Kenya: Devolution and Infrastructure Boost Growth and Shared Prosperity

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Devolution and increased investment in infrastructure are improving Kenyas prospects for growth and shared prosperity, says a new World Bank Group report released today.
The Kenya Public Expenditure Review (PER) for December 2014, Decision Time: Spend More or Spend Smart, says the country is making progress in the right direction, despite emerging fiscal pressure. It identifies the transformative impact of devolution and increased investment in infrastructure as key factors contributing to broad-based growth.
Kenyas economy has recovered from the negative shocks that it experienced in 2008-09 posting an average growth rate of six percent for the past five years, according to the PER, which projects that growth will remain between 6-7 percent to 2017.
"The PER highlights the tremendous economic and social progress that Kenya has made in recent years and the challenges that continue to impact the economy," says Diarietou Gaye, World Bank Country Director for Kenya. "The government needs to make choices to spend more or to spend smarter."
According to the policy note, three key areas are significantly underpinning Kenyas growth. Counties are allocated one fifth of the total national expenditure, equivalent to four percent of Gross Domestic Product (GDP), which has great potential to catalyze growth at the grassroots level. Additionally, investment in infrastructure has been sustained and economic growth remains robust with a positive outlook for the medium term.
"We also draw attention to the inefficiencies within sectors and how they adversely affect the poor," says Apurva Sanghi, World Bank Lead Economist for Kenya. "For example, although spending on primary health is highly beneficial for the poor it only receives 29 percent of the health budget compared to about 40 percent given to curative health."
The governments expansionary fiscal policy has increased opportunities for growth but also constrained public expenditure management particularly in how resources are allocated and used. This is mainly attributed to several factors including rising public debt and spending pressure arising from devolution, financing of the security sector, funding of the Jubilee governments flagship infrastructure projects, and persistent increases in the public wage bill.
"The pressure on budgets is expected to continue in the medium term as both the national and county governments spend more on these critical areas," says Jane Kiringai, World Bank Senior Economist for Kenya and Lead Author of the report. "The potential situation increases the risk of inflation if economic growth accelerates beyond the prevailing levels."
Although the economy is much larger, following the rebasing of its GDP in September 2014, the capacity to service debt has not changed. The revision also reduced the share of revenue (20%) and exports (10%) to GDP.
The Bank Group urges Kenya to reflect on its big spending decisions to contain growth of recurrent administrative costs, improve selection, prioritization and execution of infrastructure projects, and to sufficiently plan for recurrent operating costs. The report notes that the operations and maintenance budget as a share of GDP has been cut back from 8.5 percent in 2010-11 to 6 percent in 2013-14.
The Kenya PER is produced by the World Bank Group in collaboration with the Government of Kenya. The policy note is intended to make a contribution toward how the government and development agencies design and implement their policies and programs.

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