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The Role of Infrastructure in Business: A Kenyan Scenario

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Introduction

Development literature over the past years has undergone a sea change. However all types of development theories lay emphasis on infrastructure as a necessary precondition for a vibrant economy. A good infrastructure boosts growth by eliminating bottlenecks, bridging time gaps, and creating opportunities that stimulate entrepreneurial activities. The experience of USA Japan and Britain bear witness to this proposition. America had a subsistence economy agricultural economy till the 1830s due to the high costs of land transport. The construction of canals, turnpikes and subsequently the railway transformed the country into an agricultural surplus and industrialised country (L.N. Dash 2002) Development of infrastructure is a major step towards the economic development of a country.

Productivity, welfare and economic prosperity of both rural and urban populations are mostly impacted by the degree of infrastructural advancement in their areas and the infrastructural connections to division, district, county and national centres of government facilities and business. Infrastructure is a public input, which plays a vital role in the production process as well as the provision of information.

“Our safety and prosperity depend at least as much on collective decisions to fight disease, promote good science and wide spread education, provide critical infrastructure, and act in unison to help the poorest of the poor”

Jeffrey Sachs, 2005

Infrastructural services share technology economic features such as economies of scale and spillovers from users to non-users and enhance productive capacities of firms within agriculture, commerce, business, industry and households. A country’s economic development and welfare of its citizens depend in large part on the level of infrastructure services. It plays a central role and is now viewed as a major contributor to growth, poverty reduction and the achievement of the Millennium Development Goals (Anup Chatterjee 2007 pp55).

Services provided by infrastructure are known as public inputs, public intermediate goods or collective factors of production. Broad examples include public infrastructural services such as public utilities, public works, and other transport sectors and the provision of information. There has been substantial empirical investigation of the impact of infrastructure, which has
established its significant role in business growth, and development of the country. Aschauer (1989) established that roads are the largest component of public capital, which shows the positive correlation between infrastructure and productivity. Infrastructural basic installations that support a community’s day to day life and economic activity in Kenya include roads, electricity, water systems, telecommunication services, and public transport. These foster productivity and improve the quality of life for society, thus reducing poverty and the cost of doing business. Roads enable people to travel to markets, schools, and health care facilities.

An efficient network of the infrastructural facilities in both urban and rural areas is most important for Kenya to emerge from its current dismal growth, and to achieve substantial GDP growth rates. Poor infrastructure in the 1990s led to increased production and transport costs and reduced competitiveness (World Bank 2004). These indicate that there was insufficient resource provision for construction, maintenance and rehabilitation of facilities. Availability of adequate efficient and affordable infrastructural facilities constitutes the core of development strategy and efforts, which is in line with the vision 2030. By their very nature infrastructural projects (power, railway, ports, civil aviation, roads and telecommunication) involve huge investments, long gestation periods and high risk (Anup Chatterjee pp78). Road transport accounts for over 80% of Kenya’s total passenger and freight transportation. In the last eight years the government has embarked on an ambitious programme to develop infrastructure.

When any country neglects the infrastructure the development process it is doomed to stagnate. Evidence from various studies point out the crucial role infrastructure plays in business growth of the country whereby there is a positive correlation between infrastructure and productivity (Fernald 1999). Ineffective rural transport services are a primary impediment to economic and social development in Kenya, where 80% of people live in rural areas. Their development depends on better infrastructure, such as roads, tracks, footpaths and footbridges.

Insufficient rural transport infrastructure and lack of mobility pose the main limitations to business growth in Kenya and Sub-Saharan Africa. Poverty evaluations from Sub-Saharan Africa underscore the close relationship between isolation of the rural population and rural poverty. Kenyan and African villagers walk and carry their goods and commodities. The most widespread means of transport in Africa is the legs, heads and backs of African women. 70% of the population in Sub-Saharan Africa and 80% in Kenya live in villages and depend on rugged roads, tracks, and paths to carry out their productive activities and everyday jobs.

Despite this poor local transport network the Kenyan and African rural population carry a third of the region’s gross domestic product (GDP) which becomes food for urban populations and generates 40% of the continent’s export revenues. The people desire infrastructure because it enables them to overcome the distance that separates their homes from the places where they work, shop, seek medical attention, go to school, do business, or visit friends and relatives. Businesses also desire infrastructure because it also helps them overcome distance — the distance that separates them from their sources of raw materials, from their markets, and from their employees.

Movement of goods, factors of production, tradable resources flock to places where adequate infrastructure is in place. The productivity, welfare and security of both rural and urban people in Kenya are greatly influenced by the level of infrastructure development in
their communities and the infrastructural links to district, provincial and national centres of administration and commerce.

Infrastructure policy in Kenya

Unprecedented supply deficit and increasing freight and transport congestion problems in roads railway ports is undermining the government of Kenya's ambitions towards economic development. The broad strategy to address the infrastructural scarcity encompasses application of joint ventures, and streamlining the tendering and procurement procedures to minimise abuse and promote professionalism in construction projects. Modernisation and liberalisation policy to improve the status of the infrastructure is sought. The government of Kenya has given priority to developing competent and quality infrastructure services (GoK 2002). Poverty assessments from many Sub-Saharan African countries point to the pivotal role of infrastructure as an enabling condition for development in all sectors. Improving rural mobility and ease of transport should therefore be part of any poverty reduction programme.

Road and rail transport

As a facilitator of the movement of goods and persons transport is a key element for the functioning of the markets contributing to matching supply and demand. Road transportation is a key instrument for regional integration and generates a supportive environment for private initiative and willingness to invest. An efficient and resourceful road transport sub-sector also has a substantial influence in the country's competitiveness and it is one of the vital elements in determining the price of goods. It is an important element in achieving high productivity in the manufacturing sector and the other sectors of the economy.

Improvement in rail transport is vital for haulage particularly for transport of bulk commodities over long distances. Railway offers the cheapest mode of transport for bulky products to and from the port of Mombasa and the mainland, as well as Kenya and the great lake region. Thus it creates a most important contribution to the development of the economies of the Region, (GoK 2004). The oil pipeline provides environmentally friendly transport for oil products from the coast, and helps in lowering the costs related to maintenance of roads of physical infrastructure. Kenya has one oil pipeline from Mombasa to Kisumu via Nairobi and Eldoret.

Most of the vital transport facilities are already in place, but in poor condition due to poor maintenance, inadequate funding and inefficient operation and management. The poor state of the roads has caused high vehicle operating costs, high fares for public transport, and unstable delivery schedules. This in turn has caused high production costs, uncompetitive exports, and high cost of imported inputs and capital goods. This constrains the growth of business. Transport facilities are in high demand in the Kenyan economy with the enormous population explosion in recent years. Agricultural and industrial advancement of the economy requires robust transport facilities. The lack of this is creating a major bottleneck to economic growth and development, just like lack of capital or lack of technology.

Air transport

Aeroplanes are the major transport mode for tourists, high value exports and imports, and perishable goods. Kenya has the following international airports, Jomo Kenyatta International Airport (JKIA), Moi International Airport (MIA), Eldoret International Airport (EIA), Kisumu International Airport, Wilson Airport in Nairobi deals with light aircraft and quite a number of scheduled and chartered domestic flights use the aerodromes here. There are more than 250 airstrips located strategically country wide linking all parts of Kenya to Nairobi. Jomo Kenyatta International airport (JKIA) is a hub for all International airlines,
Air transport is vital for transport for high value imports and perishable horticultural exports. It also plays an enormous role in promoting tourism. Marine transport has historically provided linkages between international markets with Kenya and the hinterland countries within the region.

**Integrated transport**

The proposed Lamu Port Development 32-berth port will serve as an international gateway for the Lamu Port South-Sudan-Ethiopia Economic and Transport Corridor project (LAPSSET), which will comprise a superhighway, a high-speed railway, oil pipelines, and three international airports. The corridor’s state-of-the-art infrastructure will transport crude oil from South Sudan to China, which buys more than 60% of South Sudan’s crude production, and landlocked Ethiopia. Africa’s newest nation, which seceded from Sudan in July 2011, came away with approximately three-quarters of the former country’s reserves, although little in terms of oil infrastructure. What South Sudan lacks in refining and transport facilities Kenya is now eager to provide. “This project is expected to play a critical role in enhancing the economic livelihood of over 167 million people in our region,” President Kibaki vowed.

The transport sector in Kenya comprises a road network with 150,000 km of roads, a single-track railway running from Mombasa to Uganda, a major sea port at Mombasa, small ports at Lamu and Malindi, a ferry service to Uganda, four international and many small airports, and three inland container depots (IEA 1998). Road transport holds the potential for rapid economic growth and poverty reduction through its influence on production costs, employment creation, and access to markets and investment.

The government is overburdened in catering for maintenance costs, let alone the construction of new roads in the rural areas where there is dire need. In some cases where the roads are built they do not meet the standards stipulated by the Ministry of Roads and Public Works, and this can be attributed to the rampant corruption which has characterised government projects in Kenya.

These improvements in road transport can raise incomes of the poor through diverse mechanisms. This is especially true with agricultural output where bulky low-value crops are involved. Rural people would benefit from the reduction in time wasted on water and firewood collection particularly by women. Trucks can be hired to move bulk produce and agricultural supplies to the farmers where it is needed. Improved tracks and footpaths facilitate the movement of hired farm labour to the fields. In isolated rural areas where there is great difficulty in marketing produce crops can be transported in smaller quantities by non-motorised transport, if roads or paths are in sound condition. Improving roads will impact to better access to social amenities like health clinics, income-generating activities and travel from rural to urban locations to work in services and construction in the informal sector.

World Bank, in partnership with the government of Kenya has facilitated the construction of the road system. Lack of maintenance has left over 50% of the paved roads in Africa in a poor state, and the condition of more than 80% of the unpaved main roads would be considered just fair. Rural feeder roads are even worse. At the end of 1999 up to 85% of them were projected to be in poor condition with accessibility limited to dry seasons in most cases. The inadequate and poorly maintained rural feeder roads linking villages and farming areas with each other and with market centres is a major gap in rural transport in Kenya.

The Kenya Urban Transport Infrastructure Project had an unsatisfactory result. The assessment project demonstrates the need for oversight and discussion of project results to
be conducted at a high level, both on the bank and the government side. Permanent secretaries of responsible ministries and senior bank staff should do regular reviews, not just of project results but of administrative, procurement and financial procedures. A well-developed communication strategy should be adopted to inform civil society of project efficacy, intended outputs and progress. In addition, the project should include programmes to actively seek the participation of civil society organisations in designing and implementing the agreed programmes. Lastly, there should be streamlining the procurement and sound payment procedures, strengthening financial and technical audits and appropriate staffing (Implementation and Results Evaluation Report).

One hypothesis that emerges from the contrasting experiences is that lending for infrastructure is intrinsically simpler than policy reform in general and for the agricultural sector in particular. The difficulty with such generalisations is that the tightness of adherence to conditions is crucial to judging both ambition and success. A move by the bank towards an institutional-development orientation was certainly understandable, particularly when the commitment of the government to substantive policy reform was neither clear nor sincere. Since the mid-1990s, the World Bank has dramatically altered its direction to emphasise poverty eradication as the institution’s main mission. Many programmes and policies have been revised, with the objective of making the bank more effective in its support of the global fight against poverty.

**Conclusion**

Business needs infrastructure, and without business there is no economic growth. Infrastructure generates the fundamental facilities, services and system needed for the businesses of a nation to create the impetus for business growth. The intensity of infrastructure has a direct bearing on the competitiveness of a country and its investment attraction. In addition, investment in setting up and sustaining infrastructural facilities such as roads, ports and others, forms vital business activity and economic multiplier effects.

Researchers, policy makers and economists, when ranking countries in terms of competitiveness, treat “infrastructure” as one of the main pillars. They consider extensive and efficient infrastructure as critical for ensuring effective functioning of the economy, as it is an important factor determining the location of the economic activity and the kind of activities or sectors that can develop in a particular economy.

Well-developed infrastructure decreases the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. Effective transport systems, such as quality roads, sea ports and air transport, enable firms to get their goods and services to markets. Transport is also key in allowing workers to arrive on time at their workplace. Economies need an electricity supply free of interruptions and shortages for factories, hotels, offices, and shops, so that they can work without hindrance.

Finally, a solid and extensive telecommunications network is needed for rapid and free flow of information. In today's world to communicate fast and efficiently is necessary for businesses to work efficiently.

In the first forty years of independence our country learnt the importance of infrastructure the hard way, when, way back, local businesses were hampered by lack of water, unreliable electricity, roads and telecommunication. This effected all areas of our economy especially tourism and industry. The notion of who provides infrastructure in a country is continuously developing. Before, it was very simple and clear cut. The private sector invested in people...
and capital to provide goods and services for the market. The government provided the necessary infrastructure for the country to function. In the last nine years Kenya has made remarkable strides in development of infrastructure, so it can position itself to be the preferred destination for business investment in East Africa.

Notes and references