

Briefing

Export Processing and Special Economic Zones in Tanzania

Export Processing Zones (**EPZs**) and Special Economic Zones (**SEZs**) provide investors in Tanzania with an enhanced regulatory and fiscal environment for export oriented activities in order to facilitate growth in the national economy.

This update will examine the features and requirements of the EPZ and SEZ frameworks, set out the differences and comparative advantages of each and look at where both frameworks are currently in existence.

EPZ

The Export Processing Zones Act 2002 (as amended by the Export Processing Zones (Amendments) Act, 2006 and the Economic Zones Laws (Miscellaneous Amendments) Act, 2011) (the **EPZ Act**) introduced EPZs to Tanzania with the general aim of creating international competitiveness for export led economic growth. Investors wishing to establish or operate in an EPZ and thereby take advantage of the basket of incentives on offer must obtain one of the three categories of licence from the Export Processing Zones Authority (the **EPZA**), which is responsible for the governance of EPZs. The three categories of licence issued by the EPZA are the Developer's Licence (for investment in infrastructure development including the construction of industrial buildings and warehouses the development of internal roads, landscaping and fencing

and the provision of utilities), the Operator's Licence (for investors who are undertaking manufacturing operations including manufacturing, processing breaking bulk, repackaging, re-labelling and trading) and the Service Provider's Licence (for investors who are providing services and utilities to EPZ and SEZ investors within the zone, including banking, insurance and IT).

In order to qualify for an EPZ licence, the investment should amongst other things, be in a new business or activity which is not already established, with at least 80% of the goods produced or processed for export and annual export turnover of at least USD 500,000 for foreign investors (USD 100,000 for local investors). The process of obtaining a licence, including the establishment of a Tanzanian company through which the investment must be held officially takes three months although in practice this can be longer and the

holder of such a licence must continue to comply with the terms of the licence in order to continue to enjoy the related benefits.

SEZ

SEZs were established under the Special Economic Zones Act, 2006 (as amended by the Economic Zones Laws (Miscellaneous Amendments) Act, 2011) (the **SEZ Act**) and are similar to EPZs in that they provide a basket of incentives for investors who qualify as operating in a SEZ and that they are governed by the EPZA, however their scope is significantly wider than EPZs, in that they are intended to promote economic activities in order to accelerate domestic production, promote exports or generate employment, as well as attracting private investment in the form of foreign and domestic direct investment in the productive and service sectors. As with EPZs, investors are required to obtain a licence from the EPZA. The three categories of licence issued by the EPZA are Developer's Licences (for the purposes of developing and leasing infrastructure and providing services to other investors in SEZs), Investor's Licences (for the purposes of carrying on business within the SEZ) and Non-core Business Licences (for the purposes of providing services to investors in the SEZ, however these licence holders will not qualify for the fiscal incentives provided for in the SEZ Act).

In order to qualify for a SEZ licence, the investment should amongst other things, be in a new business or activity which is not already established, be in a newly incorporated company, constitute a minimum capital investment of USD 500,000 for foreign investors (USD 100,000 for local investors) and generate at least USD 5 million in annual export turnover for foreign investors (USD 1 million for local investors). In common with EPZs, the process of obtaining a licence, including the establishment of a Tanzanian company through which the investment must be held officially takes three months although in practice this can be much longer and the holder of such a licence must continue to comply with the terms of the licence in order to continue to enjoy the related benefits.

Incentives

The EPZ Act and the SEZ Act provide a basket of specific incentives for investors operating within them which we set out and compare in the table below:

Fiscal incentives

EPZ Incentives	SEZ Incentives
Exemption from corporate tax for 10 years	Exemption from corporate tax for 10 years
Exemption from withholding tax on rent, dividends and interest for 10 years	Exemption from withholding tax on rent, dividends and interest for 10 years
Exemption from VAT on utility and wharfage charges	Exemption from VAT on utility charges
Exemption from taxes and levies imposed by Local Government Authorities on products produced in EPZs	Exemption from payment of taxes and duties for machinery, equipment, heavy duty vehicles, building and construction materials and any other goods of capital nature to be used for purposes of development of SEZ infrastructure
Remission of customs duty, VAT and other taxes on raw materials and goods of capital nature related to production in EPZs	Exemption from property tax for 10 years
	Remission of customs duty, VAT and any other tax payable in respect of importation of one administrative vehicle, ambulances, firefighting equipment, fire fighting vehicles and up to two buses for employees' transportation to and from SEZs
	Exemption from stamp duty

Non-fiscal incentives

EPZ Incentives	SEZ Incentives
Exemption from pre-shipment or destination inspection requirements	Exemption from pre-shipment or destination inspection requirements
Lower port charges compared to other cargo box rate (transit cargo)	Lower port charges compared to other cargo box rate (transit cargo)
Unconditional transferability of profits, dividends, loyalties, etc	Entitlement to an initial automatic immigrant quota of up to five persons during the start up period and thereafter, upon consultation with the Immigration Department, any additional persons deemed necessary
Accessing the export credit guarantee scheme	
Allowance to sell 20% of goods to the domestic market	

There is also scope within the EPZ Act for the EPZA to propose additional incentives for the investors in an EPZ for approval by the EPZ Board (made up mainly of senior members of the government), however the exact process by which any additional incentives could be granted is not clear. The EPZA also has the power to enter into a contractual agreement with investors in relation to the grant of investment incentives and the conduct of business within EPZs, provided that this does not contradict the provisions of the EPZ Act.

Existing EPZs and SEZs

The following EPZs and SEZs are currently in existence and are real-life examples of investors taking advantage of the basket of incentives afforded by the current legal framework:

Designated Export Processing Zones	Designated Special Economic Zones
<p><i>Hifadhi</i></p> <p>(A modern industrial complex comprising of an administrative block, seven warehouses and a canteen totalling over 30,000m²)</p> <p><i>Kisongo</i></p> <p>(Situated in Arusha, Vector Health Industrial and Net Health Ltd operate from the site and are in the business of mosquito net manufacturing)</p> <p><i>Kamal Industrial Park</i></p> <p>(An industrial estate spread over 279 acres in Bagamoyo)</p> <p><i>Global Industrial Park</i></p> <p>(100,000m² of privately owned park)</p> <p><i>Millennium Business Park</i></p> <p>(37,000m² of godown space, 4,450m² of showrooms and 9 residential units)</p>	<p><i>Benjamin William Mkapa SEZ</i></p> <p>(Developed solely by the Government of Tanzania, with reliable utilities, fire-fighting provisions, good roads, a one-stop service centre, a shopping arcade, offices, a cafeteria and a medical clinic. Factory space is available for lease, or alternatively, businesses may lease land upon which they may build their own factories.)</p>

Company	Country of origin of Investor
Akalfil Company Limited	Oman
Altus Tanzania	Singapore
Amana Farms Limited	Sweden/Tanzania
Basaliyu Textiles Limited	Tanzania
Diamond Peel Company Limited	Pakistan
Fides Tanzania Limited	Netherlands
Great African Food Company Limited	Tanzania
METL Processing Limited	Tanzania
METL Motors Limited	Tanzania
Polytex Textiles Limited	Tanzania
Rungwe Avocado Co. Limited	Tanzania
Schlumberger Seaco Inc.	USA
Super Power Soap Industries	India
Tansan Investment Limited	Turkey/Tanzania
Trans Ocean Industries and Services	Dubai
Wuzhou Investment Limited	China

Further information

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The new EPZs reported in the press include a 238 hectare site for ICT companies at Bagamoyo and a 10 hectare site for oil and gas service companies at Mtwara Freeport.

Conclusion

The increasing prevalence of SEZs and, in particular, EPZs, is evidence that Tanzania is fast developing an export-orientated private sector economy. Although the scope of the SEZ regime is wider than that of EPZs with regard to the permitted purpose or results of an investment, it is likely that the majority of, particularly foreign, investors are likely to concentrate on exports from Tanzania and therefore qualify for both schemes. Although the fiscal and non-fiscal incentives under both

frameworks are similar, the required turnover to qualify for a licence under the SEZ framework is ten times higher than that required under the EPZ framework, which is likely to act as a significant barrier to entry for many investors, which has led to the number of EPZs far exceeding SEZs. With Tanzania and the wider East African economy continuing to sustain strong economic growth and with the relatively stable conditions afforded to investors in comparison to other parts of Africa, the EPZ and SEZ frameworks are likely to become increasingly common as international investors attempt to diversify their operations to faster growing parts of the world's economy whilst obtaining the best possible fiscal and non-fiscal framework in which to operate.