.

The County non-devolved Spending is projected to stimulate demand for products, which in turn allows suppliers to increase use of their productive capacities by hiring more capital, labor and thus to expand production in county economy. The analysis of Kenya's economic expansion and corresponding total county expenditure in billions by economic classification is presented in Table 1 below.

Table 1 County Expenditure Allocations and Economic Growth

Financial Year (FY)	% GCP Growth	Capital Expenditure	%	Recurrent Expenditure	%	Total Devolved Expenditure	Absorption Rate	Non-devolved Expenditure
2014/2015	5.4	90	35.1	167	64.9	**258**	79.1%	**1139**
2015/2016	5.7	103	35.0	191	65.0	**295**	80.4%	**1374**
2016/2017	5.9	168	43.1	222	56.9	**390**	79.9%	**1634**
2017/2018	4.9	139	33.9	271	61.1	**410**	74.0%	**1960**

Source: IMF (2016); OCOB (2014-2019).

Table 1 reveals that county capital expenditure has been lower than the recurrent expenditure in most of the years since inception of devolution. Thus, national government spending on counties is only remedy to jump start infrastructure development since counties are mostly spending on recurrent spending. Implying, an increase in recurrent spending was likely to reduce growth rate given that in order to finance them, higher taxes must be introduced which has a negative effect on investment decisions by the private sector and therefore on economic growth in the long-run. Table 1, further reveals that county expenditure (devolved) has been lower than the national