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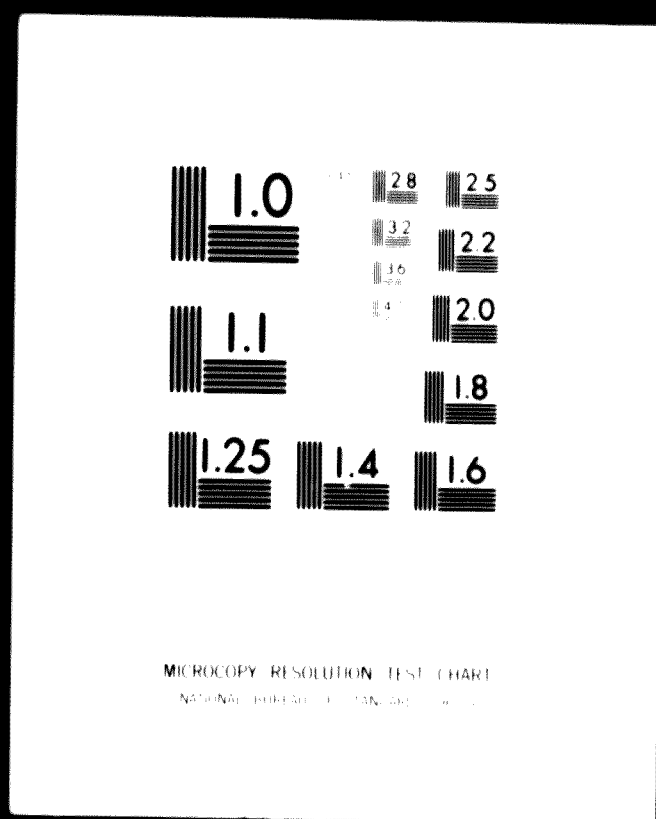
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United Nations Industrial Development Organization

PROJECT INFORMATION SHEET

GHA-01-71

THIRD AFRICAN MEETING TO PROMOTE
INDUSTRIAL PROJECTS 1/

ABIDJAN, IVORY COAST, 24 NOVEMBER - 1 DECEMBER 1971

TANNERY

COUNTRY

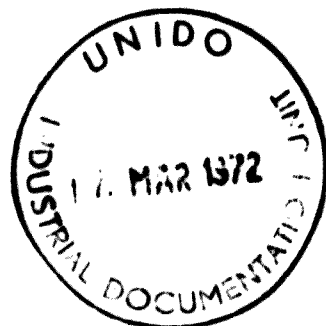
Republic of Ghana

PROJECT

Production of leather, initially
only for the domestic market
Investment: appr. US ~~1800,000~~
equivalent 2.5 m

FOREIGN CONTRIBUTION REQUIRED

Equity and loan
Management and know-how



1/ Sponsored by: The African Development Bank (ADB), The Economic Commission for Africa (ECA), The United Nations Industrial Development Organisation (UNIDO).

IMPORTANT NOTICE

The basic purpose of this meeting is to provide an Exchange or Market Place for the initiation of contacts on specific industrial projects between their proponents from the African countries and potential suppliers of capital, finance, equipment or know-how, as the case may be, from the industrialised countries.

This Project Information Sheet has been prepared as a basis for such contacts. Its purpose is not to present detailed information about the project but to provide the recipient with an outline sufficient to determine tentative interest in principle. Any further available information on the project will be furnished on request to interested parties at the Meeting.

Experience has shown that industrialists frequently prefer to carry out their own further investigations in detail into projects in which they are interested, but assistance from UNIDO in these matters can be rendered to the African country concerned on request.

This Information Sheet contains only the information supplied to UNIDO by the proponent of the Project. UNIDO can therefore take no responsibility for its accuracy.

TANNERY

I. INTRODUCTION

The Project

Most of the demand for leather in Ghana is for footwear. Up to 1968 no leather manufacturing existed in the country and the entire demand was covered by imports. The only industrial tannery in operation, established in Kumasi in 1969, has a limited capacity of about 500,000 square feet p.a. A market survey confirms the justification for a second tannery with a larger capacity than the first one.

Machinery for the second tannery was already imported in 1963 from Czechoslovakia and some buildings have been erected; however, because of changes of governments and their development policies, the project has not been completed. A contributing factor was the location of the project in Aveyime, where neither power nor a suitable water supply is available.

A recent examination by a German expert attached to the Ministry of Trade, Industries and Tourism, found that the equipment is in surprisingly good shape and the project justified, provided that additional investments are made and the location changed.

The project fits into the government's priorities, as it would save foreign exchange which is now used for imports of leather. During the first years a large part of hides and skins needed by the new tannery would have to be imported; but a growth of the livestock population, supported by the government and assisted by the World Bank Group promises to broaden the domestic raw material basis.

II. COMMERCIAL ASPECTS

The total demand for leather, which in 1968 was 2,320,000 square feet, is increasing quickly. The Kumasi plant produced only about 500,000 square feet. The following table shows the 1968 demand as well as a projection for 1975 by types of product and in comparison with domestic capacity.

Leather Demand and Production Capacity
(in million square feet)

Types of leather	<u>Total Demand</u>		<u>Proposed Capacity 1975</u>	
	<u>1968</u>	<u>1975</u>	<u>Kumasi</u>	<u>New plant</u>
Upper	1.5	2.3	0.7	1.6
Lining	0.7	0.6	-	0.6
Sole	0.6	0.9	-	0.9*
Non-footwear uses	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>-</u>
Total	2.4	4.0	0.9	3.1

The rate of growth of demand is projected on the basis of data for 1955-1965 (last year before import restrictions were introduced in order to protect local production). The fact that Ghana's present per capita consumption of leather footwear is only half as high as that of neighboring Ivory Coast also indicates that the long term growth potential is rather favorable. The main user, at least in the first stage, will be an existing shoe factory with large capacity. Export of leather or footwear is not planned initially.

Depending on the type of product, the proposed price per square foot would range from \$0.20 to \$1.50 and average around \$ 0.62 which is not out of line with prices of leather presently produced by the Kumasi plant, although it may be slightly higher than prices of imported leather.

III. PHYSICAL ASPECTS

The buildings of the proposed plant at Aveyime are almost completed (main store, administration buildings, workshops), and the production machinery is already at the site. As there is no power available at Aveyime at present and a costly plant for the treatment of the effluent water would have to be installed, it is believed that it might be more advantageous to transfer the plant to another location; Kpong on the lower course of the Volta river has been suggested.

At present only about 30% of the hides required would be supplied from domestic sources, and it is not expected that this proportion would increase much above 40% during the next few years, pending the implementation of the livestock development programme, which is being prepared.

It is estimated that slightly over 100 people would be employed at wages ranging from \$400-\$720 p.a. for unskilled labor to \$1,200-\$5,000

* Converted from kg.

for skilled personnel. While some technicians would have to be trained by expatriate staff during the initial period, there is an abundance of unskilled and unemployed labour in the country.

Chemicals for tanning would have to be imported at the average price of \$550 per ton.

Ghana has relatively inexpensive electricity from its large hydro power works on the Volta Lake, and good harbours. Depending on the location of the plant, the distance from the country's main harbour at Tema would be about 40 or about 55 miles. Both places have suitable road connections.

IV. ECONOMIC ASPECTS

From the time the new plant starts operations, there will be modest foreign exchange savings by substituting imports of hides for imports of leather. These savings will become more important with the gradual increase in the supply of domestic hides. An expansion of the plant for the tanning of goat and sheep skins, not provided for by the existing equipment, might lead to export possibilities.

There are good prospects for obtaining, in negotiations with the government, broad incentives in the form of reduction of import duties and taxes.

V. FINANCIAL ASPECTS

Composition of Investment: (rough estimates -- in US\$)

	<u>Local Cost</u>	<u>Foreign Exchange</u>	<u>Total</u>
Pre-investment costs	150,000	150,000	300,000
Assets:			
Land and building	800,000	300,000	1,100,000
Machinery	358,000	350,000	708,000
Estimated working capital	<u>425,000</u>	<u>-</u>	<u>425,000</u>
Total	<u>1,733,000</u>	<u>800,000</u>	<u>2,533,000</u>

The financial plan is to be discussed by the parties concerned. The foreign investment is expected to correspond roughly to the amount of foreign exchange required. The government proposes the establishment of a private limited liability company and would presumably accept the foreign partner's holding a majority of the equity.

A foreign expert made the following estimates as to the profitability of the enterprise.

<u>Summary of Costs</u>	<u>₵ thousand (equivalent)</u>
Personnel expenses	143
Raw material and auxiliary material	1,338
Power	52
Water	-
Maintenance and repair	37
Depreciation	118
Overall administrative costs	<u>12</u>
Total	1,700
<u>Sales Revenues</u>	
(3,100,000 sq. feet at ₵0.62)	1,900
Minus costs	<u>1,700</u>
Profit prior to taxation	200

This profit represents approximately an 8% return on the original capital investment.

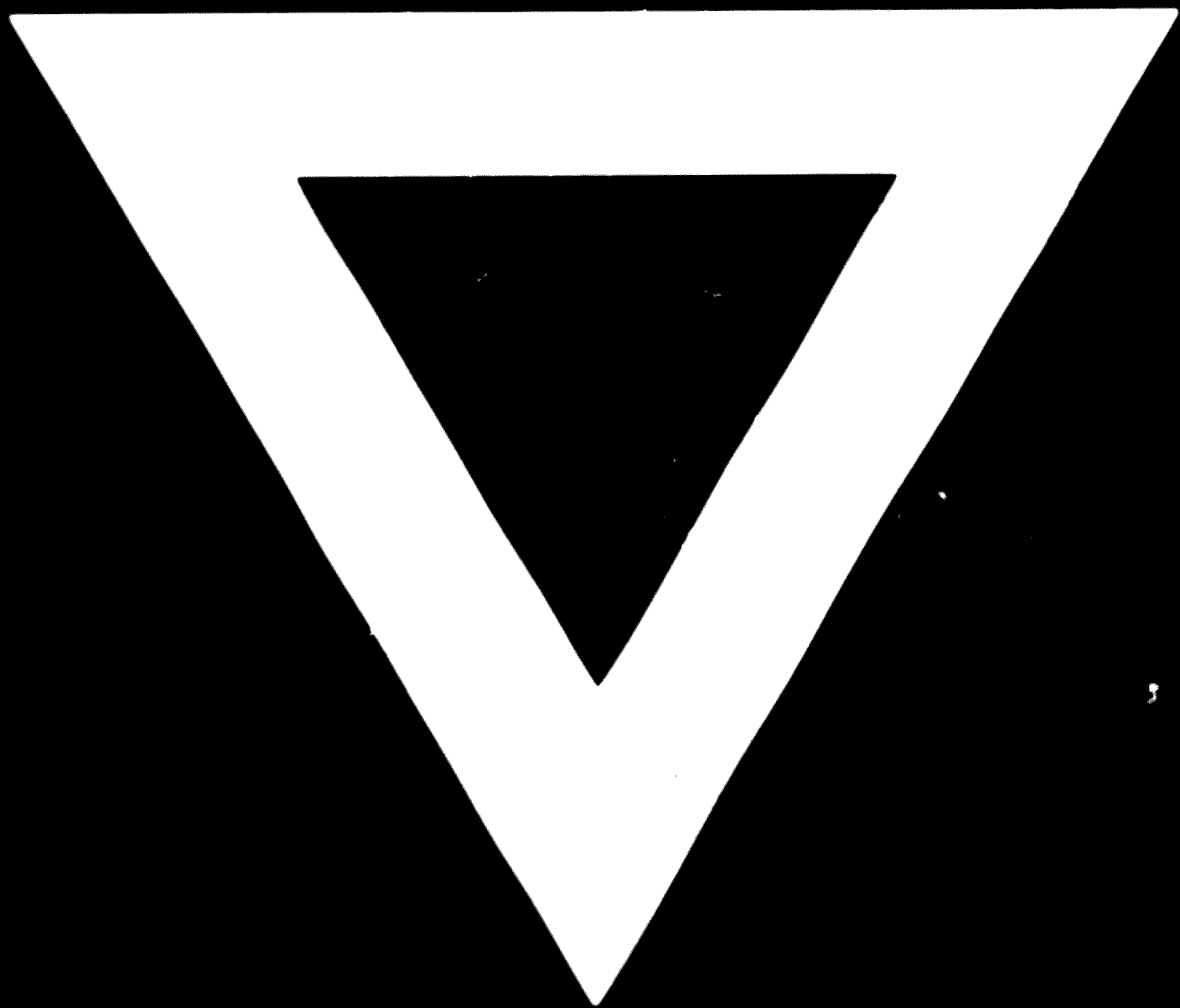
VI. ADDITIONAL INFORMATION

The prospective investor is invited, as a first step, to examine the feasibility study which has been made, to ~~inspect~~^{inspect} the equipment, to express an opinion as to the site and to re-a. praise the project if necessary.

The project has been presented by the National Investment Bank; P. O. Box 3726; Accra, Ghana.



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