

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 crowdout 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 nondevolved 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