TRANSACTION SERVICES

Kumasi, Ghana

Potential opportunities for investors
September 2008

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Terms of reference

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In preparing this document we have relied upon and assumed, without independent verification, the accuracy and completeness of various sources of information, some of which have been derived from public sources. Details of the sources that we have used are given in our report. We set out a bibliography of our interview sources in appendix two. KPMG Special Services BV accepts no responsibility or liability to any party in connection with such information or views.

Our core fieldwork and research was performed between October 2007 and January 2008. We have not undertaken to update our report for events or circumstances arising after that date.

Appropriate professional advice should be sought to undertake a more specific examination of the particular circumstances applicable to a potential investor. The contact details of KPMG firms' professionals who could assist in this regard are given at the back of this report.

Acknowledgments

KPMG Special Services B.V. (The Netherlands) would like to thank the Millennium Cities Initiative (MCI) for the opportunity to prepare this report to support its valuable project. We would also like to thank the numerous entities and people and acknowledge their contribution in the preparation of this report (please see appendix two for more details).

Foreword

As part of KPMG's Global Development Initiative, which focuses KPMG member firms' skills and resources on achieving the United Nations' Millennium Development Goals (MDGs), KPMG in the Netherlands was asked by the Millennium Cities Initiative (MCI) to undertake this report on potential investment opportunities for investors in Kumasi, Ghana. In preparing this report, the team worked in collaboration with KPMG's office in Ghana

The MCI is an urban counterpart to the Millennium Villages Project and was set up in association with the UN Millennium Project by The Earth Institute at Columbia University. The initiative is focused on helping a selected number of mid-sized cities across sub-Saharan Africa to achieve the MDGs through economic development.

This report, which explores the investment potential in and around Kumasi, Ghana, is one of several that are being produced by KPMG's Transaction Services. It is an excellent example of how KPMG member firms and their people are committed to making a difference to the people in sub-Saharan Africa and is intended to complement the *Kumasi Investors' Guide* prepared by the MCI.

Kumasi is Ghana's second largest city and capital of the Ashanti region. It is an important commercial centre. Its location, climate and safety, combined with Ghana's increasing access to foreign markets, make Kumasi attractive to investment in a number of areas.

One sector of great potential discussed in the report is in the area of agro-processing. A concrete opportunity is the production of fruit juice made from different fruit growing in the region. Other opportunities were identified in the hotel sector and in retail space. Furthermore, the production of pharmaceuticals also has great potential.

Overall, Kumasi presents a spectrum of investment opportunities across a range of sectors. Investment in and around Kumasi can help drive the socio-economic transformation, and although investors will need to make a well weighted decision, our belief is that there is long term potential in this area.

To this extent, we hope this work will lead to sustainable poverty eradication and securing the future of many hundreds of people through work and enterprise.

Lord Hastings of Scarisbrick CBE; KPMG International Global Head of Citizenship and Diversity

Professor Jeffrey D. Sachs, Director of The Earth Institute at Columbia University

MILLENNIUM CITIES INITIATIVE (MCI)
THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

The Millennium Cities Initiative (MCI) is a project of The Earth Institute at Columbia University. Launched by the Institute's Director, Professor Jeffrey D. Sachs in 2006, MCI seeks to assist, through research and policy analysis, selected mid-sized cities across sub-Saharan Africa to achieve the Millennium Development Goals. Guided by its co-directors, Dr. Susan Blaustein and Dr. Karl P. Sauvant, MCI, more specifically, helps the cities involved to arrive at integrated City Development Strategies. Part of this effort is to demonstrate that more investment, including foreign direct investment, can be attracted to these cities, with the resulting employment and economic growth effects.

The staff responsible for working with KPMG Special Services B.V. (The Netherlands) on this report were Karl P. Sauvant, Co-Director of the MCI and Executive Director of the Columbia Program on International Investment, and Jörg Simon, Senior Investment Advisor of the MCI.

For further information, please see http://www.earth.columbia.edu/mci

Executive summary

Kumasi is well-placed to benefit from a continuation of the current trends of political stability and economic growth within Ghana

The end of Flight Lieutenant J J Rawling's presidency in 2000 has heralded a notable period of political stability and the reinforcement of democratic principles and institutions within Ghana. The forthcoming presidential elections will be a key indicator as to the health of Ghana's democratic processes. Notably, this democratisation has been achieved against a regional backdrop of considerable political unrest.

Alongside this political advancement has come significant economic growth with a shift away from traditional agriculture and towards the industrial and services sectors. To date, the vast majority of the investment associated with this economic growth has been concentrated in the Greater Accra region with its benefits of proximity to the main sea ports and key government offices. Nonetheless, there is increasing recognition in both political and business circles that investment needs to be encouraged outside of the Greater Accra region. As such Kumasi, through its location, infrastructure and local resources, is strongly positioned to benefit from this new emphasis due to the following:

- Kumasi is located centrally in the Ashanti region, forming an important transport and commercial hub for both domestic and international traffic.
- Substantial infrastructure projects such as roads and electricity supply have supported economic growth in Ghana. Kumasi has benefited from these infrastructure projects in terms of improved accessibility and amenities. These projects have been financed both through government and donor support.

A substantial programme of future, large-scale government and donor-funded projects are planned, such as the creation of an inland port, the construction of an outer ring road and the completion of the inner ring road. However, Kumasi still requires further investment in utilities, as the current periodic electricity shortages and dwindling supply of water demonstrate.

While large-scale infrastructure development continues to underpin the sustainability of Ghana's economic growth, there also appear to be attractive investment opportunities in smaller, more commercially-driven infrastructure projects in Kumasi. Opportunities also exist to invest in retail space and visitor accommodation

In addition to large projects with their associated lengthy lead times and high level political involvement, other smaller scale infrastructure related project opportunities appear to exist in Kumasi driven by the economic growth prospects of the city. These projects include a requirement for retail space located away from the city centre and the need to redress the shortage of high quality hotel accommodation.

In support of this growth in infrastructure, the Kumasi Metropolitan Assembly is promoting retail development having already identified two potential shopping mall sites and one parking facility site.

Kumasi is in a strong position to capitalise on both transient visitors as well as to generate increased tourist traffic. As the ancient capital of the Ashanti kingdom, Kumasi is effectively the cultural centre of Ghana alongside providing an appealing natural environment.

There appear to be strong opportunities to capture more of the value arising from production of agricultural products in the greater Kumasi area

Agriculture has traditionally represented the largest sector within Ghana's economy and while this is no longer the case, the industry retains substantial economic potential, especially for rural communities. Much of Ghana's agricultural produce is exported in a raw or almost raw form and is processed into more valuable products abroad, which in turn may be imported back into their country of origin.

While the lack of access to sophisticated production technologies is a constraint for the establishment of processing facilities within some agro-processing sectors, those sectors that use relatively simple production techniques, such as fruit juice production, potentially represent an opportunity for Ghana-based businesses to move further down the value chain, providing issues around efficiency and security of supply can be addressed.

Ghana's increased focus on healthcare and its location support the development of the pharmaceuticals industry

As Ghana's economy has grown, so has its spending on healthcare, supported by sizeable donor programmes. At the same time, government legislation has ensured that some of the most commonly used drugs must be manufactured within Ghana. The fact that the government is considering expanding the list of drugs that must be domestically produced, reinforces the impression of permanency around these manufacturing restrictions.

Based on this key market dynamic, investment in pharmaceutical manufacturing appears to be a potential opportunity and one that favours Kumasi, particularly given its access to a ready pool of pharmacologically trained staff and its central location within the country, which enables it to act as logistics hub for both the Ghanaian market and for accessing neighbouring countries' markets.

Overall, Kumasi presents a further spectrum of investment opportunities across a range of sectors

Outside of the four potential investments primarily discussed in this report, there are a large number of additional enterprises and sectors within Kumasi that could represent attractive investments given the right blend of industry expertise, infrastructure support and financing.

Contents

The Millennium Cities Initiative

The Millennium Cities Initiative (MCI) aims to facilitate African countries reaching their Millennium Development Goals (MDGs) by, among other things, attracting more foreign direct investment

The Initiative is focused on the capitals of the regions where the Millennium Villages Project (MVP) is enabling farmers to transition from subsistence farming to commercial agricultural and non-agricultural activities.

The MCI aims to engender a climate in which investment, especially foreign direct investment, can thrive, thereby creating employment, stimulating enterprise development and fostering economic growth. As such, the MCI is intending to accelerate the attainment of some of the MDGs within selected cities in sub-Saharan Africa.

In addition, the MCI is helping to carry out needs assessments in a wide array of social sectors, the data from which will enable the Millennium Cities to generate integrated City Development Strategies that are explicitly predicated on achieving the MDGs.

The Millennium Village Project (MVP) in Ghana has already made considerable progress in the areas of agriculture development, health and education.

The MVP cluster in Ghana is located about 50 miles west of Kumasi, in the Amansie-West district in the Ashanti region.

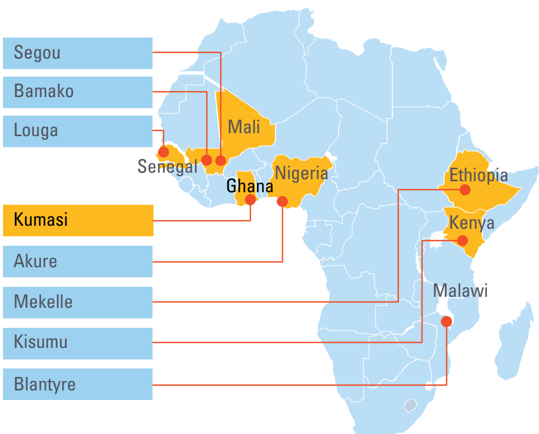
Improvements at the MVP cluster in Ghana can already being seen in health, infrastructure and agriculture.

"Due to better sowing and farming techniques, the maize yield has more than doubled. Improvements have also been made in the growing of palm, although exact yield improvements still need to be measured." *MVP representative*

"We have created a market for the village's manual palm oil production by forming a contract with a Kumasi agent." *MVP representative*

"We see less pregnancy death and less infant mortality due to increased access to health support. A new clinic is being built in our area."
MVP villager

The Millennium Cities in Africa



Source: Millennium Cities Initiative Report, January 2007

Introduction to Ghana

With its political stability, economic liberalism, highly motivated workforce and infrastructure improvements, Ghana's outlook appears positive

Key facts

Ghana is located in West Africa and covers an area of 238,305 km^2. Ghana was estimated to have a population of approximately 22.6 million in 2006[1].

The average population has grown at 2.1 percent per annum between 2000 to 2006, while the labour force has grown at 2.5 percent over the same period.

Although Ghana has many different local languages, there is a large English speaking population as the official language is English.

Life expectancy at birth is 59 years (in 2006) and infant mortality per 1,000 live births is 64[2].

The political situation

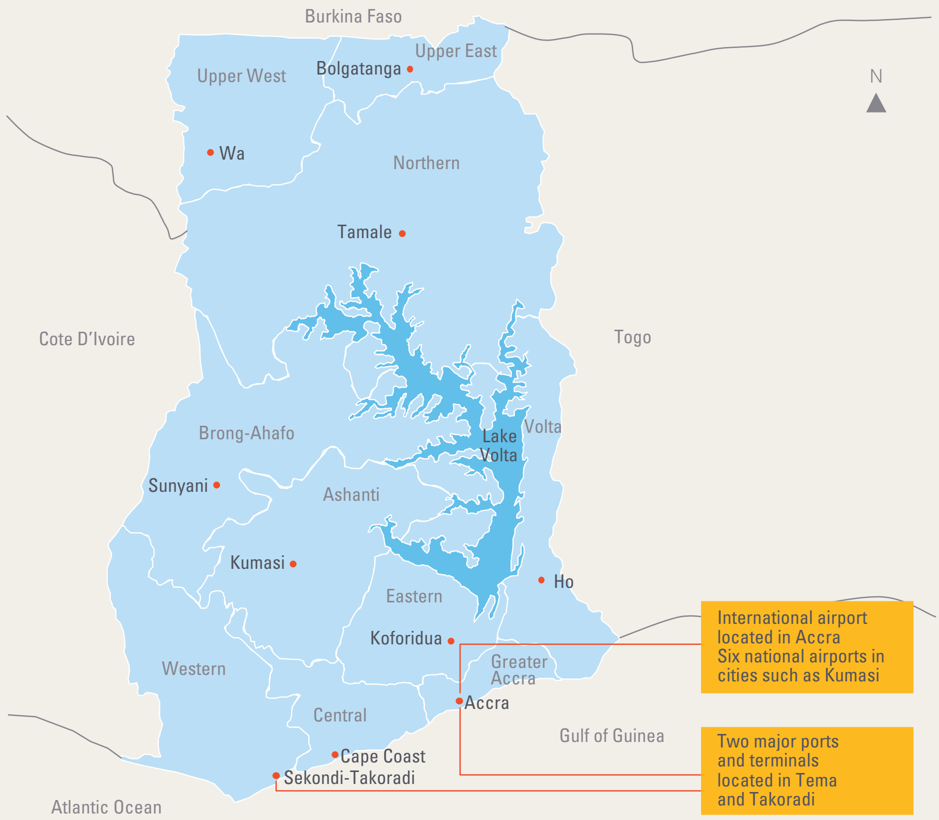
In 1957, Ghana became the first sub-Saharan country in colonial Africa to gain its independence but fell into years of mostly military rule from 1966.

The constitution was suspended for a second time by Flight Lieutenant J.J. Rawlings and his colleagues in 1981 and was not re-established until 1992 in the face of international and domestic pressure for a return to democracy.

The December 2000 elections ushered in the first democratic presidential change of power in Ghana's history when John Agyekum Kufuor of the New Patriotic Party (NPP) was elected.

Ghana's political situation remains stable and the country is notable in the region for its relatively long period of peace and the general lack of violence, discrimination or intimidation, despite sitting between two rather less peaceful neighbours, Togo and the Ivory Coast. President Kufuor will be stepping down after his second term in office with presidential elections due to be held at the end of 2008.

Ghana showing the ten administrative regions



Source: ViewsWire Ghana, Economist intelligence Unit, September 2007

Education

Ghana has a relatively well-educated labour force and is focusing on improving education further. The literacy level of the adult population was 53.4 percent in 2003[3].

Ghana has six large public universities as well as a number of private ones. The only technical university is Kwame Nkrumah University of Science and Technology (KNUST) located in Kumasi.

Growth

Africa as a continent is growing fast, with Ghana reflecting a significant part of this progress. Africa's economies have been expanding by 5.4 percent a year compared to a world average of 4.2 percent and are projected to hit almost 7 percent in 2008[4]. According to Merrill Lynch, Africa now offers investors as much potential as Russia.

Ghana's economy is growing at 6.2 percent per year due to sound leadership, backed by credible democracy. Inflation decreased from 40 percent in 2000 to 10 percent in 2006[5]. Also, the percentage of the population living in poverty is down to 33.4 percent from nearly 40 percent in 2000 and over 50 percent in 1990[5].

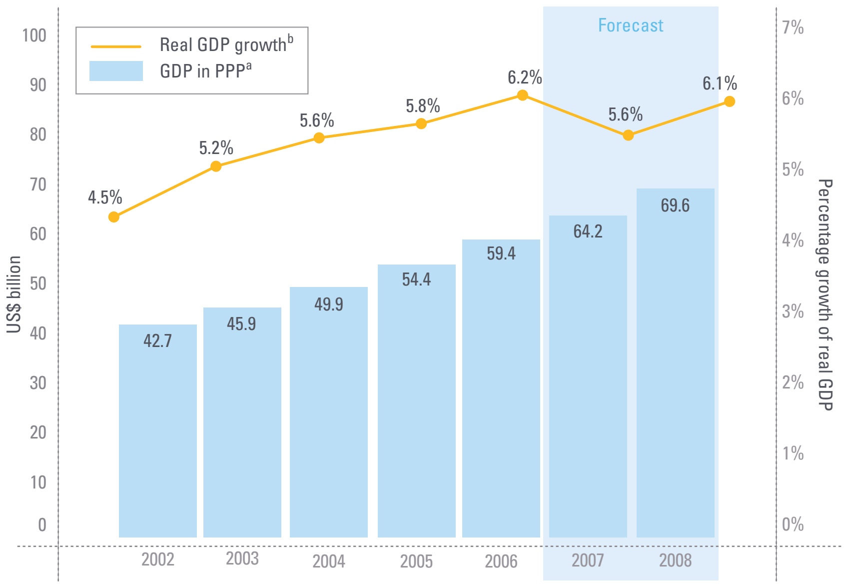
Ghana's economy is expected to continue to grow at its current rate

Ghana was recognised for its economic and democratic achievements in 2006, when it signed a five-year anti-poverty compact with the United States' Millennium Challenge Corporation worth US$547 million.

The economy is growing faster than at any time since the late 1990s as economic activity has broadened. Ghana needs to keep up a strong pace of growth as the population is growing by more than 500,000 each year.

1 Economist Intelligence Unit
2 Ghana Demographic and Health Survey, 2003
3 Ghana Statistical Service '2003 Core Welfare Indicators Questionnaire (CWIQ) Survey'
4 Ghana reflects progress in Africa, The Associated Press, December 2, 2007
5 World Bank

Ghana's GDP based on PPP (Purchasing Power Parity) 2002–2008



Source: Ghana Investment Promotion Centre

a 'World Economic Outlook Database', International Monetary Fund, April, 2007
b ViewsWire Ghana, Economist Intelligence Unit, September, 2007

Ghana's abundant natural resources and location within West Africa are strong drivers behind its economic growth

Structure of the economy

Percentage of GDP	1986	1996	2005	2006
Agriculture	47.8	39.0	37.5	37.2
Industry	17.2	23.6	25.1	25.4
Manufacturing	*11.1*	*8.6*	*1.6*	*1.3*
Services	35.0	37.4	37.4	37.4

Source: 'Ghana at a glance', World Bank, February, 2007

Agriculture

Ghana is rich in natural resources such as gold, timber, industrial diamonds, bauxite, manganese, fish, rubber, hydropower, petroleum, silver and limestone making its economy heavily reliant on mining. Strong prices for gold have provided a boost to Ghana's gold mining industry and it is now Africa's second largest gold producer after South Africa.

Ghana's fertile ground makes it ideal for agriculture. The domestic economy continues to revolve around subsistence agriculture, which accounts for 37 percent of GDP and employs 60 percent of the workforce, mainly small landholders. The main agricultural product is cocoa, which accounts for about 40 percent of Ghana's export revenues.

The industrial sector contributes 25 percent of GDP and policy makers hope to increase this share to 37 percent by 2010. Output is hindered by widespread energy shortages, and many local manufacturers are also suffering from an influx of cheap imports, especially from China.

The service sector accounts for about 37 percent of GDP and has performed well in recent years. Insurance and financial services are the driving forces behind this growth, with tourism lagging behind.

Wealth distribution

Ghana will continue to draw heavily on international financial and technical assistance and will need to ensure wealth is distributed across the country.

Ghana has had a relatively good record of development and aid policy implementation in recent years and will seek to remain in favour with donors by continuing to push ahead with economic reform.

Although significant reductions in poverty are being realised, Ghana still has apparent disparities in wealth distribution, especially in its northern region which has been relatively untouched by economic growth.

Investment in Ghana

Attracting foreign investment

Ghana has established a track record of attracting foreign investment and this trend is likely to gain momentum

Foreign investment has been a key strand of successive Ghanaian governments' economic development strategies.

In common with other developing countries, Ghanaian governments have viewed foreign investment as a catalyst for accelerated economic growth by:

- Providing access to larger and cheaper levels of capital
- Introducing more efficient production technologies and more appealing end products, accompanied by a corresponding improvement of workforce capabilities
- Gaining access to a broader scope of market knowledge and commercial relationships

Ghana has significant mineral resources, for example, gold, manganese and bauxite, large areas of undeveloped land and considerable agricultural production potential. The current upward price trend for both hard and soft commodities makes supplying these markets increasingly attractive and also encourages key consumers to secure their supplies, potentially by investing directly in production.

Ghana's relatively stable political and economic climate stands out within the West African region making it attractive as a regional hub in comparison to countries such as the Ivory Coast and Nigeria.

There has been significant investment in cargo handling facilities at key ports such as Tema and at Accra's international airport alongside an ongoing programme of domestic transport infrastructure enhancements, particularly the road network.

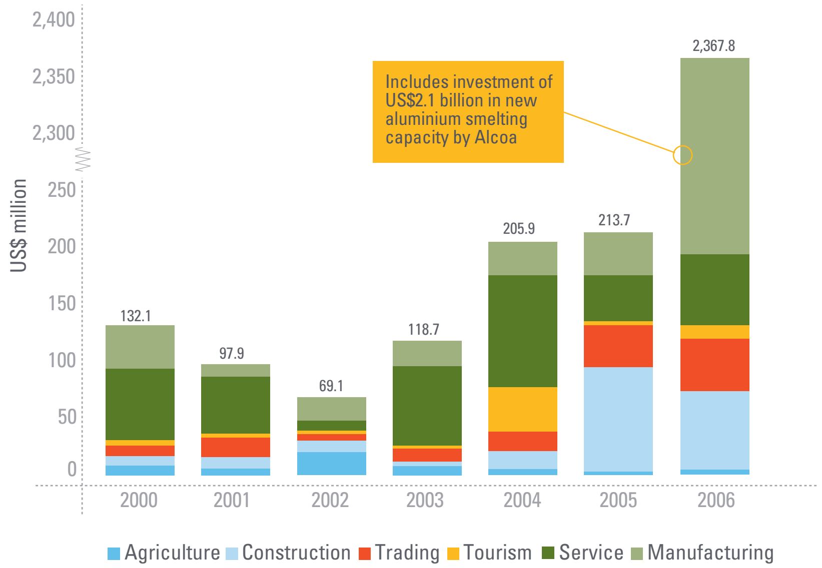
A number of large multinational manufacturing companies have been present in Ghana for many years, for example:

- Unilever has been operating in Ghana for over 70 years and the company's activities include running two palm oil plantations
- Nestlé started its business in Ghana in 1957 and its operations include a production facility at Tema

CAGR (%) 2000–2006

Manufacturing[b]	9.7%
Service	(0.6)%
Tourism	30.2%
Trading	27.3%
Construction	43.8%
Agriculture	(4.7)%

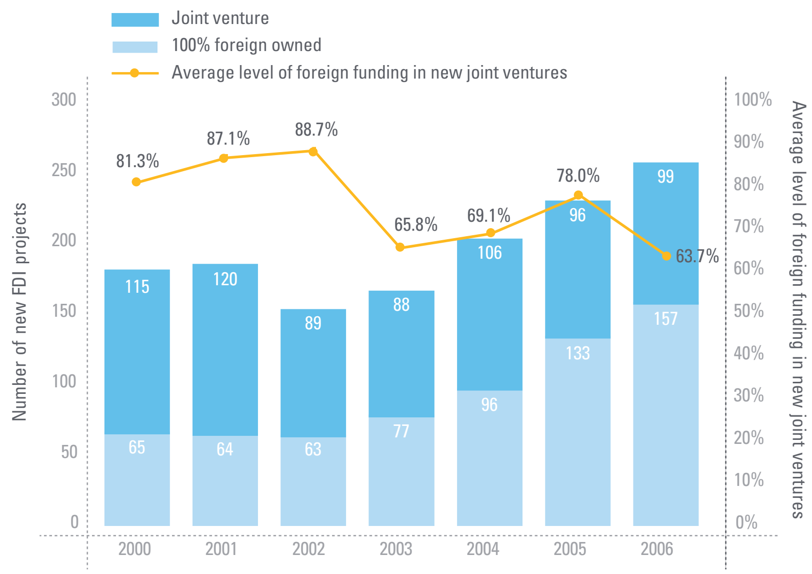
FDI in Ghana by industry[a], 2000–2006



Source: Ghana Investment Promotion Centre

a Based on total value of investment therefore where joint ventures with a Ghanaian partner occur, value includes investment contribution from the domestic investor
b Manufacturing CAGR excludes 2006 investment by Alcoa

FDI in Ghana by type of ownership and level of investment, 2000–2006

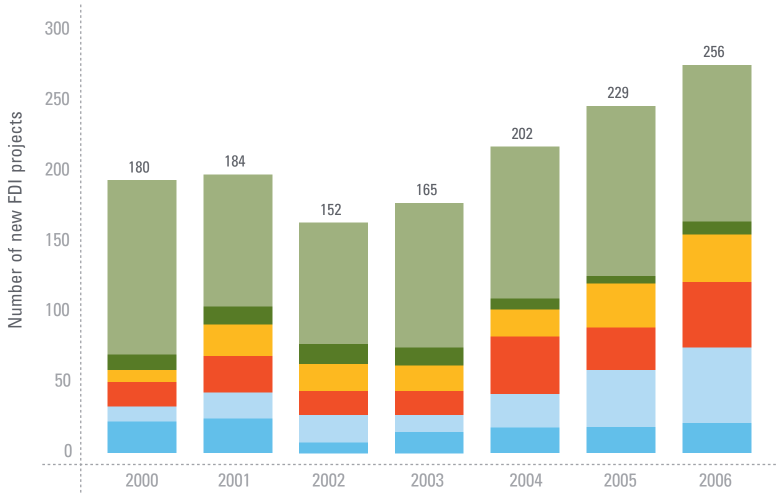


Source: Ghana Investment Promotion Centre

Foreign investment interest in Ghana has traditionally come from a limited number of countries

CAGR (%)	2000–2006
Other	(1.8)%
US	(1.7)%
Lebanon	25.3%
India	17.9%
China	30.8%
Britain	(0.8)%
Total	6.0%

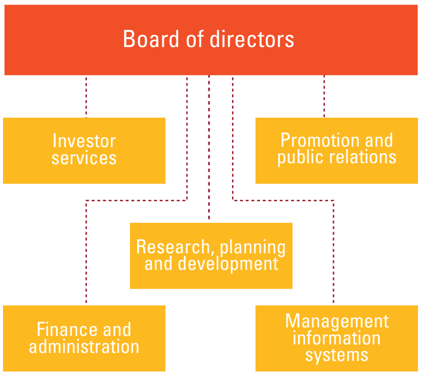
FDI in Ghana by country of origin, 2000–2006



Note: Joint ventures where the foreign investors come from more than one country are shown in 'other' category

Source: Ghana Investment Promotion Centre

Organisational structure of the Ghana Investment Promotion Centre



Source: Ghana Investment Promotion Centre

Through a combination of fiscal measures and the work of the Ghana Investment Promotion Centre, Ghana's government is seeking to maintain a favourable investment climate

The GIP Centre

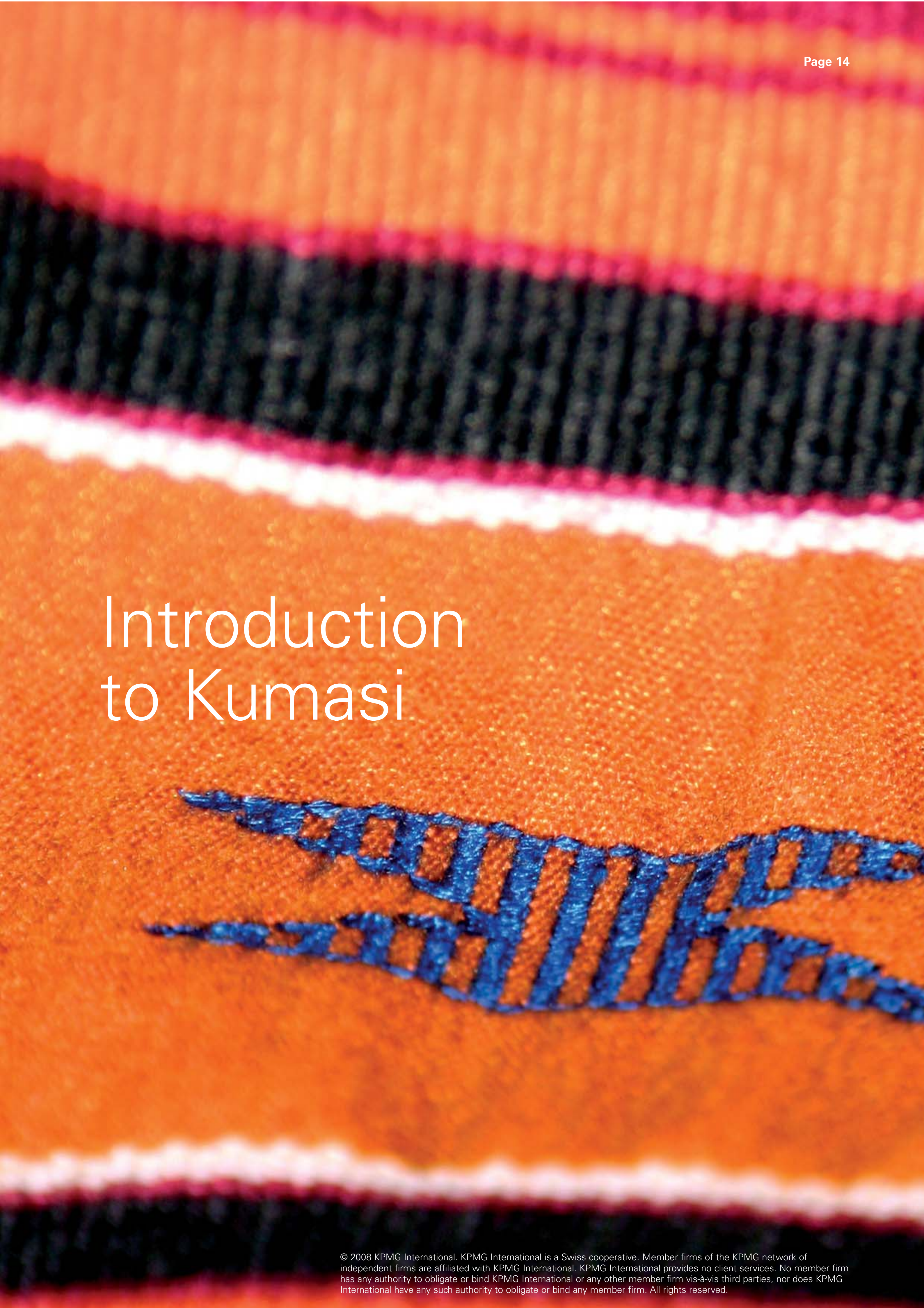
The Ghana Investment Promotion Centre (GIPC) is intended to support investment in Ghana. It was re-established in 1994 in order to encourage, promote and facilitate investment in all sectors of the Ghanaian economy except mining and petroleum.

The centre is currently undergoing a comprehensive re-organisation under a new Chief Executive Officer (CEO), in order to make it more responsive to investor requirements. The centre's headquarters are in Accra, however, it has established an office in Kumasi to focus specifically on encouraging investment in the Ashanti region.

Fiscal incentives

There are a variety of fiscal incentives in place to encourage investment depending on location and product type. Some examples include:

- Tax holidays (from the start of operations) exist for a number of sectors, for example agro-processing:
  - five year tax holiday
  - after the initial five year tax holiday, corporation tax for agro-processing businesses will be 20 percent in Accra and Tema, 10 percent in other regional capitals and 0 percent outside regional capitals
- Free zones: 10 year tax holiday and 8 percent tax thereafter
- Tax rebates based on location also exist, for example manufacturing industries in regional capitals other than Accra and Tema receive a 50 percent rebate



Introduction to Kumasi

Kumasi, as Ghana's second city, is set to contribute significantly to the country's economic growth. Kumasi is located centrally in the Ashanti Region, forming an important transport and commercial hub for both domestic and international traffic

The Ashanti region

Kumasi is located centrally in the Ashanti region, forming an important transport and commercial hub for both domestic and international traffic. It is the key transportation link between the south and north of Ghana as well with the surrounding countries. The region occupies a total land area of 24,389 km^2 (approximately 10 percent of total land in Ghana) and has 21 districts, of which Kumasi is the regional capital.

Kumasi's attractiveness

Kumasi's strategic geographic location make it a brisk commercial and administrative centre, and it is regarded as the commercial capital of Ghana, with West Africa's largest open-area market, Keteja market.

Kumasi has already proved attractive to a number of large foreign investors. Agro-processing Archer Daniels Midland (ADM) announced in the middle of 2007 that it is to build a new cocoa processing facility in Kumasi.

> **"By locating the plant in Kumasi, we will be processing cocoa closer to the farmers and providing local jobs to the community."** *ADM press release*

During the KPMG interview programme, numerous investment opportunities in Kumasi were identified.

Land ownership

The traditional authorities remain strong in Kumasi with the King of the Ashanti's (the Asantehene) main lever of power being the allocation of land. Kumasi was founded in 1680 by King Osei Tutu I to serve as the capital of the Ashanti State, with all land in the region being held in trust by the King.

As in other areas in the country, the institution of chieftaincy is very pronounced in the Ashanti region and plays a significant role in its administration.

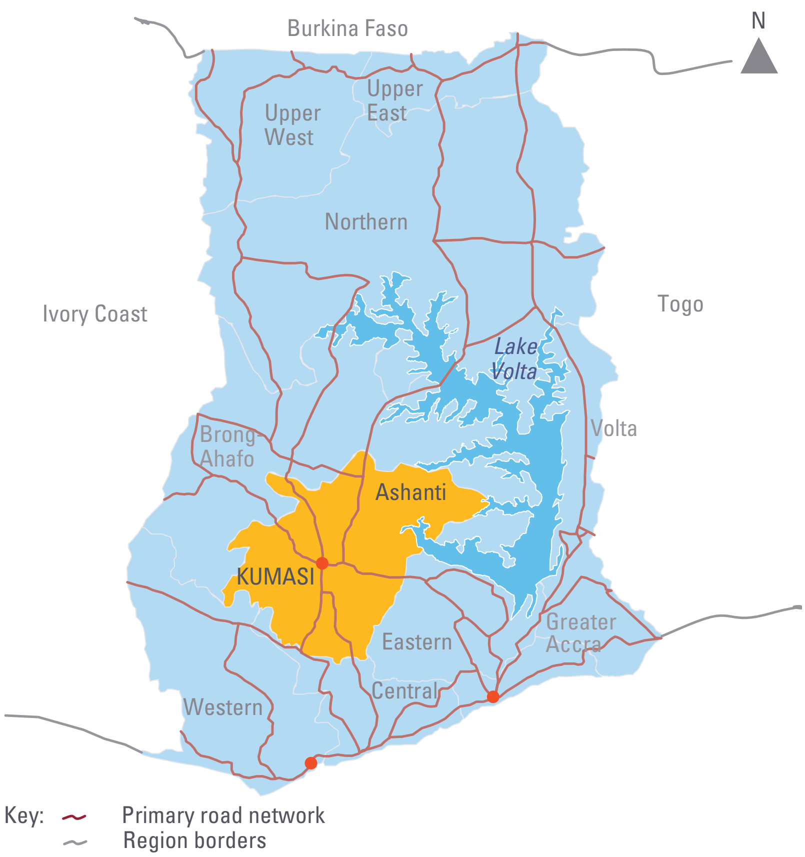
Transport

Kumasi forms a transport hub for both domestic and international road traffic, with significant trading taking place at its large local market.

It has a national airport that is in the running to be Ghana's second international airport. Its railway is currently redundant, although a national study is looking at revitalising Ghana's rail network with the Kumasi line likely to be a priority should the reinstatement work be undertaken.

With its central location, Kumasi is well positioned to take advantage of further growth in Ghana and the region as a whole

Ghana's regions and primary road network



Source: Kumasi Tourist Board, 2007

Population and workforce

Kumasi's population was estimated to be about 1.6 million in 2006 and is expected to continue to grow at about 5 percent per annum[1].

Kumasi has an attractive workforce pool, with labour costs approximately 10–15 percent cheaper than Accra's[3].

Kumasi is home to numerous educational institutions, including the only science and technology university in Ghana. KNUST has a student population of nearly 23,000, comprising both undergraduate and postgraduate students.

Literacy in Kumasi is high with more than 15 percent of the population with senior secondary education and about 10 percent with tertiary or technical education[2].

Economic hardship

In common with the rest of Ghana, Kumasi is recovering from considerable economic hardship during the period of government mismanagement and conflict between the 1970s and 1990s.

During this period of mismanagement the city's infrastructure and services deteriorated markedly, although recent years have heralded a recovery.

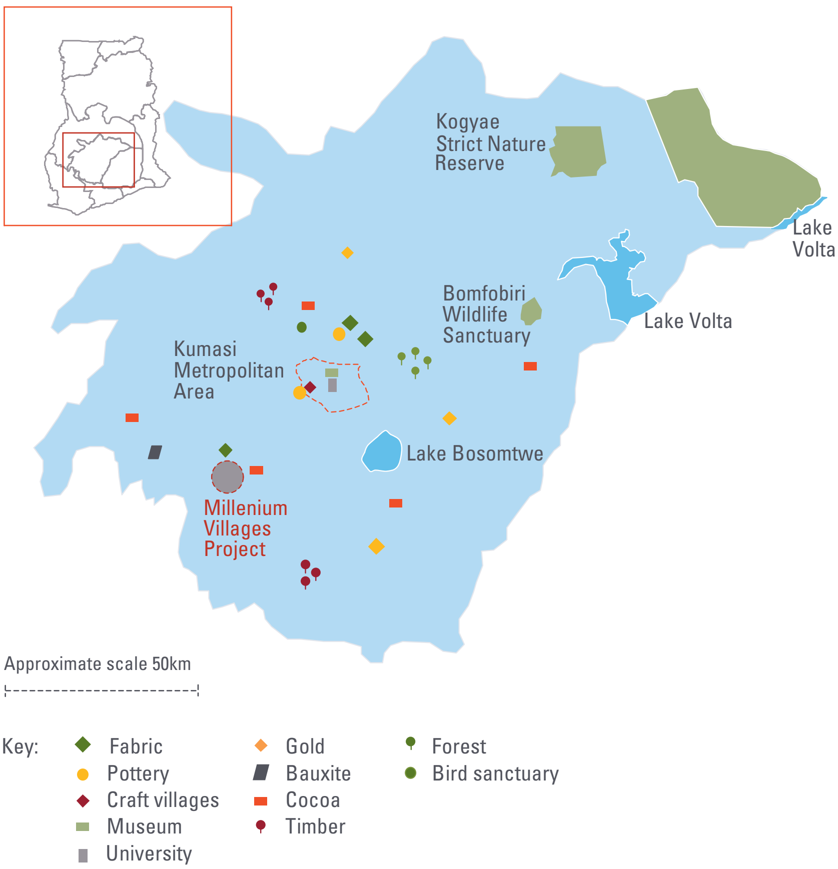
1 United Nations Population Division
2 Ghana Statistical Service
3 KPMG in Ghana interview programme

Investment in Kumasi

Introduction

Despite the potentially broad appeal of its resources and location, to date investment in Kumasi has been concentrated on a limited number of sectors

Kumasi and the Ashanti region



Source: Ghana Tourist Board

Local resources

The extraction of Kumasi's and the Ashanti region's natural resources has historically attracted investment to Kumasi.

A substantial industry based on timber processing has grown up including milling and the production of furniture and other products, largely for the domestic market. Approximately 50 percent of industrial sector employees in Kumasi are employed by wood-related businesses[1].

The Ashanti region is one of the main gold mining areas of Ghana and as a result has received significant investment in this industry. For example, one of AngloGold Ashanti's two gold mines in Ghana is at Obuasi, south of Kumasi.

Agricultural production has traditionally been centred on cocoa as the majority of Ghana's cocoa is grown in the Ashanti region. Cocoa production, supported by the government through the Ghana Cocoa Board, is relatively widespread throughout the Ashanti region. Although the area of land under cocoa production on individual farms averages approximately 10 acres and this may be spread over a number of separate locations.

An increasing number of farmers have diversified their crops by growing maize, palms, pineapples and now also citrus fruits.

Kumasi is renowned for its local enterprise and artisan skills, particularly in the areas of furniture-making and vehicle engineering. Woodwork, leatherwork and textile production (especially the traditional 'kente' cloth) are established skills amongst the local population although manufacturing methods are typically based on simple technology.

Significant non-traditional skills are also present in Kumasi's workforce, for example the broad range of metalworking shops within the so-called 'Suame Magazine'.

1 KPMG in Ghana interview programme

Foreign investment

Foreign investment in Ghana is currently concentrated in the Greater Accra region.

With its proximity to major ports, an international airport and a relatively developed infrastructure, Accra and its environs have been an attractive proposition for foreign investors in Ghana.

The concentration of government offices in Accra, and their pivotal role in business set-up and administration, also act as a draw to encourage investment in businesses in or nearby Accra.

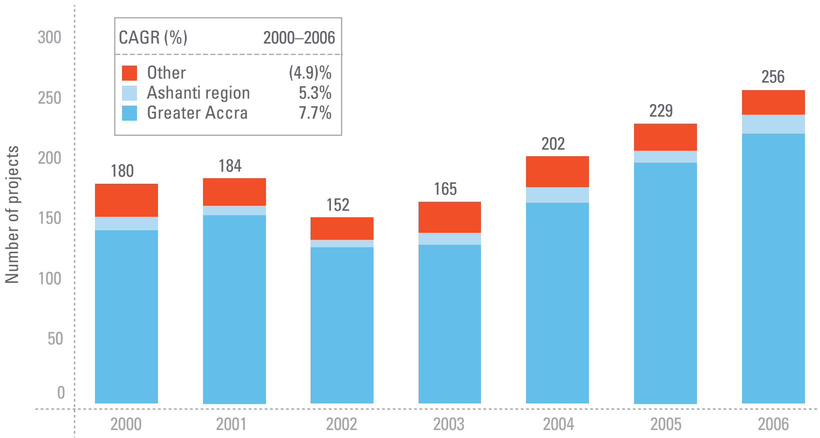
Foreign investors in Kumasi

There are already a number of significant foreign investors in Kumasi such as Coca-Cola, Guinness and Maersk.
In addition, further large foreign investment projects are underway such as:

- The renovation and expansion of the City Hotel by the Libyan investment company, Ghana Libyan Arab Holding Company, to be operated by the Golden Tulip hotel chain
- The construction of a cocoa processing plant by Archer Daniels Midland

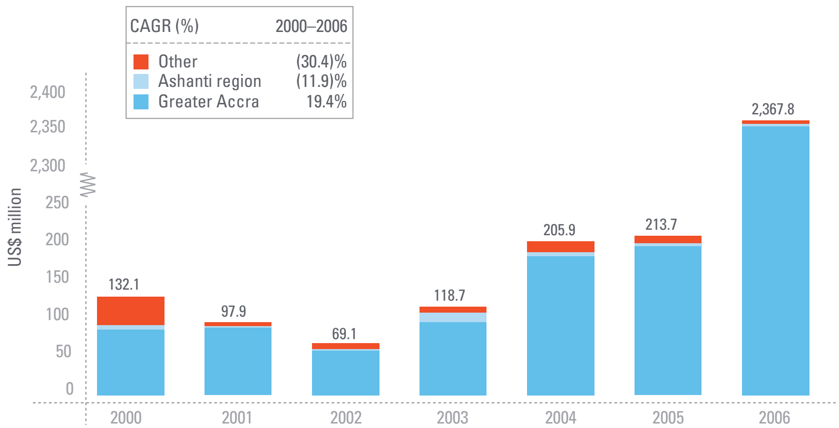
In common with other regions in Ghana, Kumasi substantially lags behind the Greater Accra region in terms of foreign investment levels

FDI in Ghana by region (number of new projects) 2000–2006



Source: Ghana Investment Promotion Centre

FDI in Ghana by region (value of new projects) 2000–2006

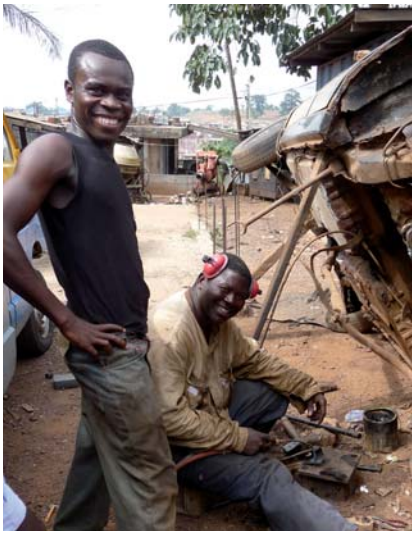


Source: Ghana Investment Promotion Centre

The foundations and direction of travel are in place to achieve Kumasi's potential, although the speed at which the remaining issues will be addressed is uncertain

Favourable investment factors
- Land availability, tenure and cost
- Lower labour costs and access to skilled labour
- Access to raw materials
- Improving transport infrastructure
- Export Processing Zone

Issues still to be addressed
- Security of utilities supply
- Centralised government regulation
- Limited and expensive access to financing
- Staff housing availability
- Recruitment of expatriate staff



Favourable investment factors

Access to skilled labour and land in Kumasi and the wider Ashanti region are major positive factors that encourage investment in the area.

Land availability, tenure and cost

Land prices are at least 15–50 percent lower than those in Accra and Tema.

> " There is more land available in Kumasi and the registration system is a lot less complicated [than Tema]."
> *Manufacturer*

The system of land tenure in the Ashanti region with its close control by the Ashanti king and his subordinate chiefs, makes land transactions simpler and more transparent compared to other regions in Ghana.

Lower labour costs and access to skilled labour

Labour costs are approximately 10–15 percent lower than in Accra. There are almost 7,000 KNUST graduates each year in subjects spanning both arts and sciences; there are also approximately 700 postgraduates per year.

In addition to a substantial formally qualified labour pool, there is a significant presence of artisan skills such as metalworking, woodworking, textile design and manufacture, and leatherworking. For the most talented potential recruits, businesses in Kumasi have to compete against the perception that greater opportunities and rewards exist in Accra, if not overseas.

Access to raw materials

The Ashanti region has significant breadth in its agricultural production, including cocoa, palm oil, and citrus fruits, as well as timber and mineral reserves. To date, agricultural production in particular has been based on small holding sizes, low yields and staple crops. There is potential to increase the scale and efficiency of production alongside switching the production focus towards cash crops demanded by local manufacturers.

Improving transport infrastructure

There is substantial current and planned investment in infrastructure projects across the short and medium term including the upgrade of the airport, the creation of an inland port and the construction of several new road projects.

Ninety-eight percent of freight moved in Ghana is by road[1] and therefore the quality of the road network is a crucial factor for manufacturers in terms of the efficiency and the economy of their inbound and outbound supply chain. The planned creation of an inland port alongside, in the longer term, the reinstatement of the railway would assist manufacturers in allowing them to manage their imports and exports close to their production site.

Export Processing Zone

A site with a land area of 1099 acres (439 hectares), located close to KNUST and the inland port of Ghana Boankra, has been designated as the Ashanti Export Processing Zone.

The creation of this zone and associated support and facilities should assist manufacturers who predominantly supply the export market. The Ghana Free Zone Board (GFZB) is targeting it as an information, communications and technology (ICT) park, which will require significant external investment.

1 Ghana, African Economic Outlook 2005–2006, AfDB/OECD

Issues to be addressed

The secure supply of water, electricity and other utilities and infrastructure remains a concern both for current and future investors.

Security of utilities supply
According to the Kumasi Metropolitan Assembly, water supply in the Kumasi Metropolitan Area is currently running at 75 percent of demand. A number of projects are underway or planned to improve supply. Energy power cuts also occur on an irregular basis.

Existing manufacturing facilities in Kumasi with a high dependency on water, such as the Coca-Cola Bottling Company and Guinness Ghana Breweries, have invested in sizeable water storage facilities to guard against production interruptions. Many large companies and institutions invest in back-up generators.

Centralised government regulation
The majority of government offices and officials key to establishing and operating a new business are located in Accra.

The establishment of a GIPC office in Kumasi (in conjunction with MCI) may ease communication with key government departments. However, without central government representation at a local level, investors should expect to deal directly with government departments and officials in Accra.

Limited and expensive access to financing
Currently the majority of business accounts and loans in Kumasi concentrate on commercial enterprises due to their perceived lower risk profile. Investors looking to raise local financing for manufacturing businesses may need to overcome a degree of scepticism from domestic lenders and be prepared for an additional risk premium.

"Eighty percent of our accounts [in Kumasi] are for commercial businesses...only 20 percent are for industrial companies." *Banker*

Staff housing availability
The limited availability of housing of sufficient quality and quantity in Kumasi and its immediate environs for production facilities' workforce may act as a constraint to investors.

"I am expecting to encounter problems finding housing for the workforce." *Manufacturer*

Recruitment of expatriate staff
The relative lack of development in Kumasi compared to Accra may make it a less appealing location for critical expatriate employees, such as the head of maintenance and key members of the financial team. This situation may become more acute for employees with families requiring supporting facilities such as schools and entertainment.

"We will have to consider carefully which members of [our expatriate] staff we approach for these roles [in Kumasi]...they will not appeal to everyone." *Manufacturer*

"Education is an issue...it's fine up to the age of 10, after that there are some difficult choices." *Manufacturer*

Investment in infrastructure

The metropolitan government is placing a significant emphasis on developing the infrastructure in the Greater Kumasi area

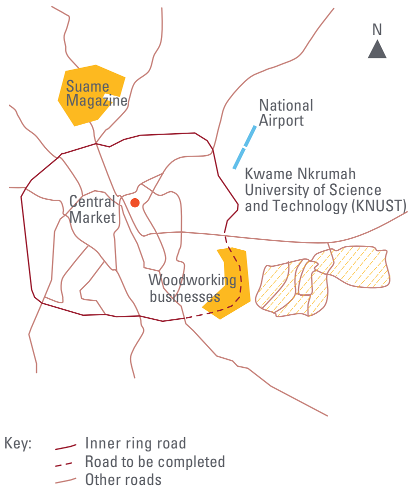
Summary of elements of the urbanisation plan driven by the Kumasi Metropolitan Assembly (KMA)

Selection of initiatives	Status
Various road projects	Funding for certain projects has been secured for the formation of dual carriageways, feeder roads and outer roads (see next page).
Introduction of parking zones	It now costs 0.3 Ghanaian cedis (GHC) per hour to park anywhere in the central business district (CBD).
Re-location of small-scale industries	Sokoban Wood Village development for the re-location of the Anloga woodworkers is under development. A new location for the Suame Magazine has yet to be secured. Studies are being undertaken to investigate upgrading the Kumasi central market.
Baba Yara Sports stadium	Construction of the stadium is nearly complete and will be one of the four venues to host the 2008 Africa Cup of Nations (ACN).
Boankra inland port	The dry port is to be an intermodal terminal near Kumasi especially for overland transport with countries such as Burkina Faso, Mali and Niger to facilitate import and export trade. This long term project is under construction but is currently facing land ownership issues. This project would also include the reinstatement of the railway line to Accra.
Affordable housing project at Asokore Mampong	This is part of the Ghanaian government's intention to provide affordable housing across the entire nation. Work is progressing at six sites, one of which is Asokore-Mampong in the Ashanti Region.
Demolition of illegal homes and businesses	Removing traders on pavements and streets and demolishing major slum areas and illegal structures is in progress. The KMA has set up a monitoring team to stop traders from returning.
Airport	Kumasi domestic airport will introduce runway lighting to allow for night flights during the African Cup of Nations. Kumasi is in the running with Tamale to be selected as the location for Ghana's second international airport, and in this regard, the Ghana Civil Aviation Authority (GCAA) has secured a large plot of land next to Kumasi's airport.
Electricity from garbage	Cinergex Solutions from Canada is constructing a plant at the Kumasi Metropolitan Assembly's landfill site at Oti to generate electricity from waste materials. The US$136 million project is expected to generate 30–52 MW electricity and is on a build-operate-and-transfer (BOT) basis.

Source: KPMG in Ghana interview programme and desk research

Development plans are seeking to ease congestion in Kumasi's city centre

Route of Kumasi's inner ring road



Source: Ghana Tourist Board

Decongestion plans

Kumasi is a rapidly expanding city with current industrial centres located in prime locations in the city centre causing significant congestion and land use conflicts.

The Suame Magazine

This is an informal industrial estate with small-scale, engineering-based industries, and a working population of over 200,000, centrally located in Kumasi.

The estate has never been properly developed by government or development agencies since its establishment in 1926 and is a densely populated area.

Government and local organisations are keen to move the estate in order to stimulate its technical development, but no clear development plan has yet been agreed despite many years of discussion. Recent progress has been made through the formation of Suame Magazine Industrial Development Organisation (SMIDO) an umbrella organisation, which has brought together over 90 percent of representative groups.

Sokoban Wood Village project

Woodworkers located at Anloga are hampering the completion of the inner ring road between Oforikrom and Anloga. The Sokoban Wood Village project has been initiated to create a settlement enclave at a more peripheral location and to enhance productivity among the woodworkers and is being funded by the Agence Franciase de Development (AFD).

Construction of the village is in progress and is expected to be completed in 2008. At least 12 large-scale operators have already relocated and ultimately the project is expected to relocate close to 5,000 woodworkers.

Parking

With all the roads and commerce in the CBD, traffic and parking is problematic. This situation is worsened by the fact that there is a lack of good public transport and off-street parking. In order to discourage people from parking in the CBD, a GHC 0.3 hourly paid parking scheme was introduced in June 2006.

Kumasi lacks a structured public transportation network and is one of the cities that would benefit from the re-introduction of public mass transport in the metropolitan and municipal areas. Transportation in Kumasi is still mostly in the form of taxis or small vans. A Bus Rapid Transit system for the ring road is being developed.

Transportation projects

The government has secured funding for various transport projects providing opportunities for companies to invest in construction and the maintenance of roads

Kumasi is strategically located centrally between Accra in the South and Tamale in the North and serves as a main trading destination, thereby generating significant traffic on the limited road infrastructure.

The road transport infrastructure in the metropolis has not kept pace with the city's economic and population growth, resulting in significant vehicle congestion particularly in the CBD and on arterial roads.

About 60–70 percent of the traffic is into and out of the city centre and, due to inadequate public transport, private cars are more a necessity than a choice.

The Kumasi Metropolitan Assembly, the highest political authority in the metropolis, is responsible for the development and maintenance of the city.

The KMA's goals are laid out in its five year strategic plan which covers five main sectors: transportation, housing, water and sanitation, electricity supply and telecommunications. Transportation continues to be a major area of development and maintenance.

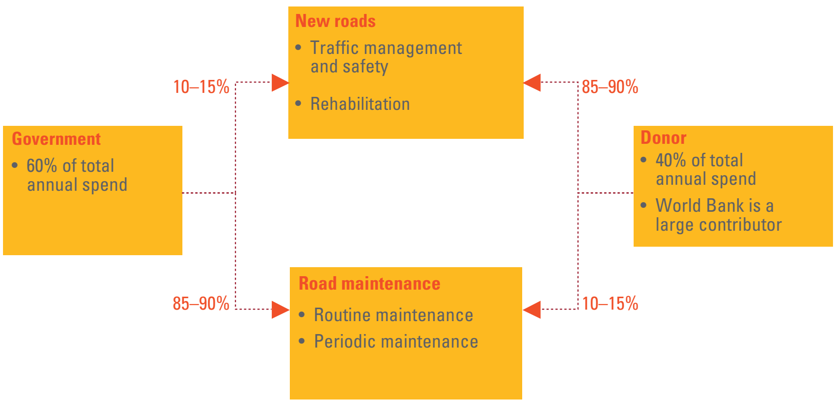
Financial support for new roads and the maintenance of existing roads comes from both national and donor funding with the Kumasi Metropolitan Roads Department having responsibility for transportation development and maintenance.

Due to the large amount of traffic on a limited number of roads, there is continually need for maintenance alongside upgrading as only about 25 percent of the 1,700 kilometres of road in the metropolis is paved. Almost all the junctions in the city need to be upgraded and new roads need to be developed to accommodate the increased levels of traffic.

The Asafo interchange has just been completed, although it has experienced significant delays due to labour and other constraints.

The Kumasi Metropolitan Roads Department is looking to complete the inner ring road, create an outer ring road to divert traffic out of the city as well as rehabilitate the bus terminal at Kejetia.

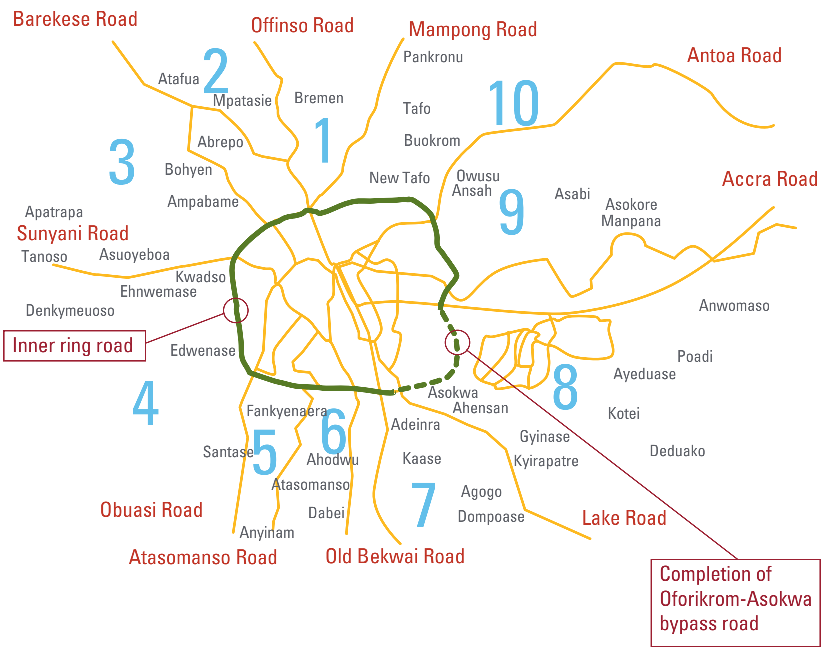
Overview of the current transport project funding



Source: Kumasi Metropolitan Roads Department

The main initial projects to free-up traffic in the city are the completion of the inner ring road and the connection of the existing radial roads

Outline of the ten proposed corridors in Kumasi and the inner ring road



1 Breman corridor (Mampong Road - Offinso Road)
2 Suame corridor (Offinso Road - Barekese Road)
3 Kwadaso corridor (Barekese Road - Sunyani Road)
4 Patasi corridor (Sunyani Road - Obuasi Road)
5 Atasomanso corridor (Obuasi Road - Atasomanso Road)
6 Nyysiaeso corridor (Atasomanso Road – Old Bekwai Road)
7 Kaase corridor (Old Bekwai Road - Lake Road)
8 Atonsu corridor (Lake Road - Accra Road)
9 Asawase corridor (Accra Road - Antoa Road)
10 Tafo corridor (Antoa Road - Mampong Road)

Source: Kumasi Metropolitan Roads Department

Collector/radial roads

The Kumasi Metropolitan Roads Department is working to create ten corridors using the existing arterial roads as their boundaries.

The department believes that the development of 'collector/radial' roads in the various corridors in the long term will have a positive economic impact by:

- Reducing transport cost and urban poverty
- Making the area attractive for mass transport operations
- Enabling the decentralisation of businesses
- Increasing free movement of goods and services from the North and South

President Kufuor recently acknowledged the central role Kumasi plays in the transportation of people and goods from all corners of the country, and for that reason the government would be initiating a number of projects that would open up traffic in the city.

The government also aims to complete the inner ring road at the Oforikrom to Asokwa bypass. The start of this project is dependent on the resettlement of the woodworkers in the Sokoban Wood village.

The French Government, through Agence Francaise de Developpement (AFD), is sponsoring the completion of the inner ring road.

Construction of collector/radial roads has commenced with the creation of culverts; further development is continuing with the securing of funding.

Some graveling work on the collector roads has started, but further development is dependent on the availability of funding which is expected to come from the national government and donors.

Preliminary studies have been undertaken to construct a Kumasi outer ring road in order to keep traffic out of city centre

The government has accepted the proposals, but the KMA is still awaiting to receive the associated funding. Both the collector/radial roads and the inner ring road project have been included in Kumasi Urban Road Department's 2008 budget.

Much of these projects' preparation work has been funded from International Development Association (IDA) through the Exchange Appreciation Project.

Kumasi outer ring road

The Kumasi Urban Roads Department has proposed the construction of a 70 kilometre outer ring road. This will re-direct traffic away from the city centre as well as improving access to the planned dry inland port at Boankra.

The feasibility studies and preliminary designs on the project have commenced but construction is not expected to start until 2008 at the earliest.

The current status is that the route has been defined, the acquisition survey has been completed, as have the impact assessments for properties affected by the proposal, and the process of compensation payment has started.

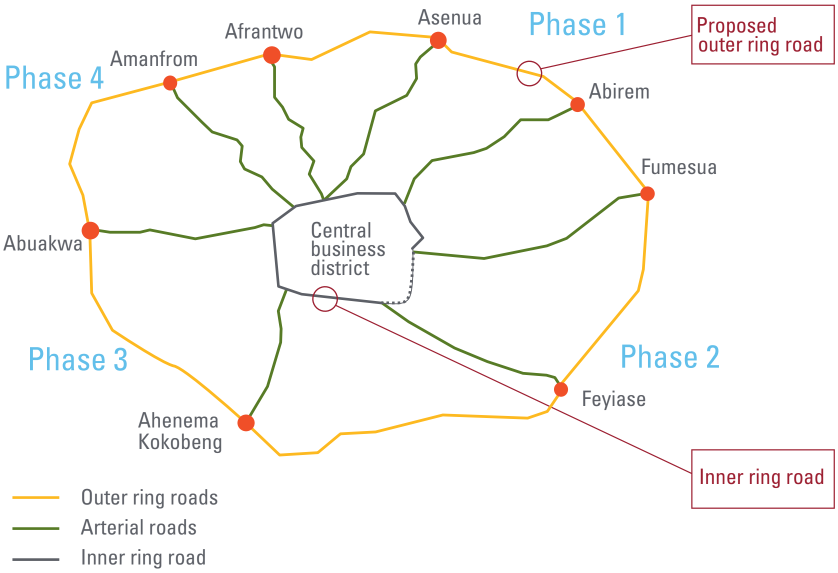
However, full funding has not been secured and compensation payments to date have been limited. According to the Kumasi Urban Road Department, this may delay start of construction until 2010.

President Kufuor recently said in a press conference that the government was committed to the completion of the outer ring road project for Kumasi.

The total expected costs has not been communicated, but just the cost of clearing of the right of way and associated land compensation is estimated to total GHC24 million. The project will be constructed in four phases with each phase taking a year to complete.

Interview feedback suggests that the outer ring road could potentially be a good location for the introduction of a road toll.

Proposed route for Kumasi's outer ring road



Source: Kumasi Metropolitan Roads Department

Other initiatives promoting investment

There are a number of other initiatives that currently add further weight to Kumasi's attractiveness for investment

ADF

This Ashanti Development Foundation's (ADF) membership includes natives of the Ashanti region who can draw upon a large depth of international and domestic commercial experience and connections to support investment in the region. Members include:

- A former prime minister of Ghana
- The Chairman of the Public Utility Regulation Council and former member of the UNDP's Commission on the Private Sector and Development
- The managing director of Fidelity Bank

ADF was formed in February 2007. It is currently viewed as an association that has the potential to act as advisors to the Asanteman Council.

This foundation has the potential to act as:

- A conduit for introductions between investors and potential investment opportunities
- A facilitator in attempting to overcome barriers to investment
- A source of potential local investment partners

GIPC: Kumasi office

The Ghana Investment Promotion Centre (GIPC) has established an office in Kumasi. An interim representative has been appointed to provide the investment community with direct access to key information and individuals. Full facilities have been in place since the first quarter of 2008.

The GIPC office located in Kumasi could facilitate:

- Increased clarity over investment opportunities and supporting resources in and around Kumasi
- More efficient communication between investors, local partners and government departments

Investment funds

Several funding vehicles have been or are being established by Ghana's government to support business growth including:

- Export Development and Investment Fund
- Ghana Investment Fund
- Government Loan Guarantee Scheme (under development)

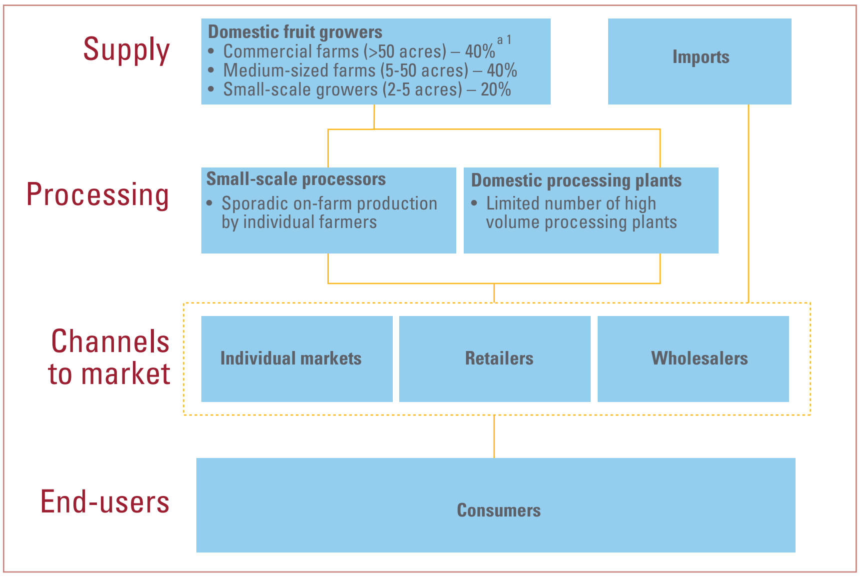
These government-backed funds may be supplemented by local venture capital/private equity funds such as Fidelity Capital Partners, however, the potential extent of funding that may be forthcoming from these sources is unclear.

Source: KPMG in Ghana interview programme and desk research

Agricultural processing

Value proposition

Illustrative Ghanaian fruit juice industry map



a Estimate of percentage of total number of citrus fruit farms in the Ashanti region
1 Ministry of Food and Agriculture, Ghana
2 KPMG in Ghana interview programme

Ghana's growing fruit juice demand currently appears to be largely served by imports although there is significant domestic production potential

Introduction

With growing consumer demand and significant raw material production capacity, there is the potential for domestic fruit juice suppliers to develop a stronger market presence.

The demand

Domestic demand for soft drinks, including fruit juices, appears to be increasing in Ghana.

The soft drinks market is forecast to increase by approximately 5 percent per annum between 2007 and 2010[2].

The level of imports of fruit juices appears to be growing by over 60 percent per annum[1].

Exports

Ghana exports a significant volume of fruits and domestic fruit production levels are increasing.

According to the Ghana Export Promotion Council the value of fruit exports in 2006 was in the region of US$30 million — the only significant export segments amongst this total were pineapples (63 percent), bananas (34 percent) and oranges (3 percent).

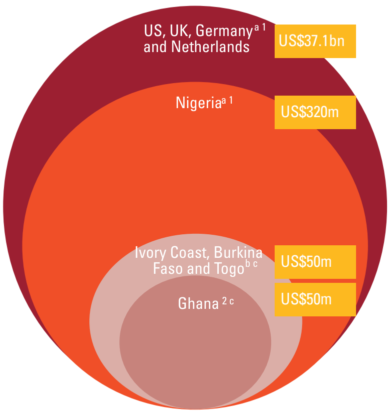
Data from the Ministry of Food and Agriculture shows that citrus fruit production volumes in one of the Ashanti region's ten citrus-growing districts have grown by 11 percent per annum between 2002 and 2006 to reach 17,200 tonnes in 2006.

1 COMTRADE database, United Nations Statistical Division, 2001–2004
2 KPMG in Ghana interview programme

Fruit processing market

In addition to the Ghanaian market, there is the potential for Ghana-based manufacturers to enter regional and international fruit juice markets

Indicative fruit juice market sizes, 2007



Notes:
a Includes pure fruit juices and fruit juice blends
b Based on same spending per capita on non-carbonated fruit juice drinks as Ghana adjusted for relative GDP levels
c Non-carbonated fruit juices

Sources:
1 Interactive consumer database, Datamonitor, November 2007
2 KPMG in Ghana interview programme and World Bank

Market in Ghana

The demand for soft drinks in Ghana is significant and forecast to grow. The overall soft drinks market in Ghana is estimated to be in the region of US$150 million, split US$85 million in carbonated soft drinks and US$65 million in non-carbonated soft drinks[1] (of which approximately US$50 million is the fruit juice market). In the carbonated soft drinks market, Coca-Cola has a 95 percent market share.

Based on KPMG's interview programme, the Ghana's soft drinks market has the potential to grow at around 5 percent per annum between 2007 and 2010.

Although official statistics appear unreliable in absolute terms, the available data, taken together with market evidence and KPMG's interview programme, indicates a significant growth trend in fruit juice imports.

Export possibilities

Neighbouring countries represent potential additional markets, particularly where these markets are currently underdeveloped.

Ghana could act as a central manufacturing location from which neighbouring countries' soft drinks markets could be supplied.

Limitations in transport infrastructure and lower levels of consumer affluence are likely to act as constraints to entering neighbouring markets.

While Nigeria represents a substantial fruit juice market in the region, KPMG interviews indicate that the market's relative maturity and the high costs associated with shipping product from Ghana to Nigeria, act as notable deterrents to attempts to access the market.

Successful market entry into the expansive markets of the US and Europe is likely to be dependent on developing a partnership with an established market player.

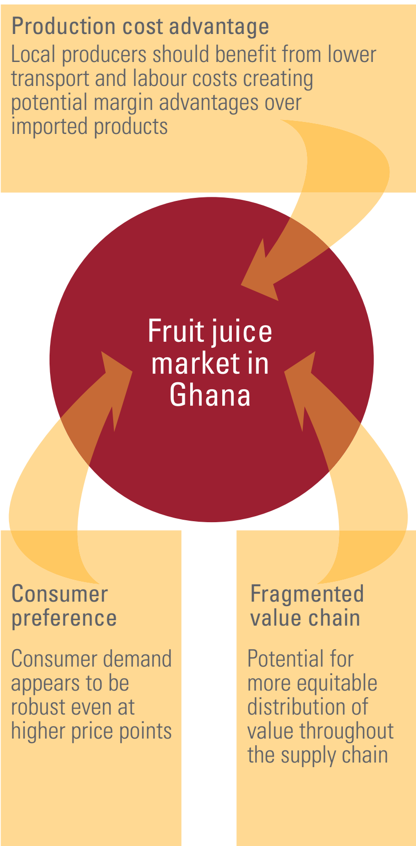
The fruit juice markets in the US and Europe are dominated by a limited number of suppliers and retailers.

- Three suppliers account for almost 75 percent of the US fruit juice market[2]
- In the UK, four supermarkets account for over 80 percent of all grocery sales[3]

1 KPMG in Ghana interview programme
2 'Juices in the United States', Datamonitor, December 2006
3 'How Britain Shops 2007: Food and Grocery', Datamonitor, April 2007

The Ghanaian fruit juice market alone represents an attractive target market

Summary of key positive influences on domestic fruit juice production



Source: KPMG in Ghana interview programme and desk research

Current production

The scale of individual domestic fruit juice producers varies considerably and is currently concentrated on pineapple juice.

While there are a limited number of large-scale domestic fruit juice producers with annual production in the region of three million litres, these facilities mainly manufacture pineapple juice.

Pineapple and citrus fruit production currently appears to consist mostly of individual farmers' own small-scale production supplying a very local market.

Foreign fruit juice producers who have notable coverage within the Ghanaian market include:

- Well-known UK brands such as Just Juice and Del Monte
- Regional producers such as Ceres Fruit Juices from South Africa

" I think there is a great opportunity in producing fruit juices in Ghana."
Manufacturer

Consumer interest

Ghanaian consumers seem to be developing a stronger preference for fruit juices even where these products come at a price premium.

" Many Ghanaians like to drink pineapple juice while eating as it appears to soothe their stomach."
Consumer

Despite the products having a price point that is commonly two to three times higher than locally-produced fruit juices, fruit juice imports appear to be growing strongly.

Retail interest

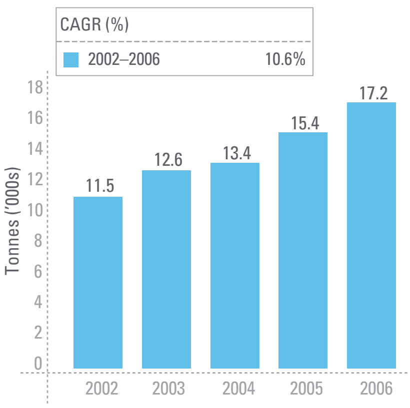
There are no dominant players within the grocery retail value chain in Ghana although imported fruit juice brands dominate in terms of shelf space.

There is considerable fragmentation at every level of the grocery retail value chain which should hinder the creation of value chain imbalances similar to those present in more developed markets such as in Europe where retailers enjoy a particularly strong position.

Access to raw materials

Although pineapple production is more established, citrus production levels appear to be growing strongly and there is potential for additional capacity

Citrus fruit production in Ahafo Ano South district, 2002–2006



Note: Ahafo Ano South is one of the Ashanti region's 10 citrus producing districts

Source: Ministry of Food and Agriculture

Access to fruits

More farmers are entering citrus production as demand for citrus-related products increases.

" There is considerable potential for citrus production around Kumasi...it is a matter of matching market demand to supply potential." *Ministry of Food and Agriculture*

The majority of current citrus producers are relatively small in scale which has cost implications for raw material supply. According to estimates by the Ministry of Food and Agriculture, citrus fruit farms in the Ashanti region are split as follows:

- Citrus production area 2–5 acres: 20 percent
- Citrus production area 5–40 acres: 40 percent
- Citrus fruit production area 40 plus acres: 40 percent

Although these farms may be clustered relatively closely, the administrative and logistical costs associated with dealing with numerous individual suppliers are likely to be higher than sourcing through a single large producer or co-operative.

Other raw materials

Many supplementary raw materials can be sourced from domestic producers.

Established multi-national manufacturers source a significant proportion of their packaging requirements from the domestic market and failing that, the wider regional market.

" Most of our packaging materials such as cartons and plastic tubs are sourced locally...there isn't much that we have to bring in." *Manufacturer*

" We source our caps and crates from Ghana. We used to source some of our bottles from Ghana but now we get the majority from Nigeria." *Manufacturer*

Competition

Current competition is from imported fruit juices, domestic producers and other soft drinks

Indicative summary of soft drinks suppliers

Company	Production location	Sample product range	Sample price points
Just Juice	UK	Orange, pineapple and apple fruit juice drinks	1 litre carton: GHC4.3
Stute Foods	UK	Pineapple, grape and cranberry fruit juice drinks	1 litre carton: GHC2.5
Del Monte	UK	Tomato juice	1 litre carton: GHC4.35
Ocean Spray International	UK	Cranberry and raspberry fruit juices drinks	1 litre carton: GHC4.5
Ceres Fruit Juices	South Africa	Pineapple and peach fruit juice drinks	1 litre: GHC1.65
Kalyppo	Accra, Ghana	Ginger, lemonade, pineapple, orange and strawberry drinks	250ml: GHC0.3
Royal Oasis	Accra, Ghana	Orange fruit juice	500ml: GHC0.6
Jaisal Fruit	Accra, Ghana	Pineapple fruit juice	250ml: GHC0.3
KIES Maddox	Nsawam, Ghana	Pineapple fruit juice	250ml: GHC0.3
The Coca-Cola Bottling Company of Ghana	Kumasi	Broad range including Coca-Cola, Fanta, Sprite and Dasani water Sixty percent share of soft drinks market and 95 percent of carbonated soft drinks market	Coca-Cola (250ml): GHC0.3

Source: KPMG in Ghana market survey (completed in Accra in October 2007)

Enablers and constraints

Key

Negative status

Positive status

Infrastructure and security of supply are likely to be the main influences on fruit juice production

Utilities

Kumasi currently has a daily shortfall in water supply, in the region of six million gallons (24 million litres)[1].

While resolution of this supply constraint is a high priority of the Kumasi Metropolitan Authority, it is unlikely to be resolved in the short to medium term.

Existing beverage production plants in Kumasi such as the Coca-Cola bottling plant have invested in sizeable water storage capability (as well as electricity generators) to minimise the impact of water shortages (and periodic electricity black-outs).

Transport infrastructure

The transport infrastructure around Kumasi has undergone significant improvement, particularly road links to Accra. However, the quality of links to rural areas remains patchy.

The proposed restoration of the railway line between Kumasi and Accra and the creation of an inland port would further enhance Kumasi's accessibility, however, these remain relatively long term projects.

Access to citrus fruit will be constrained by the quality of the roads to the main production areas located in rural districts.

Cold storage facilities have been established at Accra airport and the port at Tema. These will need to be complemented by cold storage facilities at the production site and within the transport fleet.

1 Interview with Kumasi Metropolitan Assembly during KPMG in Ghana interview programme and desk research

Raw material supply

Citrus fruit production is split across a large number of relatively small producers.

The supply of domestic citrus fruit is highly seasonal.

Fruit juice producers will need to source citrus fruit from many individual suppliers unless these suppliers form a co-operative approach to supply.

Fruit juice producers are likely to have to mitigate the impact of seasonality in citrus fruit production by sourcing fruits externally or investing in storage facilities.

Access to technology and staff

Graduation levels in agriculture and engineering courses from Kumasi's Kwame Nkrumah University of Science and Technology (KNUST) are likely to provide a strong pool of potential employees capable of managing the relatively simple production technology.

Fruit juice producers will need to demonstrate to the most capable graduates that there are sufficient career development prospects in comparison to employment opportunities in Accra and abroad.

Expatriate staff may be needed, at least initially, in order to establish the plant and its working practices.

Estimated investment requirements

The cost of establishing a fruit juice processing plant with an annual production capacity of three million litres is likely to be in the region of US$3–4 million

Fruit juice processing: estimated investment requirements

Indicative cost of plant and machinery
US$1.5–2 million

Note: Based on a plant with an annual production of three million litres

Indicative cost of land
US$1–1.5 million

Note: Based on a five acre industrial site in Kumasi

Indicative operating costs per annum
US$0.5–1 million

Note: Based on operating costs of 20–25 percent of capital expenditure

Positive market features

- Established parallel industry sectors (e.g. palm oil production)
- Growing consumer demand
- Potential production cost advantages

Key areas to address

- Access to efficient production technology and supply chain management capabilities
- Security of raw material and utilities supply
- Breadth of distribution network and retailer relationships

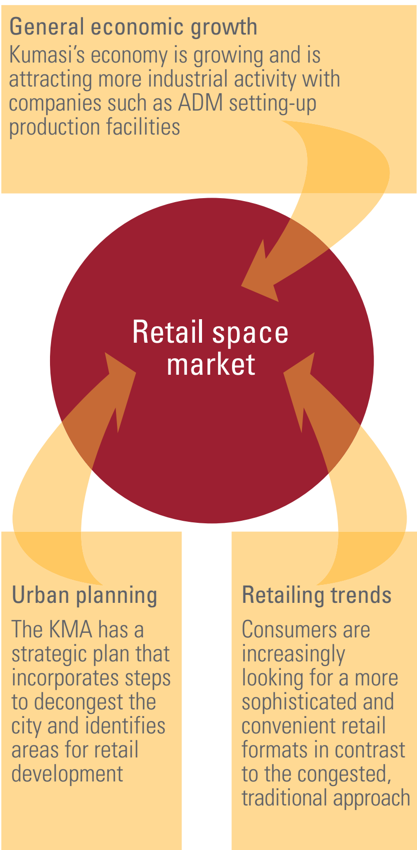
Source: KPMG in Ghana interview programme and desk research

Retail space

Value proposition

Kumasi's local economy continues to grow, presenting opportunities for investment in the retail sector

Summary of key positive influences on demand for retail space



Source: KPMG in Ghana interview programme and desk research

Introduction

Kumasi is growing in importance as a transport and commercial hub, while consumers are increasing in affluence and demanding greater convenience. In addition, Ashanti is one of Ghana's most affluent regions.

Kumasi's central business district is currently very congested, however, the Kumasi Metropolitan Assembly is taking steps to alleviate the underlying issues.

The KMA is taking clear actions to move the woodworkers and small engineering-based industries out of the city centre, and is also looking at how it can improve access to the large open-area market.

Kumasi is a city with very few buildings over two storeys high and goods are provided via a multitude of street sellers and at the large open-area market (Keteja).

The opportunity

There is a clear opportunity to take advantage of Kumasi's growth and associated decongestion plans by building retail space. The current retail environment is crowded and unsophisticated while consumer demand for convenience and quality is growing.

Modern retail formats have been expanding at a very fast pace in emerging markets and this trend is evident elsewhere in Ghana, such as Accra.

Retail space market

The Kumasi Metropolitan Assembly is promoting retail development by identifying two potential shopping mall sites and one parking facility site

Important trading hub

Trading is a major economic activity in Kumasi, and is currently concentrated in the central business district resulting in cramped and undeveloped markets as well as major traffic congestion.

Kumasi has the single largest traditional market in West Africa called the Kumasi Central Market. It has over 20,000 stalls occupied by traders dealing in every conceivable product. The city also has approximately 30 underdeveloped satellite markets that are spread throughout.
In addition, a considerable amount of ad-hoc trading takes place on the pavements and streets. As a result, the KMA launched a decongestion initiative in the CBD in 2007 which involved removing petty traders and hawkers.

Redistribution of facilities

The Kumasi Metropolitan Assembly has recognised the need to re-distribute services across the city and has ear-marked two locations for shopping malls and one location for a parking facility. Further sites are expected to follow.

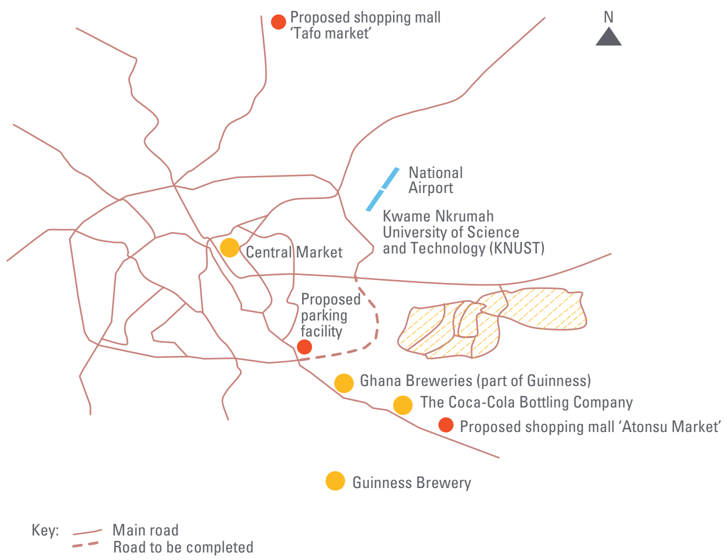
The KMA has recognised a need to create better shopping facilities and to improve parking facilities both in the CBD as well on the peripherary.

A design competition for two shopping malls and a parking facility has already taken place. However, the projects are currently awaiting funding and interest from private investors.

A mall is to be located in the heart of the Asokwa sub-metropolitan area near the lake road and will cover about 29,400m^2.The other mall will be in the heart of the Tafo Pankronu sub-metropolitan area along the Mampong road and will cover about 34,500m^2.

The parking facility will be in the heart of the CBD along the Asokwa link and will cover 810m^2 of land. The site is bordered by a Standard Trust bank and residential properties.

Central Kumasi



Source: Ghana Tourist Board

New developments

Large investment in the retail environment is already happening in Accra and is expected to expand to Kumasi in the short to medium term

Modern retail formats have been expanding at a very fast pace in emerging markets including Ghana. In the past three years, two malls have gone up in Accra: the A&C Shopping Mall and the recently opened Accra Mall[1].

Tradeworks Company Limited has announced it plans to build a third mall in Accra, which will contain as much as 215,000 square feet of retail space[1].

The Accra Mall which is located off the Spintex road near the Tetteh Quarshie interchange is Ghana's premier shopping centre; it already houses large retailers such as Game and Shoprite, as well as an entertainment complex (cinema), food court and a financial services chain.

The mall is one of the largest and most modern shopping malls in West Africa and will house more than 70 retail stores. It has been developed by Actis South Africa, a private equity investor in partnership with Joseph Owusu Akyaw, a local Ghanaian entrepreneur.

" It is going to change the way Ghanaians do their shopping and it will transform their lifestyles by having everything under one roof."
Dominic Adu, Accra Mall development manager

1 'Retail reform comes slowly to Africa – but it comes', International Council of Shopping Centres (ICSC) article, August 2006

Access to construction capabilities

Construction capability is not expected to be a constraint to development due to the relatively mature and sophisticated construction industry in Ghana

Established companies

A number of international construction groups have established companies in Ghana. Some of these companies are:

- Taylor Woodrow (Taysec subsidiary, UK) the leader of the market with a turnover exceeding US$50 million
- Bilfinger Berger (Germany), Sogea-Satom (France), Sade (France) and China International Construction Company (China)

Ghana also has several local companies which are very active in this field, among which are Interplast and De Simone.

Several intermediary organisations also represent this sector, among which the most important are the Association of Building and Civil Contractors of Ghana (ABCCG), the Association of Road Construction Companies (ASROC) and the Ghanaian Institute of Engineers (GHIE).

Selection of contractors engaged in projects in Kumasi

City hotel Contractor: Chinese State Hualong Construction Limited	The hotel is being prepared in time for the ACN to accommodate participating teams and officials.
Asafo interchange Contractor: Sarroch Gelfi JV	Work on the Asafo Market to UTC Roundabout Interchange, which started in January 2004, was scheduled to have been completed in 18 months but problems, including contract variations, delays on the part of the contractor and industrial action by workers of the company, delayed the project for about two years. The estimated cost is US$16 million.
Baba Yara stadium Contractor: Consar Construction Company	The work at the construction stadium, plus a police station, gymnasium halls, restaurant, 65 shops and first aid room is seen as being up to standard and is expected to be completed on schedule.
Training pitches for ACN Contractor: CST Limited	Ministers have expressed displeasure about the contractors' slow progress. In September 2007, construction work on the training pitches in Kumasi were yet to reach any appreciable level in readiness for the games.
Sokoban Wood Village Contractor: China Zhong, Hao China Henan Geo ,Wilkado Construction Works	The project is made up of five components: Sokoban Wood Village access road and resettlement enclave, the 3.2 kilometre Oforikrom-Asokwa by-pass, the Asafo to Ahinsan section of the Lake road, the Lake road interchange and landscaping of the banks of river Aboabo. Significant progress has already been made and the projected cost is around US$37 million.

Source: KPMG in Ghana interview programme and desk research

Enablers and constraints

Key

Negative status

Positive status

" Cement prices shot up from GHC5.20 to nearly GHC10"
The Statesman, August 2007

Land management and infrastructure

Access to land is deemed easier in the Ashanti region due to clear ownership. Although overland links between Kumasi and Accra have been improved, there is scope for further enhancement of the road network.

Electricity supply throughout Ghana is prone to black-outs and demand outstrips the supply of water in Kumasi. Both of these issues are due to be addressed by infrastructure projects in the short to medium term. Issues around consistent utilities provision are likely to necessitate investment in electricity generation plant, and potentially water storage facilities.

The road-based supply chain may result in a relatively high cost of goods and periodic interruptions or delays in supply. Although the overland travel time between Accra and Kumasi has been shortened by improvements to the road network, its duration as well as the current constraints on flights are both likely to act as a deterrent for some potential visitors to Kumasi.

Availability of people and skills

Experience has been gained from current large-scale construction projects (e.g., stadium; intersection; Accra-Kumasi road and corridor culverts).

The College of Architecture and Planning at KNUST generates architecture, building technology, planning and land economy graduates. KPMG's interview programme indicates that there are sufficient skilled management and technical teams available as well as access to graduates and lower-earning labourers. All of the above minimises the expatriate staff requirement.

Access to equipment and raw material

Mantrac Ghana is the authorised dealer for Caterpillar products in Ghana, and has a branch in Kumasi.

Ghacem (part of Heidelberg Cement Group) and Diamond Cement Ghana Limited are the sole cement producers in Ghana. Cement consumption has increased from 1 million tonnes in 1992 to 2.2 million tonnes in 2005[1]. Also, the prices of cement in Ghana apparently nearly doubled in 2007 entailing higher construction costs, causing great concern in the building industry.

Other building material needs to be imported.

1 Investment conference in construction and civil engineering in Central and West Africa

Estimated investment requirements

Establishing a 30,000m^2 shopping mall in Kumasi is likely to cost in the region of US$19–22 million

Retail space: investment requirement

Indicative construction costs
US$18-20 million

Note: Based on a gross retail space of 30,000m^2 and a cost per m^2 of US$630

Indicative cost of land
US$1–2 million

Note: Based on a three-acre industrial site in Kumasi

Indicative annual revenue
US$3.5-4.5 million

Note: Based on an average rent per m^2 of US$150–200 and a usable space of 22,400m^2

Indicative operating costs
US$0.5 million

Note: Includes agency and management fees

Positive market features

- Favourable planning environment with initial support from the KMA
- Prominence of Kumasi within both the Ashanti region and as a transport hub within Ghana
- Construction capability for large infrastructure projects

Key areas to address

- Maintenance of political support and focus for the proposed developments
- Ensuring sufficient accessibility, space and parking for the shopping malls
- Control of raw material costs

Source: KPMG in Ghana interview programme and desk research

Hotel accommodation

Value proposition

Kumasi's potential to service its role as a national and regional transport hub and tourist destination has not been fully exploited to date

Introduction

Kumasi lies at a significant transport intersection for both Ghana and the wider region.

Much of Ghana's primary road network interchanges at Kumasi and consequently the city experiences a substantial volume of transient people and vehicles.

Current and planned infrastructure projects such as the outer ring road, airport up-grade and inland port are aimed at both reinforcing Kumasi's prominence in Ghana's transport network and alleviating the pressures created by this role.

The opportunity

With its relatively well-developed road network and port infrastructure, Ghana acts a conduit for significant volumes of trade and associated people and services to and from neighbouring countries.

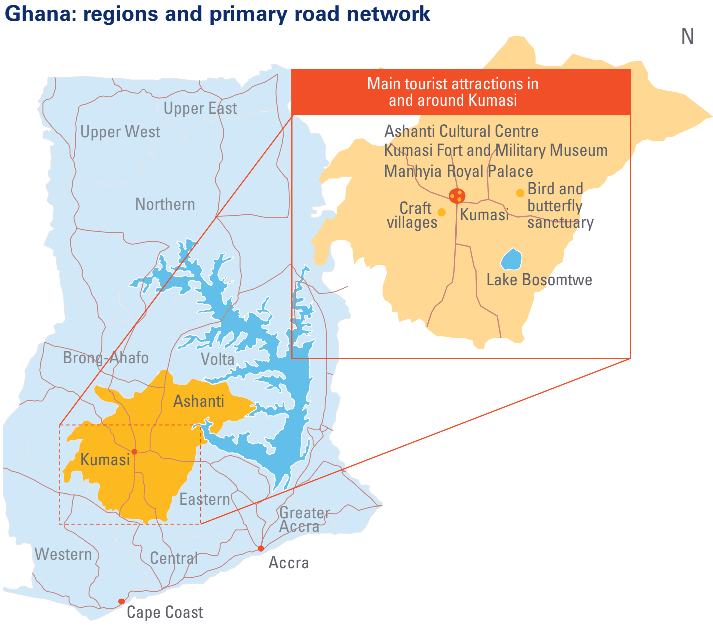
As the ancient capital of the Ashanti kingdom, Kumasi is effectively the cultural centre of Ghana alongside providing an appealing natural environment.

Kumasi holds considerable tourist appeal in its own right with key cultural, historical and natural beauty sites such as the Manhyia Royal Palace, the craft villages and Lake Bosomtwe.

Kumasi is also conveniently located as a stopover for tourists following the North-South slave route.

Kumasi is in a strong position to capitalise on both commercial and domestic visitors as well as to generate increased tourist traffic. In order to achieve these goals there is a need to improve accommodation and related visitor facilities.

Ghana: regions and primary road network

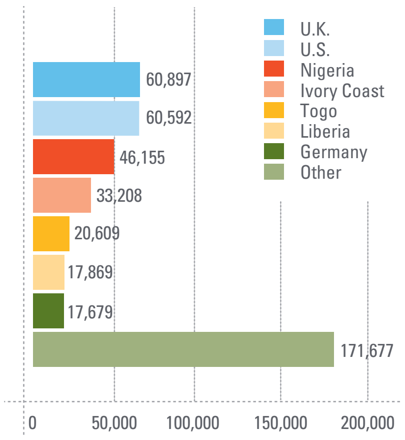


Source: Ghana Tourist Board

The hotel market

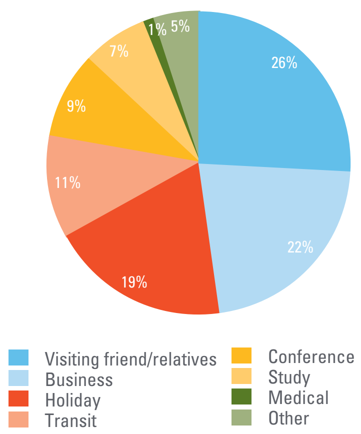
Ghana's visitor numbers are growing although overseas tourism lags behind business travel

International visitors to Ghana by country of residence, 2005



Source: Ghana Tourist Board

International visitors' primary reason for visiting Ghana, 2005



Source: Ghana Tourist Board

Introduction

Ghana has experienced steady growth in international visitor numbers since 2000 although these numbers remain low in comparison to established African tourist destinations.

Visitors

International visitor numbers have grown at an annual rate of 10 percent per annum[1] over the period 2000 to 2005 reaching a total of 429,000[2] by 2005; in comparison Kenya received 1,479,000 visitors in 2005.

In West Africa, Ghana leads its neighbours as a tourist destination. Visitor numbers in 2007 have been boosted by Ghana's celebration of its 50 years of independence, a trend that has been given further momentum by Ghana's hosting of the of the ACN in January and February 2008 and also with the hosting of the UNCTAD Conference in mid-April 2008.

Ghana's government forecasts that visitor receipts will have exceeded US$1 billion in 2007.

By 2004, the number of international air passenger arrivals had risen to 351,500, an 87 percent increase since 1995, and an average annual growth rate of 7 percent.

Ghanaian tourism

Ghana's diaspora represents a large market for tourism. However, addressing this market is hindered by limited marketing and political commitment.

Ghana's prominent role in the slave trade, combined with a coastline dotted with slave forts, place it in a strong position to capitalise on the desire of members of the African diaspora to understand and re-visit their ancestry.

The Ghana Tourist Board has been promoting journeys along the old slave route in Ghana (the 'Joseph Project'), largely through word of mouth, amongst Black African communities in the US.

The government's marketing budget for tourism in 2005 was approximately US$300,000 and in 2008 this is expected to exceed US$1 million.

Although tourism is recognised as a significant contributor to the economy (it is the third largest foreign currency earner after cocoa and gold), it has not been a political priority.

This situation will not change prior to the presidential elections in 2008.

1 Based on data collection method used prior to the introduction of the new embarkation/disembarkation card
2 Based on data collected after the introduction of the new embarkation/disembarkation card

Kumasi fails to attract the majority of Ghana's overseas tourists partially due to the under-development of its tourist sites and their marketing

Kumasi tourism

Kumasi's role at the centre of the Ashanti kingdom is the primary draw for overseas tourists although overall visitor numbers are low.

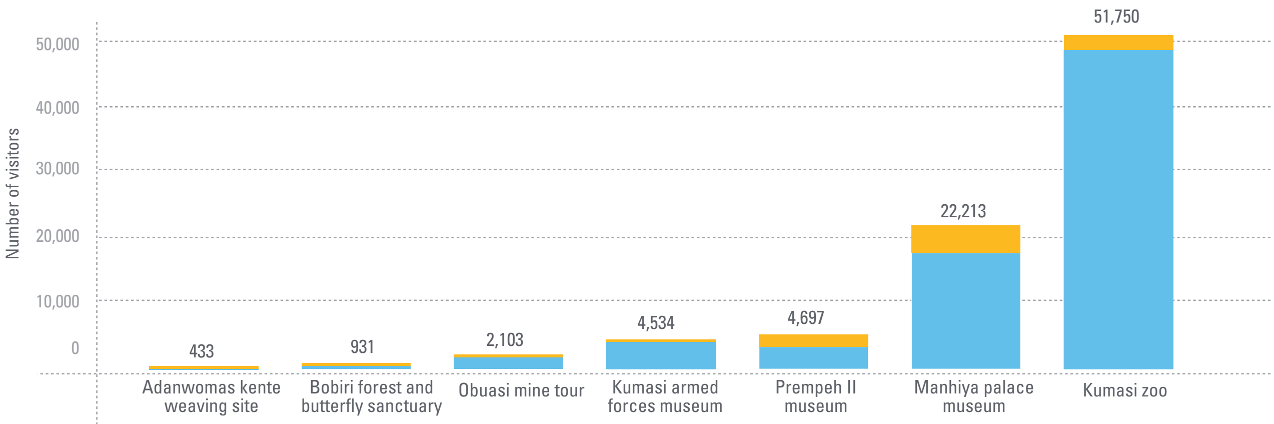
Kumasi and its key historical sites represent a significant part of Ghana's history and are not replicated elsewhere in the country. But despite holding clear appeal, including to overseas tourists, these sites are under-developed and are not marketed to overlap with other main tourist destinations such as the slave forts on the Cape Coast.

KPMG analysis of Ghana Tourist Board data indicates that less than a quarter of Ghana's overseas tourists visit Kumasi's main tourist sites.

Exceptional natural resources around Kumasi with potential appeal for tourists are largely limited to Lake Bosomtwe as deforestation and other development has depleted the nature-based appeal of Kumasi's environs in comparison to other parts of Ghana.

Lake Bosomtwe, formed by a meteor strike, stands out as an opportunity to develop a tourist attraction based on the site's natural beauty and associated ecology. As with other sites in and around Kumasi, investment in Lake Bosomtwe's tourism potential has been limited to date.

Summary of visitors to key tourist sites in Kumasi, January–June 2007



	Adanwomas kente weaving site	Bobiri forest and butterfly sanctuary	Obuasi mine tour	Kumasi armed forces museum	Prempeh II museum	Manhiya palace museum	Kumasi zoo
Overseas visitors	420	446	310	357	1,891	4,253	2,352
Ghanaian visitors	13	485	1,793	4,177	3,444	17,960	49,368

Source: Ghana Tourist Board

Current accommodation

Hotel accommodation is concentrated in Accra and occupancy levels have remained high despite an increase in supply

Quality hotel accommodation is centred on Accra; there are currently no five-star hotels outside of Accra.

The expansion of the City Hotel in Kumasi (to be operated by the Golden Tulip hotel chain) in time for the ACN will improve accommodation standards outside of Accra.

The main hotel chains' focus remains on Accra with several large hotel construction projects either underway or proposed, for example, the Holiday Inn which is approaching completion and the Hilton and InterContinental hotels which have sites identified.

The lack of quality hotels outside of Accra acts as a potential constraint on the range and duration of domestic travel for the country's highest value visitors.

There appears to be significant latent demand for hotel accommodation in Ghana, particularly in the higher quality categories. Occupancy levels for four- and five-star hotels have risen to over 80 percent despite a steady increase in the amount of accommodation available.

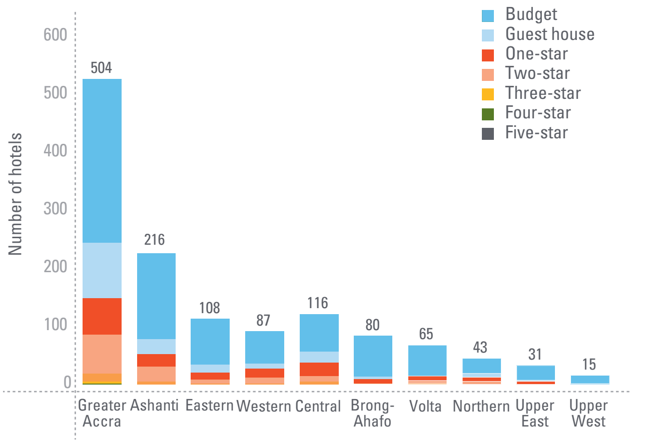
Domestic and regional demand for conference facilities is a significant driver for hotel accommodation and related services within Ghana.

In the last quarter of 2007, a single hotel in Kumasi hosted 58 conferences split evenly between government departments, private companies and NGOs[1]. The majority of these conferences were residential.

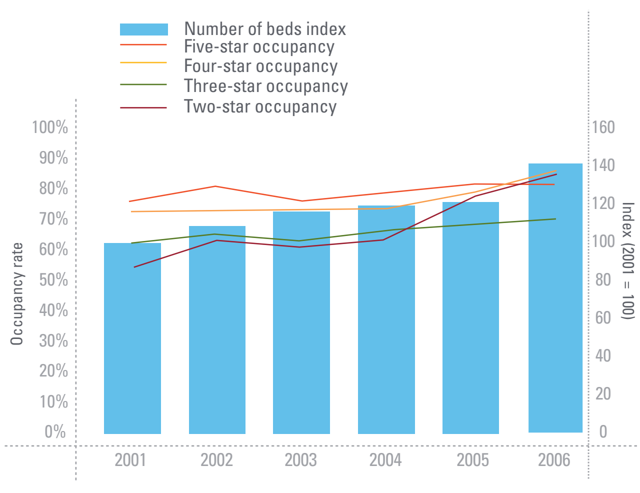
Family occasions such as weddings and funerals generally involve large numbers of guests and considerable expenditure which in turn fuels demand for hotel accommodation and facilities.

1 KPMG in Ghana interview programme

Distribution of hotels in Ghana by type, 2006



Number of hotel rooms in Ghana and occupancy levels, 2001–2006



Source: Ghana Tourist Board and KPMG analysis of Ghana Tourist Board information

Competition

Competition amongst hotels, as well as other visitor amenities such as restaurants and entertainment venues, in Kumasi is limited

Hotels

The refurbishment and expansion of the City Hotel will provide the first five-star hotel in Kumasi and the Ashanti region as a whole.

The City Hotel is owned by the Ghana Libyan Arab Holding Company and will be operated under the Golden Tulip hotel franchise by Golden Tulip Hospitality Management. This will be the second hotel managed under this franchise in Ghana; the other hotel is in Accra.

The hotel will ultimately have a capacity of 175 rooms but initially opened in January 2008 with 120 rooms.

Restaurants

There is a very limited number of quality restaurants in Kumasi and there has been no significant expansion in provision.

Restaurant provision in the Ashanti region is concentrated in Kumasi. The majority of higher quality restaurants in Kumasi focus primarily on foreign food and are under foreign ownership, for example:

- Moti Mahal (Indian food)
- Sweet Bites (Lebanese food)
- Royal Park Hotel restaurant (Chinese food)

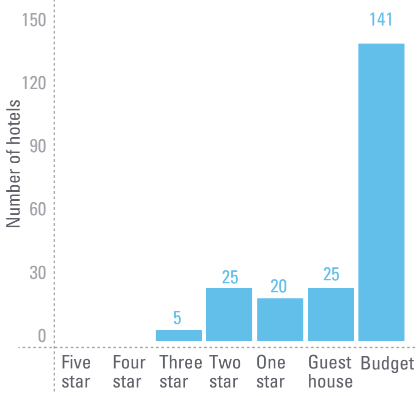
Entertainment

Entertainment facilities within Kumasi are sparse and commonly perceived to be so.

There are no notable public amenities such as parks in Kumasi. Nightlife is largely centred on restaurants and hotel bars; there is only one nightclub.

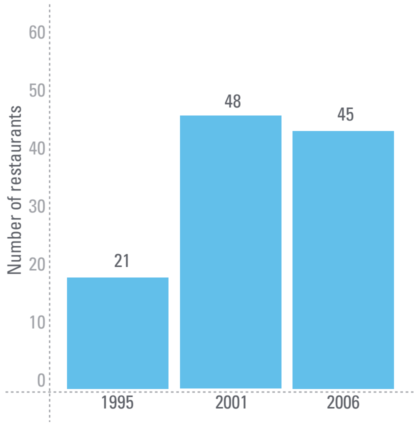
There are some private sports clubs, however, the associated membership costs are relatively high and low membership levels preserve a degree of exclusivity.

Number of hotels by category in the Ashanti region, 2006



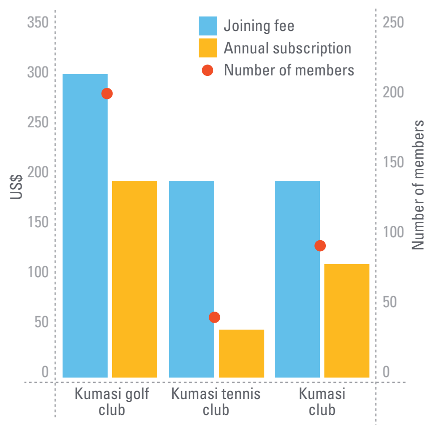
Source: Ghana Tourist Board

Number of restaurants in Ashanti region, 1995-2006



Source: Ghana Tourist Board

Fees and membership of private clubs in Kumasi, 2007



Source: KPMG in Ghana interview programme

Enablers and constraints

Key

Negative status

Positive status

There are constraints to increasing the appeal of the Kumasi area for visitors but none of these are insurmountable given a moderate level of investment

Available workforce

Levels of customer service are generally poor and the government recognises the need to develop human resources in order to stimulate the tourism industry.

Investment is required in customer service training, and the hospitality industry in general, in order to ensure sufficient levels of customer service.

The government organised a training programme in 2007 in which 1,000 private sector employees were trained in receptionist duties, food and beverage service and housekeeping in order to improve overall service delivery within the hospitality industry.

There is also a Hotel Catering and Tourism Training Centre (HOTCATT) located in Accra, and the Ministry of Tourism, through HOTCATT, has also trained 300 young people for employment in the hospitality industry and 40 tour guides/travel and tour operators.

The cost of labour in Kumasi is lower than Accra while also benefiting from Ghana's overall high level of literacy (58 percent in 2006).

"I need to be here seven days a week to make sure that things happen correctly." *Hotel manager, Kumasi*

Infrastructure

Although overland links between Kumasi and Accra have been improved, there is scope for further enhancement of the road network. Although the overland travel time between Accra and Kumasi has been shortened by improvements to the road network, its duration and the current constraints on flights are both likely to act as a deterrent for some potential visitors to Kumasi.

The road-based supply chain may result in a relatively high cost of goods and periodic interruptions or delays in supply.

Kumasi's airport does not currently have a night-flying capability (although night lights should be installed for the ACN) and it is in competition with Tamale for the construction of a second international airport for Ghana.

Electricity supply throughout Ghana is prone to black-outs and demand outstrips the supply of water in Kumasi.

Both of these issues are due to be addressed by infrastructure projects in the short to medium term.

Issues around consistent utilities provision are likely to necessitate investment in electricity generation plant, and potentially water storage facilities.

Government policy and expenditure

Government expenditure on tourism is low and is not forecast to grow significantly in the short term.

- In 2007, the Ministry of Tourism and Diasporan Relations participated in three international fairs and exhibitions namely Vakantie in Holland, the West Africa Tourism Union Fair held in Kumasi and the Ghana International Trade Fair in Accra.

Marketing campaigns such as the 'Joseph Project' have relied on word of mouth more than a significant, focused marketing spend.

The Wildlife Division of the Forestry Commission has started implementing competitive and transparent international tendering for concession management of eco-tourism facilities in wildlife protected areas. Three concessions have already been signed for Kakum and Mole National Parks[1].

Under government legislation, tourism benefits from some fiscal advantages such as corporation tax exemption windows[2].

Tourism promotion initiatives are likely to be funded by private enterprises rather than benefiting from significant government support. The government is expected to give increasing focus to eco-tourism, for which many interviewees believe Ghana has significant potential.

1 Budget Statement for the year 2008, Ghana Government
2 Ghana Investment Promotion Centre (Promotion of Tourism) Instrument, 2005

Estimated investment requirements

The cost of establishing a new 160-room four or five-star hotel in Kumasi is likely to be in the region of US$27–30 million

Hotel accommodation: investment requirements

Indicative construction costs
US$25–27 million

Note: Based on six floors, each 2,000m²

Indicative cost of land
US$1.5–2.5 million

Note: Based on a three acre site in central Kumasi

Indicative annual revenue
US$6–7 million

Note: Based on occupancy of 75% and an average room rate of US$150

Indicative operating costs
US$3–4 million

Note: Includes staff and maintenance costs and depreciation, but excludes financing

Positive market features
- Prominent location of Kumasi and ongoing investment in infrastructure
- Limited competition
- Access to a well-educated workforce

Key areas to address
- Investment in co-ordinated and comprehensive marketing initiatives
- Requirement for hospitality industry specific staff training programmes

Source: KPMG in Ghana interview programme and desk research

Pharmaceuticals

Value proposition

Introduction

Demand for healthcare in Ghana is growing while the manufacture of certain pharmaceuticals is limited to domestic production

Healthcare spending in Ghana is in a period of strong growth thereby creating a significant healthcare market.

Government policy focus, alongside increasing affluence, population size and service expectations are driving up levels of healthcare spending in Ghana.

The Ghana Health Service (GHS) budget has grown by around 37 percent per annum between 2002 and 2006[1a].
The GHS's expenditure on pharmaceuticals is estimated to be in the region of US$45 million per annum[2].

In addition to government spending on healthcare, individuals' private spending on pharmaceuticals is estimated to be in the region of US$250 million per annum[3b].

The opportunity

Under statutory legislation certain pharmaceutical products cannot be imported and therefore they must be produced locally.

The Food and Drugs Board Law (1992), as amended by the Food and Drugs (Amendment) Act (1996), states that, "the importation of the finished products specified in [the Act] is prohibited. Only their raw materials may be imported for local manufacture."

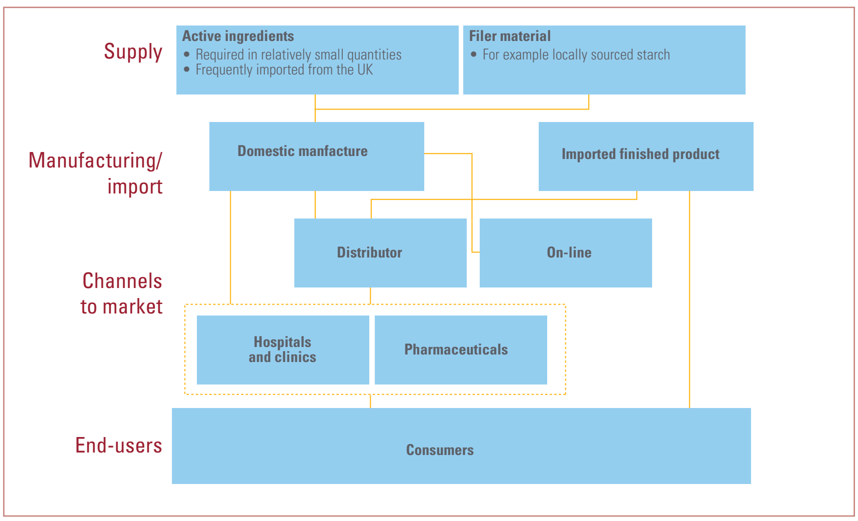
Currently this import prohibition covers 20 drugs and their combinations including paracetamol, aspirin and tetracyclines. But this list may be expanded to include a further 36 drugs in 2008.

This statutory provision creates the requirement for a domestic pharmaceuticals manufacturing industry to ensure the supply of drugs for common ailments. Ghana presents potential domestic pharmaceutical manufacturers with the opportunity to supply both a captive local market as well as becoming a regional supply hub.

a 2006 figure is an estimate
b Extrapolation of 2005 data

1 Ministry of Health, Ghana government
2 KPMG in Ghana interview programme
3 'Improving access to medicines', DFID health resource centre, September 2005

Illustrative Ghanaian pharmaceuticals industry map



Source: KPMG in Ghana interview programme

Pharmaceuticals manufacturing market

The market for pharmaceutical products in Ghana benefits from several positive fundamental drivers

Key drivers

The following are key drivers of pharmaceuticals demand in Ghana.

Increasing consumer affluence

GDP per capita (at purchasing power parity) has grown from US$2,042 in 2000 to US$2,605 in 2005, an annual growth rate of 5.0 percent[1].

As GDP per capita rises, individuals have more disposable income to spend on one of their primary concerns, healthcare.

Increasing healthcare access and spending

Improving healthcare is a government priority with the GHS' budget growing by around 37 percent per annum between 2002 and 2006, reaching US$500 million in 2006[2].

The GHS benefits from considerable support from donor countries and organisations, for example over 20 percent of the 2006 budget was funded through donor sources[2].

Funds raised from private patients' use of public sector health facilities are included as part of this budget.

Purely private sector healthcare facilities are limited and therefore expenditure on their use totals approximately US$5 million per annum.

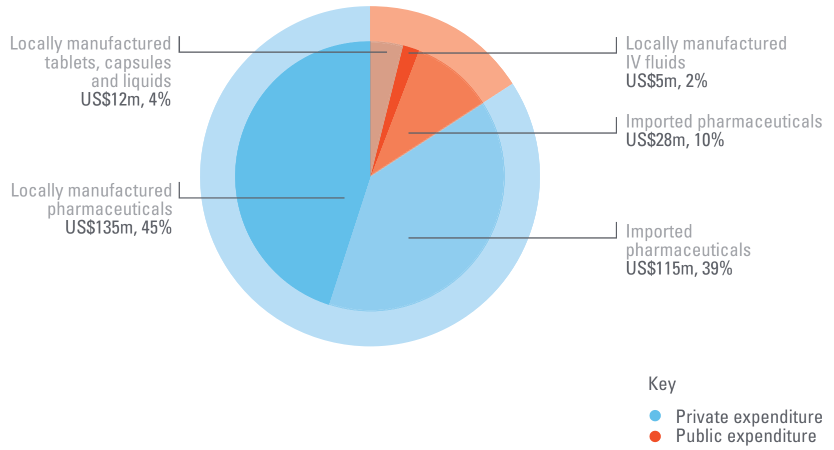
Expenditure on pharmaceuticals forms just under 10 percent of the total GHS budget at around US$45 million. In addition to this public sector expenditure on pharmaceuticals, individuals' private expenditure on pharmaceuticals is estimated to be in the region of US$250 million.

Population increase

Ghana's growing population is driving healthcare demand; Ghana's population grew by an estimated 2.8 percent per annum between 2002 and 2006 to reach 22.6 million[3]; and a growth trend that is forecast to continue.

1 International Monetary Fund, 'World Economic Outlook Database', April 2007
2 Ministry of Health, Ghana government
3 Economist Intelligence unit

Indicative market size for pharmaceutical sales in Ghana[a], 2007



Source: KPMG in Ghana interview programme and analysis of Ministry of Health data

a KPMG in Ghana interview programme and analysis of Ministry of Health data

Competition

There are currently 35 registered local pharmaceuticals manufacturers, a number of which have strong links with overseas investors

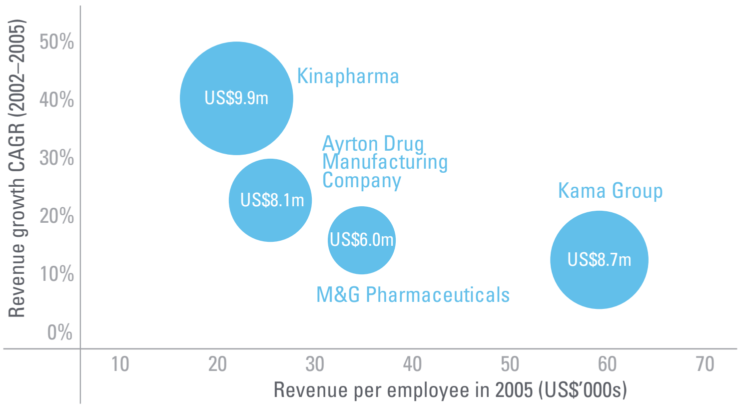
Summary of selected local manufacturers

Company	Location	Product range	Revenues/ownership
M&G Pharmaceuticals	Accra	75 products including capsules, tablets and syrups	US$6.0 million (2005)
Phyto-Riker Pharmaceuticals	Accra	Wide product range including a variety of antacids, analgesics, anti-bacterial/anti-infectives, anti-malarials and vitamins	Overseas Private Investment Corporation (25%); TransAfrica Pharmaceuticals (65%); Ghana government (10%)
Ayrton Drug Manufacturing Company	Accra	69 products including capsules, tablets and syrups	US$8.2 million (2006); listed on Ghana Stock Exchange
Intravenous Infusions	Koforidua, Eastern Region	Specialises in manufacturing intravenous fluids	Ghanaian ownership
PZ Cussons Ghana Industries	Tema, Greater Accra	Main brands include Drastin, Alagbin, Zubes and Maladrin	US$25 million (2006); subsidiary of PZ Cussons
Kinapharma	Accra	A wide range of products including capsules, tablets, syrups, suspensions and sachets	Ghanaian ownership
Ernest Chemist	Tema, Greater Accra	Over 150 pharmaceutical products including generic drugs manufactured on behalf of multinational companies such as Pfizer	Ghanaian ownership
Danadams Pharmaceuticals	Accra	Primary focus is on anti-viral and anti-malarial drugs	Joint venture with Chinese company, Adams Pharmaceuticals (Anhui) Company
Dannex Pharm	Accra	Wide range of products including tablets and syrups (as well as veterinary products)	Ownership split 60% Ghanaian, 40% foreign
Starwin Products	Accra	Approximately 10 branded pharmaceutical products	US$2.0 million (2006); listed on Ghana Stock Exchange
Kama Group	Accra and Kumasi	Manufactures and distributes a variety of pharmaceutical products amongst other health services	Ghanaian ownership

Source: KPMG in Ghana interview programme and desk research

Summary of performance of selected pharmaceuticals manufacturers, 2002–2005

Leading local pharmaceuticals manufacturing companies have demonstrated strong growth in recent years



Source: Ghana Investment Promotions Company

Note: Size of bubble represents 2005 turnover

Major players

Four pharmaceuticals manufacturers are amongst the best performing companies in Ghana:

- Kinapharma
- M&G Pharmaceuticals
- Ayrton Drug Manufacturing Company
- Kama Group

Ghana Club 100[1] rankings for 2005 included these four pharmaceuticals manufacturers in the list.

Company	Number of employees (2005)
Kinapharma	430
M&G Pharmaceuticals	159
Kama Group	150
Ayrton Drug Manufacturing Company	319

Source: Ghana Investment Promotion Centre

1 The GIPC launched the 'Ghana Club 100' in 1998 to highlight the top performing companies in Ghana.

Expansion plans

Confidence in further growth prospects amongst Ghana's top pharmaceuticals manufacturers appears to be high and their plans include expansion into neighbouring countries' markets.

The Ayrton Drug Manufacturing Company is constructing additional production capacity which is forecast to increase output by 50 percent.

Kinapharma is planning to expand its presence into Nigeria, Benin and Burkina Faso.

Local production

Ghana-based pharmaceuticals manufacturers may enjoy price advantages over other importers into neighbouring countries such as the Ivory Coast and Burkina Faso due to lower costs of production and transport costs.

Similarly, Ghana may be an attractive location as a regional manufacturing hub for multinational pharmaceutical companies, particularly for the manufacture of relatively low technology, generic pharmaceutical products.

Pharmaceuticals manufacturing regulation

A clear regulatory framework has been established for pharmaceutical manufacturing companies

Statutory provisions

Pharmaceutical manufacturing companies need to comply with a number of key legislative instruments:

- Companies Code (1963)
- Incorporated Private Partnerships Act (1962)
- Food and Drugs Law (1992)
- Pharmacy Act (1994)
- Food and Drugs (Amendment) Act (1996)

Statutes have created a list of drugs that must be manufactured locally.

- Capsules: Ampicillin, Chloramphenicol, Oxytetracycline, Chlordiazepoxide, Tetracycline, Indomenthacin.

- Syrups: Chloroquine and Paracetamol.

- Tablets: Aspirin, Chloroquine, Diazepam, Paracetamol, Phenobarbitone, Prednisolone, Dexamethasone, Folic Acid, Vitamin B Complex, Paracetamol/ Aspirin/Caffeine combinations, Aspirin/Caffeine combinations, Paracetamol/Caffeine combinations.

Regulatory bodies

Legislation has established regulatory bodies to oversee the pharmaceutical industry. These include, amongst others:

Food and Drugs Board: established under the Food and Drugs Law (1992). Controls the manufacture, import, export, distribution, use and advertisement of food, drugs, cosmetics, chemical substances and medical devices.

Pharmacy Council: established under the Pharmacy Act (1994). Regulates the practice of the pharmacy profession and the registration of pharmacists in Ghana.

The Food and Drugs Board levies various charges as part of the regulation of new pharmaceutical manufacturing businesses and their products.

Sample charges are given below:

- Registration of new chemical manufacturing entity: US$2,000; registration valid for three years
- Registration of locally manufactured allopathic drugs: GHC500; registration valid for three years
- Registration of locally manufactured herbal drugs: GHC150; registration valid for one year
- Registration of locally manufactured medical devices: GHC200; registration valid for one year

Enablers and constraints

Key

Negative status

Positive status

Access to qualified staff, raw materials and increasing industry regulation could positively impact an investment in pharmaceutical manufacturing in Kumasi

Utilities

There are currently water supply constraints in Kumasi and periodic interruptions in electricity supply. Both of these issues are due to be addressed by infrastructure projects in the short to medium term.

A pharmaceuticals production plant with sensitive manufacturing techniques will need to ensure consistency of electricity and water supply for its production operations by investing in appropriate plant.

Access to staff and production technology

KNUST is currently the only university in Ghana with well-established pharmacy courses with an average of just over 100 graduates from these courses each year. In addition, an average of over 600 students have graduated with engineering degrees from KNUST over the past three years.

The graduates from KNUST represent a potential supply of qualified staff and may reduce the requirement to hire potentially more expensive staff from elsewhere in Ghana or overseas.

Production efficiency and capability will be dependent on access to the up-to-date production technology.

Investment in the latest production technology, if it is available, will represent a considerable capital commitment, a situation that may be eased by producing drugs under licence for multinational manufacturers and receiving investment from the licensor.

Raw material supply

The active ingredients for locally manufactured drugs are likely to be sourced in relatively small quantities from outside Ghana, commonly from the U.K.

Fillers such as starch used in drugs manufacture form the majority of raw materials used by volume and drugs' filler materials may potentially be sourced from within the Ashanti region giving drug manufacturers proximity to their bulkiest raw material.

This local sourcing of raw materials together with Ghana's proximity to neighbouring markets may provide local manufacturers with a cost advantage against the production efficiencies high volume international competitors.

Product standardisation and counterfeit goods

Current statutory instruments and regulations are helping to create tighter control over drugs entering the Ghanaian market and reducing the health and commercial risks of counterfeit drugs being sold within Ghana.

Increasing regulation and enforcement within the drugs industry in Ghana will create a more stable business environment for potential industry investors.

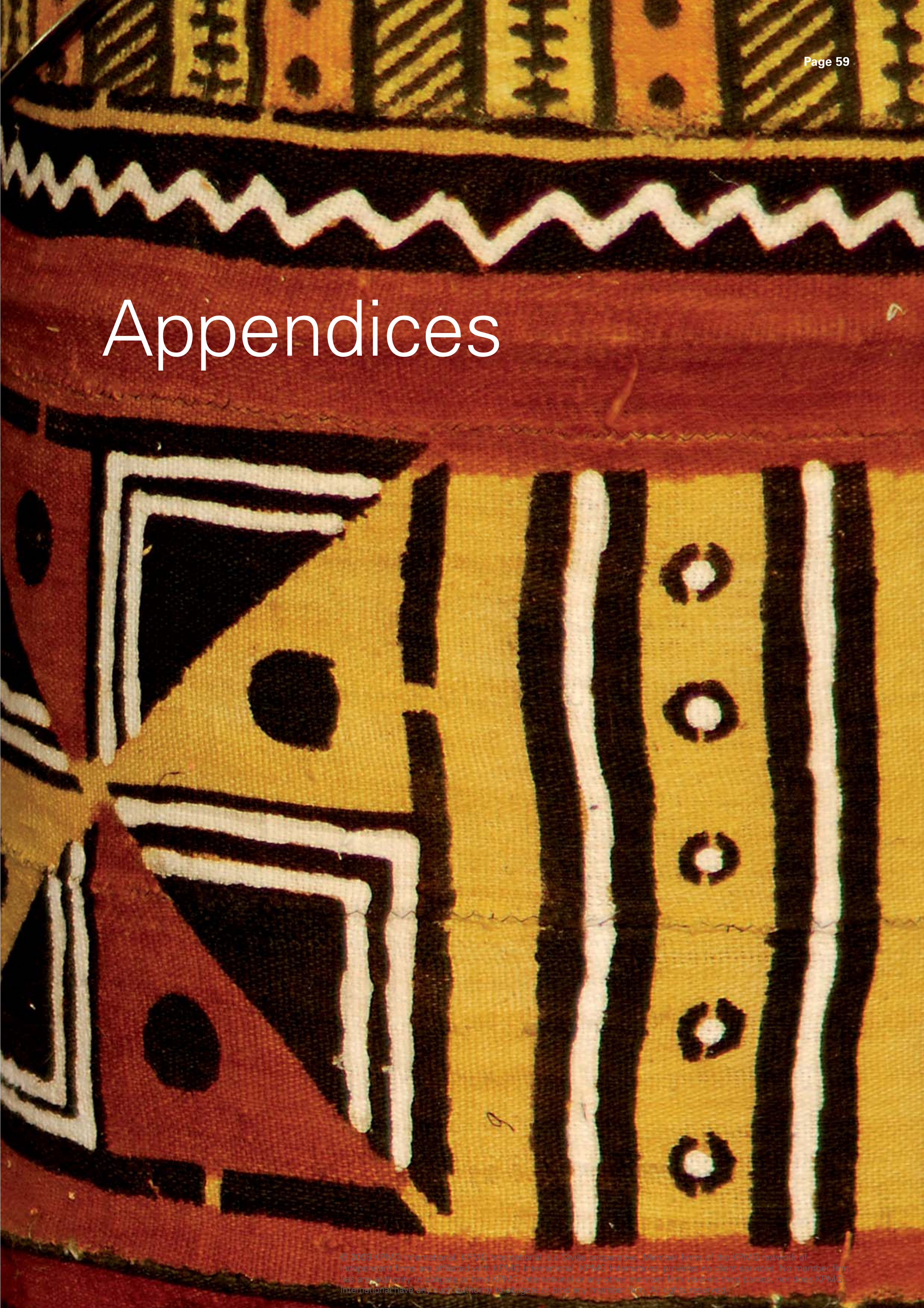
Estimated investment requirements

The cost of establishing a pharmaceuticals factory with an annual capacity of two billion tablets and capsules is likely to be in the region of US$4–6 million

Pharmaceuticals manufacturing: investment requirements

Investment requirements	Market features
Indicative costs of plant and machinery US$3–4 million Note: Based on a plant with an annual production of two billion tablets and capsules **Indicative cost of land US$1–1.5 million** Note: Based on a five acre site in or around Kumasi **Indicative annual revenue US$1.5–2.5 million** Note: Based on operating costs of 60–65% of capital expenditure	**Positive market features** • Growing health spending in both the public and private sectors • Protected domestic market for the manufacture of selected pharmaceutical products • Ready access to local pharmaceutically-trained workforce **Key areas to address** • Assessment of continued political support for domestic pharmaceutical manufacturing restrictions • Access to advanced production and quality control technology

Source: KPMG in Ghana interview programme and desk research



Appendices

Appendix 1: Additional potential investment opportunities

A spectrum of additional investment opportunities exist in Kumasi with a wide variety of associated capital requirements and key market dynamics.

Sample of additional potential investment opportunities

Opportunities	Overview
Consumer products Leather goods manufacture	• A sizeable state-run shoe factory operated in Kumasi until the early 1980s and held a number of key government supply contracts, for example providing footwear to the police and armed forces. • Following its closure the factory was placed on the government's divesture list and has passed through several foreign ownerships; currently part of the site is being used for goods storage by a number of local companies.
Textile manufacture	• Some residual leatherworking skills appear to remain within the local population. • The Ashanti region has an established cottage industry producing traditional kente cloth and printed textiles and some tentative relationships have been established with potential export markets such as the US.
Hair extensions manufacture	• The primary challenges facing the industry are to develop significant export markets and to ensure sufficient consistency and quantity of production to service these markets effectively. • Preliminary enquiries into the potential for setting-up a factory to produce hair extensions have been made by Korean investors who already have a manufacturing facility in the Ivory Coast.
Leisure facilities	• Public amenities such as parks are very limited within Kumasi as are other leisure facilities such as bars, restaurants, clubs and cinemas. • Against this background, and supported by growing consumer affluence, there is likely to be increasing demand for leisure facilities spanning from those requiring limited investment such as restaurants through to much larger scale enterprises such entertainment parks.

Opportunities	Overview
Industrial products Metalwork and automotive fabrication	• The Suame Magazine is testament to the presence of a broad range of metalwork and automotive fabrication and repair skills within Kumasi. • In order to ensure the continued relevancy of these skills for more technologically advanced vehicles and other machinery, significant investment in more sophisticated equipment and training programmes will be required. The proposed relocation of the magazine's businesses to a purpose-built site could act as a catalyst for the up-grade of these businesses' facilities and approach.
Mining, e.g., quarry stones and clay	• Ashanti regions has long been known for gold and there are still unexploited deposits in, for example, the Amansie-West region. Now with the surge in infrastructure, there has been an increase in demand for high quality quarry stones available in the Ashanti region. Although there are already eight registered quarry companies in the region, it is believed further opportunities exist. A more unexploited mining opportunity is clay. Ashanti region has large unexploited clay deposits.
Jute sacking manufacture	• A jute sacking factory was previously operated by the government in Kumasi although production ceased at this site a number of years ago. With the prominence of cocoa production, both around Kumasi and within Ghana as a whole, there appears to be a a significant potential market for jute sacking (for the transport of cocoa). Competition would largely come from jute sacking imported from Asia.
Bio-fuel production	• The growing international demand for bio-fuels may provide sufficient stimulus for investment in the production of bio-fuel feed crops, if not the bio-fuel production facilities themselves. • The potential availability of productive land and a range of suitable agricultural products such as palm oil, combined with access to relatively low cost labour and a burgeoning oil industry within Ghana, may further increase the attractiveness of bio-fuel production or its raw material supply in the short to medium term.
Briquette manufacture	• Kumasi's woodmilling businesses generate substantial amounts of wood waste and this has led to interest from an Italian company looking to source material for the production of briquettes to be used as fuel for kilns. Potentially this interest might be broadened out to other cellulosic waste such as coconut husks.
Agricultural processing	• Ghana's climate and the potential availability of productive land lend themselves to the production of a wide spectrum of crops. Although some multinationals have established sizeable plantations and introduced the latest production technologies, Ghanaian agriculture is still largely characterised by small scale producers and dated production practices. Initiatives such as the Millennium Villages Project in the west of the Ashanti Region have demonstrated that, with limited intervention, yields on crops such as maize can be doubled.
Moringa production	• Moringa, a multi-purpose tree with medicinal properties, can be used in a variety of ways and has been shown to grow well in Ghana. (It apparently does not grow well in Europe or US). Interviews indicate commercialisation opportunities. • A researcher at the University of Baroda in India, Ms Vanisha Nambiar, has said the Moringa tree is the key to resolving the problem of malnutrition in Africa as it has high quantities of Vitamin A and significant quantities of Vitamin B, calcium, iron, protein, potassium, magnesium, selenium, zinc and amino acids. It is also known to be an effective medication for epileptic, paralytic, diabetic, obese high blood pressure and other cardiovascular patients.

Opportunities	Overview
Infrastructure Airport up-grade	• Kumasi is in competition with Tamale to host Ghana's second international airport. Success in this process would not only herald considerable opportunities directly within the construction project itself, but the advent of an international airport would act as a considerable investment catalyst in general. • The installation of new runway lights in time for the ACN has now given Kumasi a night-flying capability. As there appears to be no definite timeframe for the selection and funding of the second international airport, this infrastructure project should be viewed against a medium term time horizon.
Inland port	• The headquarters building for the Boankra Inland Port has been constructed. However, the project is now experiencing delays due to a dispute over land ownership and the full funding package has yet to be confirmed. • This is an infrastructure project that could have a fundamental impact on the prominence of Kumasi within Ghana's internal and cross-border trade and create a significant alternative land-based hub to the ports of Tema and Takoradi, with the associated demand for support services. In order to achieve this goal, sizeable financial and political resources will need to be deployed and sustained and therefore, this project should be viewed against a medium-term time horizon.
Funeral homes	• Funerals play a very prominent role within Ghanaian culture and are a substantial undertaking in terms of both size and duration, frequently with extended family travelling long distances both nationally and internationally to attend the ceremony. • This requirement to gather family members and make the ceremony's administrative arrangements can impose lengthy delays between a person's death and their burial and require the person's body to be kept in a mortuary for several weeks, providing services to accommodate this demand may represent an investment opportunity.
Education facilities	• Education is understandably viewed as being fundamental to Ghana's ongoing development and consequently this acts as a strong driver for continued demand for education and training, particularly at secondary and tertiary levels. Against this background there are likely to be investment opportunities both in terms of education provision and also the associated infrastructure such as buildings.
Housing e.g. university hostels/dormitories	• There is currently a lack of university housing. It is estimated that KNUST only has housing for less than 25 percent of the student population. Over the past five years, private individuals and public entities such as Social Security and National Insurance Trust (SSNIT) have invested in student accommodation.

Appendix 2: Acknowledgements

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Appendix 3: Glossary of terms

ACN	Africa Cup of Nations (football tournament)
AFD	Agence Francaise de Developpement
AGI	Association of Ghana Industries
BOT	Build-operate-and-transfer
CBD	Central business district
FDI	Foreign direct investment
GCAA	Ghana Civil Aviation Authority
GDP	Gross domestic product
GHC	Ghanaian (new) cedi
GIPC	Ghana Investment Promotion Centre
GFZB	Ghana free zone board
HOTCATT	Hotel Catering and Tourism Training Centre
KMA	Kumasi Metropolitan Assembly
KNUST	Kwame Nkrumah University of Science and Technology
MCI	Millennium Cities Initiative
MDGs	Millennium Development Goals
MVP	Millennium Villages Project
MW	Mega watts
PANAFEST	Pan African Festivals
PPP	Purchase power parity
SMIDO	Suame Magazine Industrial Development Organisation
SSNIT	Social Security and National Insurance Trust
UN	United Nations
UNDP	United Nations Development Programme

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