

1. Introduction

The Good Grain Co. (Tz) Ltd, a subsidiary of BBP Holdings Ltd and an affiliate to Spice World Ltd, is evaluating the establishment of an entity in Tanzania. Given that over 60% of the company's raw materials, including green grams, beans, pigeon peas, spices, and rice, are sourced from Tanzania, this move aims to enhance efficiency, reduce costs, and establish a regional hub for export.

This report consolidates key strategic considerations, including entity structure options, economic performance of Tanzania, investment incentives, competition landscape, regulatory compliance, taxation, employment regulations, land acquisition, operational costs, machinery import considerations, and applicable laws for foreign companies to guide the directors in decision-making.

2. Strategic Rationale for Expansion into Tanzania

- **Proximity to Raw Materials:** Tanzania serves as the primary source of key inputs, reducing procurement and transportation costs.
- **Cost-Effective Operations:** Tanzania offers lower labour, warehousing, and logistical costs compared to Kenya.
- **Export-Oriented Processing:** Establishing a processing facility in Tanzania can help cater to international markets while ensuring a steady supply of processed inputs to the Kenyan parent company.
- **Investment Incentives:** Tanzania provides various tax and duty incentives for agricultural and manufacturing investments.
- **EPZ/SEZ Benefits:** Potential tax holidays and customs duty exemptions make an EPZ/SEZ setup financially viable.

3. Key Production Cost Comparison: Tanzania vs. Kenya

Cost Factor	Kenya	Tanzania	Estimated Cost Reduction (%)
Labor Costs	Higher wages for skilled and semi-skilled labour and high cost of living.	Lower wages due to cheaper workforce and low cost of living.	20+%
Logistical Costs	High due to cross-border transport fees	Lower as raw materials are locally sourced	25+%
Warehousing Costs	Expensive due to high rental prices	Cheaper warehousing and land availability	30+%
Overall Production Cost	Higher due to imported raw materials and duties	Reduced due to local sourcing and tax incentives	25+%

Overall production cost estimated to reduce by 25+% which would create a gateway to export markets also considering that borrowing costs in Tanzania is cheaper than in Kenya, current base lending rate of 6% by the central bank.

Tanzania being classified as LDC country, we'll leverage the available trade incentives for exporting companies operating within Tanzania.

4. Subsidiary vs. Branch: Pros & Cons

Option	Pros	Cons
Subsidiary	<ul style="list-style-type: none"> - Limited liability, reducing risk exposure. - Eligible for local investment incentives and tax benefits. - Greater operational autonomy. - Ability to reinvest profits locally. 	<ul style="list-style-type: none"> - Requires full company registration and compliance with Tanzanian laws. - Potential double taxation (unless tax treaties apply).
Branch	<ul style="list-style-type: none"> - Easier to set up and maintain. - Unified financial reporting with the parent company. - Reduced administrative burden. 	<ul style="list-style-type: none"> - No separate legal identity, exposing the parent company to liabilities. - Limited eligibility for local incentives. - Repatriation of profits may be subject to additional taxation.

Recommendation: Establishing a **subsidiary** is preferable as it ensures risk mitigation, access to incentives, and operational flexibility. Branch will limit us to the articles of associations of the parent company.

5. Economic Performance: Tanzania vs. Kenya (2018-2023)

Year	Tanzania GDP Growth (%)	Kenya GDP Growth (%)
2018	6.7	5.5
2019	6.3	5.4
2020	4.8	0.3
2021	4.9	7.5
2022	5.2	4.8
Weighted Avg	5.6	4.7

Tanzania has exhibited steady economic growth as compared to Kenya for the past 5 years. Diversification of investment is paramount to maximize shareholders funds and reduced political risks that may affect investments, especially in Kenya.

6. Competition Landscape

The Good Grain Co. (Tz) Ltd will face competition from established players in Tanzania. Key competitors include:

- **Bakhresa Group:** A major player in grain milling and food processing with extensive regional market presence.

- **Amsons Group:** Operates Camel Flour Mills, a key competitor in flour milling and grain processing.
- **Savannah Grains Processing Limited:** Specializes in refined maize flour, packaged rice, pulses, and oilseeds.
- **Trianon Spices:** Focuses on high-quality, sustainable spice production.
- **Zanzibar Aromatics and Aromatics Africa:** Leading producers of essential oils and spices.

7. Regulatory and Tax Considerations

- **Corporate Tax Rate:** 30% standard rate.
- **Value-Added Tax (VAT):** 18% on processed products, with exemptions for certain agricultural inputs.
- **Withholding Tax:** 2% on payments to agricultural suppliers, 15% on dividends and interest to non-residents.
- **Import Duty:** Ranges from 0-10% on grain processing machinery, with potential exemptions under EPZ/SEZ incentives.
- **Local Levies:** 0.3% of annual turnover as a service levy.
- **Tax Incentives for Agriculture and Processing:**
 - **EPZ/SEZ Companies:** Exemption from corporate tax for the first **10 years**.
 - **Capital Allowances:** 100% capital allowance on agriculture-related machinery.
 - **Customs and VAT Exemptions:** Duty-free import of capital goods and agricultural inputs.
 - **VAT exemption on exported products** to encourage international trade.
 - **Duty drawback scheme** for refunding import duties on raw materials used for exports.

8. Additional Investment Incentives and Benefits

- **Development Finance:**
 - The Tanzania Agricultural Development Bank (TADB) offers medium- and long-term financing to agribusinesses, focusing on productivity, food security, and climate-resilient farming.
- **Government Support:**
 - Ongoing infrastructural development in terms of roads, electricity connectivity amongst others.
 - The Tanzanian government has increased its budget for agriculture, emphasizing mechanization, irrigation infrastructure, and post-harvest loss reduction.
 - Subsidies and support for establishing mechanization centres and warehouses to address post-harvest challenges.

9. Requirements to Benefit from TIC Investment Schemes

To benefit from the investment schemes offered by the Tanzanian Investment Centre (TIC), investors must meet the following requirements

- **Minimum Investment Value:**
 - For foreign investors: Minimum of USD 500,000.
 - For local investors: Minimum of USD 100,000.
- **Company Registration:**
 - A registered company with a Certificate of Incorporation.
 - Memorandum and Articles of Association.
- **Project Documentation:**
 - A comprehensive business plan or feasibility study.
 - Evidence of sufficient financing capital.
 - Evidence of land ownership or lease agreement for the project location.
- **Application Process:**
 - Duly filled TIC application forms.
 - Board resolution for project approval and registration with TIC.
 - Payment of a facilitation fee of USD 1,100.
 - A cover/application letter addressed to the Executive Director of TIC.

10. Risks Associated with Related Party Transactions

Engaging in related party transactions between the Tanzanian subsidiary and the Kenyan parent company introduces several risks

- **Transfer Pricing Risks:**
 - Transactions must comply with the arm's length principle to avoid tax penalties and adjustments.
 - Detailed transfer pricing documentation is required to justify the pricing of intercompany transactions.
 - Non-compliance can lead to significant penalties, including a 100% adjustment penalty.
- **Financial Reporting Risks:**
 - Increased scrutiny from auditors and tax authorities on the nature, terms, and business purpose of these transactions.

- **Regulatory Risks:**
 - Compliance with both Tanzanian and Kenyan regulations, including transfer pricing rules and disclosure requirements.
 - Risk of double taxation if tax treaties are not effectively utilized.

11. Applicable Laws for Foreign Companies

Profits Repatriation

- The Foreign Investment Act allows foreign investors to repatriate 100% profits, dividends, and other returns on investment, subject to documentation and tax obligations.
- Income Tax Act imposes withholding tax on dividends and interest paid to non-residents at a rate of 10%

Labor Laws

- Employment of non-citizens requires work permits and succession plans to transfer expertise to local workers.
- Foreign companies to maintain an employment ration of 1 foreigner to 10 Tanzanians upon exhausting the slot for first 10 free foreign employees.

Conclusion

Establishing a Tanzanian entity, The Good Grain Co. (Tz) Ltd presents a strategic opportunity to enhance operational efficiency, reduce costs, and strengthen the supply chain by leveraging proximity to raw materials. The favourable economic environment, investment incentives, and cost-effective operations in Tanzania make it an attractive location for expansion. By setting up a subsidiary, The Good Grain Co. (Tz) Ltd can benefit from local investment incentives, tax benefits, and greater operational autonomy while mitigating risks associated with related party transactions and regulatory compliance.

This expansion aligns with the company's strategic goals of establishing a regional hub for export and catering to international markets, ultimately contributing to long-term growth and profitability.