Government spending in agriculture and financing and private investment in Kenya: 1970-2012

The need for efficient utilization of public resources has been the focus of government expenditure policy. The problem is with regard to where such expenditures can generate maximum benefit to the economy andhow to finance this expenditure. This study sought to provide empirical evidence on the effect of government expenditure on agriculture and its financing and the growth of private investment.The study used time series data on government expenditure on agriculture, domestic debt, external debt, taxation and private investment for the period 1970-2012. The error correction model was used as the basic econometric model. To control for the investment and expenditure environments, the study included political risk and exchange rate as control variables. The study found that investment in agriculture positively and significantly affected private sector growth. A Kenya shilling invested in agriculture led to 1.265 shillings growth in private investment. Domestic debt financing was found to have a significantly negative effect on private investment. A shilling of domestic debt used to finance expenditure, led to -1.476 shilling decline in private investment. The study observes that any disruption in the private sector growth will adjust back to the growth path within one year at a rate of 65%. The study recommends that the government should intensify investment in the agricultural sector. This investment should not be financed from domestic tax revenue as this has a negative effect on private investment.