ESTABLISHMENT OF BONDED WAREHOUSE SYSTEM FOR THE HORTICULTURAL INDUSTRY IN TANZANIA

Study Report

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INTRODUCTION

1.1 Definition of Key Concepts

A *Bonded Warehouse* is building or other secured areas (supervised by customs authorities) in which dutiable goods may be stored, manipulated, or undergoes manufacturing operations without payment of duty. It may be managed by the state or by private enterprise. In the latter case a customs bond must be posted with the government. Upon entry of goods into the warehouse, the importer and warehouse proprietor incur liability under a bond. This liability is generally cancelled when the goods are:

- Exported; or deemed exported;
- Withdrawn for supplies to a vessel or aircraft in international traffic;
- Destroyed under Customs supervision; or
- Withdrawn for consumption domestically after payment of duty.

A *bonded warehouse system or scheme* (BWS) is a system of the customs supervision over the bonded goods during the whole process of entering the territory, being stored, being processed, being assembled and leaving the territory. While the goods are in the bonded warehouse, they may, under supervision by the customs authority, be manipulated by cleaning, sorting, repacking, or otherwise changing their condition by processes that do not amount to manufacturing. Bonded warehouses provide specialized storage services such as deep freeze or bulk liquid storage, commodity processing, and coordination with transportation, and are an integral part of the global supply chain.

In the context of Tanzania, Bonded warehouse is a tool for trade facilitation as established under the Revised Kyoto Convention (1999) Annex ‘D’ which has been adopted by the East African Customs management Act 2004.

There are different types of bonded warehouses depending on regulatory regime of a particular country. In the USA for instance, there are eleven (in Thailand, there are 8) different types or classes of CBW, reflecting the category of owner (public vs. private), specific type or nature of merchandise vs. those that are for general use. Tanzania uses two types of bonded warehouses system, namely specific and general BWH.

While most of the procedures and regulations are similar, the criteria and conditions for establishing a bonded warehouse may differ for a particular industry. The main difference is just the existence of a Bonded Factory in the industry. Clearly, this shows the importance of carrying out a study for establishing a bonded warehouse system for the horticulture industry in Tanzania.
1.2 Background and Objectives of the Study

The main objective of the report is to summarize key findings and identify key milestones to guide the process of developing a concrete proposal for lobbying the government to establish Bonded Warehouse System for fast tracking goods which are related to horticultural production and trade in Tanzania.

The study intended to provide inputs for developing an advocacy paper that will be used by TAHA and its partner organization to facilitate dialogue with the Government in establishing a bonded warehouse system for horticultural industry in Tanzania. For this purpose, TAHA solicited a consultant to undertake this study.

Motivated by the experiences of Ugandan Horticultural industry, TAHA took initiative to make a visit and learn from Ugandan horticultural bonded warehouse system that is currently operational and beneficial to investors.

1.3 Approach and Methodology

Custom bonded warehouse is not a new mechanism for facilitating investment and trade. What is novel for this study is its application in the peculiarity of horticulture industry to create a system in which the industry becomes more streamlined by consolidating the supply and value chains at farm, national and global level through PPP. The objective is to increase investment and trade flows by improving trade and investment facilitation including efficient logistics.

Based on this objectives and scope outlined in the ToR, the team undertook four key exercises.

- Reviewed policies, institutional and regulatory regime governing establishment, operation and management of Bonded Warehouses systems in Tanzania, in order to enhance TAHA’s strategy and the scope for horticulture industry specific requirements, drawing from experience of other industries.

- Determined the steps/procedures, requirements for effective establishment, operation and management of a bonded warehouse/system for horticultural industry. Drawing from the structure and operation of a horticulture industry and its specific requirements/environment for investment, production and trade facilitation, the key objective is to develop checklist for guiding TAHA and its member firms and Partners to eventually solicit the Government to accept the envisioned bonded warehouse system under the spirit of Public Private Partnership (PPP) arrangement.
• Collected views from key players on propositions related to establishment of efficient Bonded Warehouse System for the horticultural industry in order to solicit support from strategic players and understand the needs of the key beneficiaries for supporting the aspiration of TAHA.

• Identified key inputs (issues, opportunities and challenges) for preparing a position paper for guiding dialogue on the need and urgency for the envisioned bonded warehouse system and how could TAHA and its Partners pursue it. The objective is to indicate a win-win possibility for the Government to support the request of TAHA, and its importance in raising competitiveness and performance of the industry. The objective is to build a strong case, with a support from industry actors based on the key findings from the study. It is also important to show how informed and prepared are the TAHA and its members for establishing the bonded warehouse system.

The study used both secondary and primary data to analyze the issues or to meet the objectives. The secondary data will include:

- baseline information on bonded warehouses from TRA customs
- trade data on horticulture industry import and export from TRA and other sources
- information from policy documents, statistical sources and previous studies
- Investment data from Tanzania Investment Centre (TIC) and EPZA (Export Processing zones Authority) and industry associations (TAHA etc) files etc.

The primary data was collected by a simple checklist of guiding questions for interview with various actors. The list of interviewees was strategically selective to reflect the nature of information required and the importance of a particular actor/group in the envisioned system, covering two main groups. The first group being the representative of the main industry actors in the industry (including but not limited to farmers/processors, out growers, transporters, exporters and importers, suppliers) and a few bonded warehouses/schemes. The second group being the key institutional actors (MDAs, Private sector support organizations – PSOs, and Industry Associations).

1.4 Structure of the Report

The report is organized into six sections. Following the introduction, section two provides a case for a Bonded Warehouse Scheme (BWS) for the horticulture industry. It provides a general overview on bonded warehouse scheme in Tanzania, and highlights the need to leverage horticulture sector by, among other means, improving its underlying investment and business environment, and the role of bonded warehouse

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2 The list of interviewed people and organization is attached as annex 4.
scheme in achieving this goal based on the experience of other countries and sectors using the BWS.

Section three reviews the institutional, legal and regulatory framework pertaining to the establishment of a bonded warehouse scheme in Tanzania. The section also provides a broader context for operating a BWS by nuancing the associated incentive regime. The section ends by summarizing the key requirement and procedures for licensing a bonded warehouse for use by the horticulture industry.

Section four illustrates the potential benefits of a BWS, based on the standard definition and expectation of the actors (potential beneficiaries). In addition, the section provides a provisional list of goods to be included in a bonded warehouse.

Finally, section five concludes and recommends next steps. Importantly, the section summarizes the key points, and outlines key inputs in the advocacy strategy for promoting BWS in the horticulture industry, and proposes few action points. Section six contains annexes to the report, including the list of people and organizations met (appendix 6.1), copy of laws and regulations (appendix 6.2), Example of notice by Commissioner of Customs regarding revised or specific changes in the Bonded Warehouse regulations (appendix 6.3); and Data on horticultural imported horticultural inputs and equipments (appendix 6.4).

2. THE CASE FOR A BWS IN THE HORTICULTURE INDUSTRY

2.1 Overview of the Bonded Warehouse System in Tanzania

Bonded Warehouse System in Tanzania

The major objective of Bonded warehouse, according to WCO, Annex J of Revised Kyoto Convention Act is to facilitate trade and valuation. Tanzania has adopted this but not acceded the Act = not yet presented to the parliament. Bonded Warehouse in Tanzania is not centralized. There are those monitored in the Dar port (Long room), Dar Airport, while those in upcountry/borders are under supervision of Regional Managers.

Bonded warehouse is governed by EAC Customs Management Act (EACMA) of 2004, and the Customs Management Regulation of 2010 (section 49- 69). Bonded Warehouse also provides export incentive scheme through EPZ and SEZ, which are implemented under the EPZ/SEZ Act. Also goods that are imported for the Army needs are monitored and controlled by Military organs, and not by TRA- Customs. The bonded warehouse facility and system is managed by TRA customs, which has a specialized unit for the
warehouse facility. However, the responsibility for the day to day operations of the private user bonded warehouse facility rests under the respective establishment or organization. The role of TRA is licensing, monitoring for accounting purposes (to enforce the regulation) but supervision role is done by the respective unit or institution. TRA use Risk Based Analysis modern system, unlike in the past/ordinary system of using Bond officers to check and supervise the goods in the warehouse.

It is important to note that the categorizations of bonded warehouses are based on the use and ownership of a warehouse. In terms of use, the laws allow for two types of BWH (i) General BWH and (ii) Specialized BWH. General BWH accommodates everything as a general store, whereas specialized BWH is specialized to only certain type of goods. In terms ownership, the laws provide for Government vs. Privately owned bonded warehouses. The Government warehouse is, in most cases synonymous to (or associated with) a customs warehouse; while a Specialized BWH is, in most cases synonymous to (or associated with) a private warehouse.

However, regardless of case, the laws, regulations and conditions for licensing or and operating a warehouses or bonded warehousing are similar and apply indiscriminately on a particular sector or industry. Bonded Warehouses system in Tanzania does not differ across the goods. In fact, TRA operates a system called TANSAD (Tanzania Single Administrative Documents) which amalgamate all the goods under single document. Valuation for tax or duty purposes is done independent of whether or not operating under Warehouse system. The importer does own assessment (preshipment declaration) and submit to TRA customs by email (warehouse@tra.go.tz).

Although there is no (apparently) specific case where the laws allows for a horticulture specific Bonded warehousing, there are couple of examples in other industry or activities in Tanzania which indicate the potential for horticulture specific bonded warehouse scheme in Tanzania.

For instance, Bakhresa operates a BWH only for storage of wheat grains. In addition, there is facility known as Manufacturing under Bond (MUB) which caters for Bonded Factory (mainly importing much of raw materials used in production of export goods). This is designed for the industrial sector where it allows the industrialist to buy raw materials and continue with production and then they pay duty later (differed payment system). Examples of the industries enjoying this facility in Tanzania include Aluminium Africa.

**Increasing of Use of Bonded Warehouse facilities**

Based on the data from the TRA customs, Figure 1 shows that, the number of bonded warehouse establishments in Tanzania has been increasing modestly, most of which are private (vs. general) facilities. The total number of bonded warehouse
establishments increased from 98 in 2009 (for which 82 were private) to over 122 in 2012 (out of which 102 are private). Consistent with increasing private investments and growth of private sector in the country, the number of bonded warehouse establishment is projected to increase at faster rate in the medium term.

**Figure 1: Number of Bonded Warehouse Establishments (2009-2012)**

![Graph showing number of bonded warehouse establishments from 2009 to 2012.]

Source: TRA-Customs, 2012.

### 2.2 Leveraging Horticulture as a key sector of the economy

*Policy Context: What is the Broader Policy Objective for Bonded Warehouse System?*

Horticultural sub-sector consists of economic activities which are done primarily due to their high cash value and export potentiality (MAFC, 2008). The industry comprises of four main categories of crops namely vegetables, fruits, spices and flowers. Medicinal plants are also becoming popular and regarded as another group of horticultural crops.

Bonded warehouse is a tool for trade facilitation as established under the Revised Kyoto Convention (1999) Annex ‘D’ which has been adopted by the East African Customs management Act 2004. Based on consultations with TRA Customs, the key Government policy on Bonded warehouses is to implement the WCO, RKC Policy on Trade facilitation by domesticating the international laws and policies so as to enhance compliance and efficiency. However, the trade facilitation function of the Bonded Warehouse scheme is considered a useful way to promote exports and competitiveness performance. This is why the Bonded warehouse scheme is closely associated with other measures of export promotion such as EPZ, Duty drawback, Manufacturing under Bond, and internal container depot (ICDs).
Following, it is clear that a bonded warehouse scheme will not only facilitate trade, but will also contribute to high growth of export, thereby contributing to achieving development policy objectives of growth and poverty alleviation as spelt out in MKUKUTA – II. This policy objective is even more feasible in the case of horticulture industry in two ways. First, is through job creation channel. Given the nature of its activities, Horticulture is highly a labor intensive sector – hence high elasticity of job creation.

Secondly, is efficiency gain by cutting down logistics and transaction costs related to importation, handling, and the long supply chain. Finally are the (backward and forward) linkages effects. Clearly, horticulture industry provides significant opportunity for low income farmers to (i) increase their productivity/competitiveness due to spillover effects/externality; (ii) market their produce through contract farming; and (iii) access necessary inputs for improving their production.

_Trends in Horticultural Investment and Trade Performance_

The industry in one of the fastest growing agricultural sub-sector recording an annual average growth of 8 - 10 per cent over the last five years (TAHA, 2011). As is the case for some African countries like Kenya and Ethiopia, there has been a shift to horticultural industry as the main driver of agricultural development due to its nature as a commercial industry and the increasing demand for such products in the major markets (MAFC, 2008). Due to the wide range of growing conditions that the country possesses, Tanzania is in a position to produce and trade most of these crops throughout the year, unlike other countries in the developed world where cropping seasons are only limited to summer periods. This positions the country as one of the most potential producers and exporters of horticultural crops, and advantage which can be realized when attractive investment regime is in place.

Most of the formal private sector capital investments into horticulture are done through TIC scheme. Table 2 below indicates fluctuations in annual capital investment flows to horticulture with a remarkable decrease of 441.3 per cent between 2008 and 2010. Although the investment picked up to US $ 21 million in 2011, strong fluctuation is evidence that much has to be done to attract further investments into the industry. Industry considering the existing competition among horticultural producing countries.
**Table 1: A private investment flows to horticulture/agriculture through TIC**

<table>
<thead>
<tr>
<th>Year</th>
<th>Horticulture</th>
<th>Value US $ (million)</th>
<th>Agriculture</th>
<th>Value US $ (million)</th>
<th>% value of horti inv. total agric.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># of projects</td>
<td></td>
<td># of projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>10.00</td>
<td>16.40</td>
<td>25.00</td>
<td>154.57</td>
<td>10.61</td>
</tr>
<tr>
<td>2006</td>
<td>8.00</td>
<td>29.75</td>
<td>26.00</td>
<td>109.00</td>
<td>27.29</td>
</tr>
<tr>
<td>2007</td>
<td>9.00</td>
<td>19.83</td>
<td>32.00</td>
<td>89.73</td>
<td>22.10</td>
</tr>
<tr>
<td>2008</td>
<td>17.00</td>
<td>40.65</td>
<td>37.00</td>
<td>113.36</td>
<td>35.86</td>
</tr>
<tr>
<td>2009</td>
<td>3.00</td>
<td>5.60</td>
<td>13.00</td>
<td>71.74</td>
<td>7.81</td>
</tr>
<tr>
<td>2010</td>
<td>3.00</td>
<td>7.51</td>
<td>19.00</td>
<td>125.07</td>
<td>6.00</td>
</tr>
<tr>
<td>2011</td>
<td>7.00</td>
<td>21.05</td>
<td>36.00</td>
<td>246.37</td>
<td>8.54</td>
</tr>
</tbody>
</table>

Source: TAHA computations using data from TIC

Contribution of horticulture to total agricultural investments has decreased from a record high (35.86 per cent) in 2008 to 8.54 per cent in 2011. While it is true that all agricultural businesses enjoy similar incentives, less attention is given to horticulture compared to other sub-sectors (such as cash crops such as maize and rice) who have advantage with government schemes such as infrastructure development (irrigation) and input subsidy to out growers.

**Table 2: Projects Registered For the Agriculture Sector (1990-2011)**

<table>
<thead>
<tr>
<th>Location</th>
<th>Activity</th>
<th>No. of Employees</th>
<th>Investment Value in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Foreign</td>
</tr>
<tr>
<td>Arusha</td>
<td>Seed Processing</td>
<td>32</td>
<td>280,900</td>
</tr>
<tr>
<td>Arusha</td>
<td>Tree Nursery Facility</td>
<td>50</td>
<td>700,000</td>
</tr>
<tr>
<td>Arusha</td>
<td>Production of cyclamen seeds for export</td>
<td>101</td>
<td>3,610,000</td>
</tr>
<tr>
<td>Arusha</td>
<td>Seed Production</td>
<td>60</td>
<td>725,000</td>
</tr>
<tr>
<td>Arusha</td>
<td>Expansion of Horticulture project</td>
<td>53</td>
<td>-</td>
</tr>
<tr>
<td>Arusha</td>
<td>Seed Production</td>
<td>85</td>
<td>510,000</td>
</tr>
<tr>
<td>Arusha</td>
<td>Production of High Quality Seeds</td>
<td>85</td>
<td>425,000</td>
</tr>
<tr>
<td>Pwani</td>
<td>Mixed Farming</td>
<td>61</td>
<td>1,273,000</td>
</tr>
<tr>
<td>Pwani</td>
<td>Mixed Farming</td>
<td>25</td>
<td>213,843</td>
</tr>
<tr>
<td>Pwani</td>
<td>Production of Cassava and Pineapples for export</td>
<td>24</td>
<td>-</td>
</tr>
<tr>
<td>Iringa</td>
<td>Commercial dairy, beef, lamb and horticulture farm</td>
<td>75</td>
<td>900,000</td>
</tr>
<tr>
<td>Iringa</td>
<td>Commercial farm for horticulture</td>
<td>203</td>
<td>445,000</td>
</tr>
<tr>
<td>Region</td>
<td>Products</td>
<td>Target</td>
<td>Initial Investment</td>
</tr>
<tr>
<td>---------</td>
<td>---------------------------------------------------------------------------</td>
<td>--------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Iringa</td>
<td>Commercial avocado farming project</td>
<td>100</td>
<td>750,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kilimanjaro</td>
<td>Expand avocado plantation</td>
<td>305</td>
<td>2,700,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kilimanjaro</td>
<td>Grow coffee</td>
<td>81</td>
<td>1,100,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manyara</td>
<td>Farm high quality grains, beans seeds and fruits</td>
<td>52</td>
<td>600,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mara</td>
<td>Integrated cereals/legumes and Horticultural products</td>
<td>150</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mbeya</td>
<td>Avocado commercial farming for export</td>
<td>22</td>
<td>282,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morogoro</td>
<td>High quality horticultural produce for export</td>
<td>50</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tanga</td>
<td>Horticulture -Vegetable farming project</td>
<td>206</td>
<td>450,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: TAHA computations using data from TIC

Looking forward

Clearly, Horticulture is increasingly becoming a key industry Tanzania, earning about 40% of the total export of the agricultural sector and about 9 percent of the country’s total export value. More importantly, the sector has been one of the key recipients of foreign as well as domestic Greenfield investment. The industry has been a preferred investment destination in the country. Despite, consultations with key actors in the industry show an unfortunate backpedaling of investment growth trend – which undermines the potential impact of policy support.

In 2010/11 the industry generated more than USD 350 million per year and it offered direct employment to more than 350,000 Tanzanians. Growth of the industry is recorded at about 9% percent per year, which is one of the fastest growing sectors of the economy. In addition, the industry has a number of potentials which have not yet been exploited. However, these potentials cannot be fully exploited due to the undesirable investment climate such as multiple taxes, inadequate availability of inputs, high costs of transportation and the less supportive Local Government Authorities. Clearly, if the policy hurdles are properly addressed, the industry can contribute to the country’s efforts to improve rural livelihood, income and food security.
2.3 Improving Business and Investment Environment

The report by TAHA on the trip to Ugandan Horticulture association noted explicit and timely need for BWS in addressing the current business environment challenges for the industry:

“…Despite the great achievements in horticulture, several constraining factors remain a big challenge in the sector. Customs clearance and deemed capital goods exemptions emerged to be one of the constraining factors impeding the sector from operating competitively compared to other countries in the East African region. The long bureaucratic procedures in the customs have been causing unnecessary delays in clearing goods imported by growers which are essential for production. On the other hand, the current governments move to remove deemed capital goods from the list of tax exempted goods have raised concerns from the current investors and pose a threat to potential investors..’’

The environment within which horticulture industry operates requires significant attention to logistics and standards pertaining to inputs and outputs. Much of the raw materials for the industry is imported (mainly from Kenya) and subject to high standards for its handling logistic, hygiene and strict expiry dates from the point of entry to the farm. Likewise, output is subject to perishability and high cost of logistics from the farm to the market. The (provisional) list of agro-input and other goods for horticulture production is listed in section 4.3. TAHA will have to validate this list amongst its members and other stakeholders (including logistics companies, investors and buyers of the products). Clearly, imported goods may arrive to the farm through multiple modes (i.e. by port, air or road transport), that are likely to have different operational and regulatory challenges. As demonstrated by successful experiences of other countries, establishment of a BWS has proven to be an effective mechanism to enhance facilitative role of these different/multiple actors in the logistic industry towards a better business environment for horticulture industry.

2.4 Experience in Other Countries and Sectors

Lessons from Ugandan Success Story

If the BWS works in Uganda and Kenya successfully, why not in Tanzania? In fact, establishing the BWS system in Tanzania will greatly enhance compatibility of business practices with the rest of regional players which will increase the market opportunities for Tanzania and dramatically improve competitiveness and scale of operation. The report on the study tour to Uganda concluded that...

The bonded warehouse system has proved to be a very great success in the floricultural industry in Uganda. The force behind the great success is the spirit of trust and commitment from both the government and the floricultural industry itself (TAHA Bonded Warehouse System Report, 2009).
The report outlines all the necessary process that Ugandan Association went through, and describes necessary features of the scheme and how it operates practically. The horticultural bonded warehouse system was initiated by the Ugandan Government to fast track clearance of goods at the entry point and to provide tax exemptions to investors as a way of attracting investment.

Following, this report highly recommends replication of Ugandan scheme for two reasons. First because it will enhance compatibility and collaboration which will be useful in engaging to address common issues at the EAC regional level. The second the replication will result into a more efficient scheme as it will cut down the efforts/costs of designating the scheme, and provide opportunity to improve it based on the practical experience of Uganda and Kenya.

Application of Bonded Warehouse in Other Industries/Sectors
In addition to country cases, BWS has also been successfully designated and applied to some industries that provide a useful learning ground for the horticulture sector to effectively and efficiently pursue similar goal. A general conclusion from consultations with a number of practitioners shows that operation of BWH is beneficial to both the government and private investor. Establishment costs are not prohibitive and the process is not restrictive. The process, cost and other requirements are detailed in CMA 2004 and its regulation of 2010.

Typical cases of industry or activities with intensive use of bonded warehouse system include car/vehicles dealers (as they sale transit and custom exempted cars) and the Manufacturing sector (due to intensive use of imported raw materials to produce exports). Most car/vehicles dealers operate private bonded warehouse systems in Tanzania. However, given time and resource constraints, the study team could not examine these industries in details, where there is a dearth of information. We will only briefly nuance the Manufacturing under Bond scheme given its close relevance to the horticulture industry.

MUB is a specialized BWH, which does not only keep goods under customs custody, but also process such goods for export. The primary objective of MUB is to facilitate export. It is an alternative to duty draw back scheme (DDS). The users benefit the opportunity to keep high stock of imported raw materials which are discharged from store as and when needed for production purposes. MUB address problems of claiming duty paid for exported goods. It is superior to ordinary BWH as it provides more space to untie cash. The customs system can track imports vs. exports to determine duty not paid. The study visited the Bakhresa Group of companies (trading as AZAM) as a case study of how does the MUB type of BWS works (see Box 2.5).
3. REVIEW OF THE LEGAL, REGULATORY AND INSTITUTIONAL FRAMEWORK

The previous section made a case for establishing a bonded warehouse facility for the horticulture industry, including the need to leverage growth of the sector, by among others, improving the business environment in which it operates and envisioned benefits pertaining to BHWS. This section reviews and describes the laws and regulations, licensing process and requirements, and, the key steps required in the establishment of a BWH facility in the horticulture industry. The section starts by outlining the institutional framework governing bonded warehouse scheme.

3.1 Institutional Framework

All Bonded warehouses are Customs Controlled areas, thus Customs department is the overall supervisory authority for the management of the warehouse facilities/schemes. According to the TRA officials, the Government has incorporated bonded warehouse procedures under the TRA Corporate Plan 2012/2013 with the Key objective of collecting revenue in a cost effective way.

Nevertheless, horticulture activities are governed by Policy and Institutional Framework of the Agricultural sector, and coordinated by the Ministry of Agriculture and Food Security (MAFS). The operations of the sector are managed by the Agricultural Sector Development Programme (ASDP), which is an implementation tool for the Agricultural Sector Development Strategy (ASDS). The ASDP is also associated with the familiar national mega programs such as the SACGOT and Kilimo Kwanza, Agricultural Sector Lead Ministries (ASLMs) and various Commodity boards (for traditional crops i.e. cotton, cashew nuts, coffee, tea, sugar, tobacco, sisal and pyrethrum). Horticulture is a non-traditional crop.

3.2 Laws and Regulations for BWS

The regulatory regime governing establishment and operation of BWS in Tanzania is the revised Kyoto convention (1999), Annex D. The Kyoto Convention is adopted by the East African Customs Management Act of 2004 (CMA, 2004), and regulatory framework is spelled out in the EAC Customs Management Regulation of ‘2006; and its revision of 2010 (CMR, 2010). The relevant sections for setting up the legal framework for licensing and establishing a BWS are as follows.
The Act (CMA, 2004) sets the main legal framework for establishing BWH in part IV “Warehousing of Goods” under which it outlines General Provisions pertaining to warehouses in sections 47 – 61, and provisions that are specific to Bonded Warehouse in section 62 – 69. In addition, Part XIII of CMA (2004) outlines provisions for Manufacturing Under Bond (MUB) in section 160-166, which is a BWH facility which is specifically for manufacturing activity (bonded factory).

Often times, laws and regulations are encrypted into voluminous documents, which become a barrier to non-specialists and specific one time users. The summary below highlights only a set of key issues worth knowing, while reference to the main text is made for subsequent follow up by interested readers/users.

What are the Key issues and features of the Main Law (CMA, 2004)

First, it is important to note that, the BWH provisions are part and parcel of the CMA provisions on warehousing of goods. That is, the law allows for any dutiable goods to be warehoused (section 47), and outlines the standard procedures, operations and scope for dully warehoused goods regardless of the use and purpose of warehousing, including the operational mandates of the commissioner and customs “proper officer” (section 51-56), the role of warehouse keeper.

Key operational issues covered by the Act include:

- Allowable changes on the state of warehoused goods including revaluation (52) and removal to another warehouse or special circumstances for delivery from warehouse without payment of duty (53) or abandonment to the customs (56);
- Warehoused goods may be delivered as stores (section 55)
- Removal to another warehouse (54), period of warehousing/sale of goods (57)
- The Customs officer may examine and take stock of warehoused goods (58), and require the owner to pay duties in case of deficiency willfully or negligently caused, except where goods are to be re-warehoused or in case goods were in a bonded warehouse.
- Penalty for unlawful access to the warehouse (59) and use of goods therein (61).

To enforce the law, the Act states in the respective sections and subsections that, any person who contravenes the section or subsection in question commits an offense, and it outlines the respective punitive measures. Related to this, the Act outlines conditions or purposes for which goods warehoused may be entered for, including removal to another warehouse such as the bonded warehouse (section 50); or removed from warehouse (section 49).
Secondly, accordingly, section 64 of the CMR list the goods not to be warehoused, including: (a) acids for trade and business; (b) ammunition for trade and business; (c) arms for trade and business; (d) chalk; (e) explosives; (f) fireworks; (g) dried fish; (h) perishable goods; (i) combustible or inflammable goods except petroleum products for storage in approved places; (j) matches other than safety matches; (k) any other goods which the Commissioner may gazette.

Third, the law (in sections 62-69) clearly defines and outlines the specific provisions for a bonded warehouse (see original text in Box 1) including the Authority of the Commissioner to license a building or a place as a bonded warehouse (section 62). Importantly, the law (62.2) distinguishes between a general bonded warehouse and a private bonded warehouse. Important issues to note include:

- A building can’t be a bonded warehouse unless valid license is issued by the Commissioner of Customs to operate as bonded warehouse, and the owner keeps the terms and conditions of the license. A license for a bonded warehouse is issued by the Commissioner of Customs by upon meeting the different conditions and requirements, failure of which He/She may revoke or refuse to grant the application.

- While the application procedures, requirements and conditions for license are clearly outlined in the law and further clarified in the regulations, it is important to note that they may be revised from time to time by the Commissioner issuing a public notice (see for instance, Annex 2). Box 1 provides a checklist of the standard procedures and requirements, including filling the appropriate forms, payment of annual fees, availing security, and standards for the building, facilities and personnel.

- The Act outlines the clear responsibility for both the customs officer (section 69) and the warehouse keeper (section 64) and the manner for stowage and storage of goods (section 65), including: conditions for removal of goods from private to general warehouse or to customs warehouse (section 66) and associated punitive measures.

- Bonded warehoused goods are liable to payment of duties once removed from the warehouse for home consumption, unless otherwise exempted, or is meant for exported, re-warehousing or moving to another warehouse.
Specific provisions of the Regulations (CMR, 2010)

The regulations for Bonded Warehouse provisions are contained in Part V of the CMR, 2010, which include general provisions regarding warehoused of goods (section 64-73), licensing of bonded warehouse (sections 74-81), and rental of government warehouses (section 82-83) and customs warehouse (section 84-87). Consistent with the Act, the regulations also include provisions in Part XIII for Manufacturing under Bond (MUB) in section 153-164.

The specific provisions of the regulations pertaining to application and operation of a bonded warehouse are shown in Annex 6.2. However, below is a summary of the key features of the overall regulatory framework and key issues for the horticulture industry.

First, while the CMA provides that any dutiable goods may be warehoused, the regulations outlines goods restricted for warehousing (see section 64 of CMR) including dangerous, perishable and explosive goods, and any goods which the Commissioner may gazette.

Second, and in addition to the above point, the regulations give power to the customs officer to refuse goods to be warehoused, and in such a case, the goods may be deemed void (not to be entered) and they shall be returned unless the officer allows them to be entered for home consumption (section 66).

Third, the regulations outline the forms and conditions to be fulfilled in the process of warehousing the goods (see Box 3.1). These include (with appropriate section of the regulation unless stated otherwise):

- **a)** Form C.15 for an application to commissioner to allow repacking the goods in the warehouse (section 70).
- **b)** Form C.16 for transfer of ownership of goods to another person (section 71).
- **c)** Form C.17 for entering goods which have been warehoused (section 67 of the regulations and section 50 and 66 of the Act). According to Miscellaneous provisions, part XVIII, section 201(2) of the CMR, reference to Form C. 17 includes reference to Forms C.17A and C.17B.
- **d)** Customs Bond Form for furnishing a bond (section 68 of CMR)
- **e)** Form C.18 for application for a licensing any building or premises as a bonded warehouse (section 74)
- **f)** Form C.19 for A Commissioner to issue a license after the application has met all the conditions and paid the necessary fees (section 74.4).
Bonds are of several types namely (i) CB3 for goods moving from customs into the BWH, (ii) CB6 for goods in BWH (iii) CB8 for goods on transit to other countries (exports).
**Box 3.1: Key Provisions, Steps, Procedure and Conditions for Establishing a Bonded Warehouse**

**Section 74: License for Bonded Warehouse**
(1) An application for the licensing of any premises as a bonded warehouse shall be made using Form C 18.

(2) The application referred to in sub-regulation (1) shall be accompanied by a plan of the premises and its situation in relation to other premises and thoroughfares.

(3) The following conditions shall apply to an application for a license under this Regulation-
   (a) the applicant shall have a rental contract whose duration is longer than the duration of the license applied for or furnish proof of ownership of the premises;
   (b) the premises shall be equipped with at least one computer capable of connecting to the customs computer system, the physical location of which shall be indicated in the license application form for customs verification purposes;
   (c) the premises shall have a parking yard or storage area which shall be made of rigid pavements, tarmacked or made of concrete finishing;
   (d) the premises shall have adequate parking space commensurate to the operations of the premises as the Commissioner may deem fit;
   (e) the premises shall be well secured with a perimeter fence and lighting system;
   and (f) the premises shall be equipped with a fire fighting system.

(4) Where the Commissioner is satisfied that the location and construction of the premises and the accommodation in the premises proposed to be used as a bonded warehouse, are suitable for the intended use and upon payment of a license fee, the Commissioner may issue a license using Form C19.

**Section 75: Bonded warehouse fee**
(1) The annual license fee for a bonded warehouse shall be one thousand five hundred dollars.

(2) Where a license is issued in the course of a calendar year, the license fee shall be computed on a pro rata basis.

**Section 76: Execution of a Bond**
A licensee of a bonded warehouse shall execute a bond using the Customs Bond Form.

Forth, the licensing requirements and procedures are clearly outlined by section 74 of the regulation as shown in Box 3.1. The most important aspects of these licensing requirements include:

(a) The appropriate **plan and conditions** of the premises or places being proposed for as a bonded warehouse;

a) Financial charges including the **bonded warehouse fee** that is to be paid on annual basis, or on prorata basis if issued within the calendar year (section 75), and execution of a bond using the Customs Bond Form (section 76) and finally;
b) Appropriate facilities and human resource qualified to carry out the customs operations related to the bonded warehouse. Specifically, section 74(3b) of the regulations requires to be equipped by at least one computer capable of connecting to the customs computer system (e.g. ASYCUDA++); and the owner or official with minimum capacity to operate this system for reporting and accountability to customs licensing conditions.

Notably, there is no difference in terms of procedures and requirements to be met if a BWH is to be established by TAHA through its logistic company or if any other private company wishes to establish its own bonded warehouse.

Fifth, the regulations also provides, in sections (77-81), specific conditions for effective operations of the Bonded Warehouse facilities. These can be highlighted as follows:

a) Section 77 restrict license holder from making any alterations unless so permitted by the Commissioner;
b) Section 78 requires death of the license holder to be communicated immediately to the Commissioner by the surety;
c) Section 79 requires the bonded warehouse to be visibly numbered and marked by words “Customs Bonded Warehouse”;
d) Section 80 requires the licensee to submit a return of goods remaining in the bonded warehouse to the Commissioner for the period up to the 30th day of June each year, and return the goods to the Commissioner by 31st of July, of the same year.
e) Section 81 requires goods to be removed when bonded warehouse is closed.

Sixth, it is important to note that, while the above provisions relates to bonded warehouse, the CMR also contain provisions related to Government warehouses (section 82-83), and customs warehouse (sections 84-87). The provisions specifies the rental charges for goods (or deemed to be) in Government/Customs warehouses as US$ 0.3 dollars per cubic meter per day (Section 82 and 84), and the requirement to remove the goods from the Government warehouse (and entered for home consumption) should the later be closed (section 83). This rental charges may be waived in whole or part by the Commissioner (section 85) and paid before delivery of goods (section 86). Furthermore, the regulations clarifies that the Customs premises are deemed to be customs warehouses (section 87).

Seventh, in addition to warehousing and BWH law, we will highlight additional provisions in the Act and Regulations that we consider relevant for guiding TAHA and its
members in understanding the broader context of Bonded Warehouse scheme. These include:

(a) **Manufacturing under Bond scheme.** Part XIII of CMA (2004) outlines provisions for Manufacturing Under Bond (MUB) in section 160-166, which is a BWH facility that is specifically for manufacturing activity (bonded factory). Consistent with the Act, the regulations also include provisions in Part XIII for Manufacturing under Bond (MUB) in section 153-164. The main difference between a bonded warehouse and MuB schemes is the fact that, under MuB, the commissioner licenses a premise as a **bonded factory**. The rest of the provisions are mostly similar.

(b) **Duty Drawback scheme.** This is a duty remission scheme for goods imported and used as inputs for exports. The Act defines “Duty Drawback” as a refund of all or part of any part of any import duty paid in respect of goods exported or used in a manner or for a purpose prescribed as a condition for granting duty drawback. Such goods (exported or re-imported) shall, according to section 116 be exempted from import duty. Further, sections 16 and 78 of the Act provides that, goods under the Duty Drawback scheme shall be subject to the Customs control from the time of the claim of duty paid to the time of exportation. The amount of duty to be remitted back is calculated using “duty drawback coefficient”; that is the amount of duty refundable per unit of goods exported. Part IX sections 139-142 spell out the basis and conditions for granting a duty drawback, and application procedures. That is, Section 140-141 outlines conditions under which the duty drawback shall be granted, and that the goods are not prohibited by any law, and have been entered and invoiced with the proper officer. Furthermore, section 142 clarifies conditions under which duty drawback shall not be allowed on any goods (goods not meant for exports, used or damaged, inconsistent with original invoice/packing list etc.). Duty drawback shall not be granted on tax exempt materials used in the production of exports (section 139(4), and will be payable according to the actual quantity of goods exported, or shipped for use as stores or used as prescribed as the case may be.

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Said Salim Bakhresa & Co manages two facilities; Bonded Warehouse (BWH No. 276); and Manufacturing under Bond (MUB no. 005) established in 2010. MUB is a specialized BWH, which does not only keep goods under customs custody, but also process such goods for export, and whose primary objective is to facilitate export. It is an alternative to Duty Draw Back scheme (DDS). Briefly, MUB address problems of claiming duty paid for exported goods, and hence it is superior to ordinary BWH as it provides more space to untie cash.

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(c) **Internal Container Depot (ICD).** According to the interpretation under the CMR (part I section 2), Internal Container Depot (ICD) means “internal container depot” means any place appointed and licensed by the Commissioner for the deposit of goods subject to customs control. The ICDs are covered under part IV (section 57-63) of the regulations, which spells out according to section 14 of the Act, the licensing requirements, and conditions for operating an ICD – including access to (section 59) and maintenance of ICDs, requirement not to make alterations to ICD (section 61), the need to report the death of owner (section 62) and to remove the goods once the ICD is closed (section 63). These requirements are broadly similar with those of Bonded warehouse. For instance, application for ICD license is made using similar form C.18 and is granted by Commissioner using form C.19, and that the Owner shall execute a bond using a Customs Bond [section 57(5)]. The main difference is that, goods may be kept to an ICD for warehousing (in addition to exportation and export processing) purposes as provided for under section 63(3) of the CMR. That is, an ICD can be a warehouse, but not vice versa (a warehouse cannot be an ICD). The regulations states in section 63(3) that

“Goods which are entered for exportation, export processing zones or warehousing but which are not removed from an internal container depot, shall, on the expiry of the notice, be taken to a customs warehouse and be dealt with in accordance with section 42 of the Act; provided that customs warehouse rent due shall be paid for goods entered for home consumption before removal or delivery.”

The Commissioner is empowered, according to section 12 (1) of the Act to appoint any premise as a Customs area (including a bonded/warehouses and ICDs). Both warehouses and ICDs are Like in the case of warehouse, there is government and privately owned ICDs. The Commissioner may license any building (not a place) as an ICD subject to the conditions outlined in the regulations. More importantly, according to section 58(1), all cargo destined to any internal container depot shall not be dealt with in any manner without the authority of the proper officer, unlike in the case of warehouse where the owner may be allowed to use, alter or repackage the goods provided He/She complies with the laid down procedures.

(d) **Other key provisions related to imported goods** include: (i) remission or refund of duty on abandoned goods (section 143), lost or destroyed goods
(section 144), rebate on duty on damaged goods (section 145); and refund in case goods are returned to seller (section 146). Others include a case where refund on damaged, pillaged, or destroyed goods (section 147) or where duty was paid in error and deposit or cancellation of bond given as security (section 148). In all these cases, the regulations clearly shows the form that should be filled by the applicant, and necessary documentation or information required by the officer.

3.3 Exemption Regime underlying the BWS

The incentive regime for horticulture and its broader context is well covered in the recent study report by TAHA on Investment Incentive Package for Horticultural Industry in Tanzania: Perspectives from Private Sector (TAHA, undated). In this section, we highlight a few issues from this report, but mainly from the review of laws for the purposes of the current study. Despite of a number of incentives that can be enjoyed by horticultural producers, processors, exporters and service providers, the investment climate in the horticultural industry is still rated as poor and does not do enough to adequately encourage new investments or expansion of existing operations.

The laws of Tanzania offer both general and specific incentive schemes. For the purposes of this study, we shall refer the incentive regime administered under the TIC’s investment Act as general incentive regime, to distinguish with the incentive regime that are specific for zones program (especially Export Processing Zones – EPZ) and administered by EPZA, and those that apply to a particular sectors including in the Horticulture sector.

The key question for TAHA and its members is whether there are potentially additional value (or added advantage) of establishing a bonded warehouse scheme over these incentive scheme, and if so, what will this value added be. The response from the consultations with some of the TAHA members, TIC/EPZA and some of the owners of a bonded warehouse facility outside the horticulture industry indicate a strong affirmation that a bonded warehouse facility will have added advantage in relative and absolute terms.
4 POTENTIAL IMPACT, OPPORTUNITIES AND CHALLENGES FOR THE HORTICULTURE INDUSTRY

4.1 Potential Benefits of a BWS

The following are standard benefits of storing in a bonded warehouse? By storing goods in a bonded warehouse, traders can enjoy substantial cost savings through the deferment of payment of tax if the goods are not immediately required when they arrive in the destination port. Duty need not be paid on imported goods which are intended for (hence facilitate) re-export; or that Duty need not be paid on goods which are produced in a Free Industrial Zone pending export. In addition, bonded warehouses facilitate the conduct of various operations which make the goods suitable for marketing. That is, subject to the laws and regulations, the owner of the goods is allowed to brand, grade, label and pack the goods when these are in bonded warehouses. The importer can effect sale of goods or transfer the title of goods by endorsing the warehouse receipts. This enables to save much of advance cash on part of the importer. Furthermore, goods kept in a bonded warehouse can be used as collateral security for a bank loan.

Most of the companies interviewed for this study noted that they have or are in advanced stage of processing a TIC certificate of incentives. And their key question is what benefit does a bonded warehouse facility contribute to improving their operational and investment performance?

First, the two are complementary, not substitutes, in that a bonded warehouse facility will make it easier for the investor to process and claim the exemption. What matters is for the Customs Authority to have an approved list and code of imported inputs and equipments in the horticulture production, which would make it easier for customs officers to verify and clear in the warehouse.

Second, investor certificate is an exemption not to pay tax, but not an exemption not to be cleared for customs. Deferment of duty payment under the bonded warehouse facility is not only about saving the financial burden, but it does also reduce the cost of importing costs in terms of logistical efficiency as goods are cleared faster compared to the case when one has only investor certificate BWS than without.

Finally, as additional benefit, an investor can keep a large inventory of raw materials without a financial burden for gradual use as needed – which saves a huge chunk of costs related to wharfage, clearance delays and port inefficiencies. One of the compelling challenges for the companies in the horticulture production is time taken to import and export. For instance, it appears from the interviewed companies that clearance and import documentation takes three hours in Kenya, but it takes up to
seven days in Tanzania. Documents for clearing are many and from multiple institutions. It takes up to three days only to deal with radioactive certificate which has no use. Quoting one of the interviewed MD: “With the establishment of BWH the company can import large quantities from India and Europe….”

The additional transaction/logistic costs work against competitiveness of Tanzanian producers at the advantage of Kenyan competitors. Nonetheless, the actors proposed that, for BWS to be effectively useful, the export and import documentation should be streamlined in the system.

4.2 Views from the Industry and Government Actors

The following boxes 2.1-2.5 show case sample profile and voice of potential beneficiaries of bonded warehouses, which were prepared from the field work conducted for this study. The key messages from these cases affirm to the potential benefit of BWH and the investment climate (including logistics) challenges undermining dynamism of the horticulture sector in Tanzania.
Box 2: Voices from the Actors

Box 2.1: FIDES-Tanzania

It operates 10 hectares and employs 400 people. The company finds that lack of competitiveness for Tz horticulture is a result of lack of competitive price on inputs. All inputs are imported from Kenya. Dealers are not ready to invest in Tanzania because of feeble market and uncompetitive business environment. The company is processing TIC certificate. The MD thinks that with TIC certificate and establishment of BWH it may serve the company a lot of resources (time and money) spend on imports.

When the company imports Greenhouse materials together with plastic materials (complete set) it does not pay import duties. However, plastic materials are replaced every three years. So when importing only plastic material it has to pay all import duties. This applies when importing irrigation equipments as a complete set vs. importation of replacement parts of the irrigation machines. This affects company competitiveness and makes incentive framework of the sector weak.

Company main export markets are Holland (90%), USA (8%) and Taiwan (2%), and its main suppliers are Holland (95%) and China (5%).

FIDES-TZ sees that operationalization of BWH system will be a great deal cost serving to the company. It imports five containers every year and pays up to 100,000,000 on import duties. The company has plans to invest more and expand production. The company recommends establishment of a private BWH system will increase competitiveness of the industry.
Box 2.2: Q-SEM-Tanzania

The company established in 2002. It producers horticulture seeds in its 3.7 hectares, and employs 400 people.

The company maintains same views that BWS will be enormously beneficial to their operation, and will complement the benefits of TIC certificate of incentives. The company spends around euro 200,000 on importation of replacements parts and other inputs such as pit malls, coco, chemicals shoes, irrigation equipments, etc. Most inputs are ordered from Europe, while less than one percent of company produce is sold in the domestic market. Over 99 percent exported to Netherlands.

The company sees that the horticulture industry is retracting. Ten years back the industry was flourishing; to date many firms have closed. Limited scale of operations in Tanzania horticulture constrains the benefits of enjoying economies of scale such that it is difficult to convince dealers establish in Arusha. This is affecting the company expansion plan. Based on its experience in several other countries, performance of Tanzanian horticulture industry is declining compared to that of Kenya, Uganda and Ethiopia. For instance every year up to 100 hectares of horticulture farms are set in Uganda, while in Tanzania there is very little new investment in the sector. The only encouraging factors are to process TIC and EPZA certificates to increase its competitiveness and improve its investment environment for operating in Tanzania. The main areas for expansion plan are production unit and research unit.

Other challenges in Tanzania horticulture industry is getting adequate skilled people and with right attitude. This is the case with the customs officials too. Most customs officials don’t know the technical aspects/details of inputs imported by horticulture, so in determining duties payable they normally over estimate.

The firm urges that without addressing bureaucracy which is the biggest impediments to entrepreneurship, even establishment of BWH cannot solve the problem in horticulture.
Box 2.3: Hortanza Ltd.

The company was established in 1993/94. The company employs 400 people.

Unlike the cases of other companies, they prefer a TAHA to set and manage a General BWH over private BWH, because it does not store as much of the inputs. It keeps only what can be used in one to two months. The company imports are mainly green house and plastic materials.

The company incurs significant costs on both logistics and import duties and cannot enjoy economies of scales on procurement because it imports on small-small quantities several times. This is done to minimize the amount payable on duties at time. With the establishment of BWH the company can import large quantities from India and Europe.

The main company compelling challenge is time taken to import and export. For instance clearance and import documentation takes three hours in Kenya and up to seven days in Tanzania. Documents for clearing are many and from multiple institutions. It takes up to three days only to deal with radioactive certificate which has no use. In recent months, the company has substantially reduced its importation following difficulties unpredictability in determining the amount of tax and protracted clearing process. BWH will be useful if export and import documentation are streamlined in the system.
Box 2.4: Mount Meru Flower (MMF) Ltd.

The company was established in 2005. In 2010 bought another company called Tanzania flowers, which had collapsed and now being rehabilitated and gradually engaging in production. The company employs about 700 full time workers and about 80 casual workers. MMF has no idea on how the BWH system works, but enjoys investment incentives under the TIC umbrella.

Their major logistic challenge is getting products across the border. They find that, the process of moving goods across the Border is complicated because of many details required every time you import or export. As a result, it takes between 5-7 days to clear goods from Dar port, which adds to cost of production. As a result, MMF is cost disadvantage against its regional competitors.

Compared to Tanzania, Kenya enjoys economies of scale due to their scope of production (Kenya horticulture is 2,500 hectares vs. 120 hectares in Tanzania) and has mastered production technologies, with better structures and knowledge of the industry. Kenya also has more skilled labor force and wider access to cost-effective inputs, which Tanzania players face various NTBs to import from. The strength and success of Kenyan horticulture industry is also a result of its strong political lobby (because some industry shareholders are also high level politician).

There also small practical details to comply with for goods on transit, which add to delays considering perishability of cut flowers. The major imports are packaging materials and special sleeve, which are mainly (over 90 percent) imported from Kenya. Most production inputs, (seedling, fertilizers, and chemicals etc.) are bought from local dealers, and which are largely Kenyan companies. Equipments and machines, spare parts and other machine accessories are imported from Holland. So around 60 percent of production inputs are sourced locally, 35 percent imports from Kenya and 5 percent from Europe. Major export markets are Holland, Germany, Scandinavia, Switzerland and other EU countries. About 5 percent of the company production is sold in local market.

MMF is increasingly gaining market share. For instance, it had no market in Austria in 2005, now has 35 percent market share. It is pushing out some companies from its competitor Kenya. The largest buyer in Switzerland ranks MMF in the top five suppliers. The company is supplied by 15 different companies form Kenya, Ethiopia and Tanzania.

Moving forward, the company recommends that, there is urgent need to implement exemption on packaging material of horticulture export. Furthermore, the company urges all industry actors to consolidate their collaboration to continue working together to improve their competitiveness and productivity. For instance, Kenya has many large farms with an average of 100 hectare, compared to Tanzania where the two largest companies have a combined size of less than 100 hectares. **BWH may improve address logistic challenge the company is facing. The company recommends TAHA to establish and manage the BWH.**
Box 2.5: Bakhresa Group of Companies

Said Salim Bakhresa & Co manages two facilities; Bonded Warehouse (BWH No. 276); and Manufacturing under Bond (MUB no. 005). The two facilities were set in 2010. MUB is a specialized BWH, which does not only keep goods under customs custody, but also process such goods for export, and whose primary objective is to facilitate export. It is an alternative to Duty Draw Back scheme (DDS). Briefly, MUB address problems of claiming duty paid for exported goods, and hence it is superior to ordinary BWH as it provides more space to untie cash.

Bakhresa operates a Specific BWH, only for storage of wheat grains. Among other requirements (as PVD in CMA 2004), the BWH must have controlled access, restricted against trace pass or any other damage of goods under bond; and hence need to have a cash bond (CB) that is attached to duty payment deferred. CB is paid to insurance company. Premium payable is depended on the value of goods under Bond and the credibility and capacity of the beneficiary not to default. It also depends on the insurance policy. The insurance will give the beneficiary a bond guarantee that is served to customs authority (CA) such that in a situation of default, the insurance company compensates the CA. Bonds are of several types namely (i) CB3 for goods moving from customs into the BWH, (ii) CB6 for goods in BWH (iii) CB8 for goods on transit to other countries (exports).

In addition to the infrastructure/facilities, operators of a BWH need to have competent staff trained in the area of Clearing and Forwarding (C&F). Depending on the size of operation, one may wish to outsource C&F activities or have in house staff. Bakhresa has 30 staff in the Import and Export unit, this unit is primarily responsible for managing BWHs. In addition, BWH must have computer connected to customs system (ASCUDA ++). The computer is installed with software, a “server based system” (Not web based which is superior). Because the system is server based, an operator of BWH will require a dedicated internet line that is powerful enough to ensure continuous connection during operation. However, system failure resulting from poor internet connectivity is the main challenge experienced by the company in operating the BWH facilities.

The discussion suggests that if the government (commissioner of TRA) is convinced that the applicant is credible and has economic impact, the commissioner can extend a helping technical hand in facilitating operation of the BWH. This is because operation of BWH is beneficial not only to the private sector but also to the government. Bakhresa hosts a customs officer within the company jurisdiction to oversee management of the BWH and support company officials on customs technical matters.
Box 2.6: State Actors Views on the Establishment of BWH

- The government through Tanzania Revenue Authority considers establishment and operation of Bonded warehouse system as a cost effective mechanism for tax administration and collection. As such TRA have incorporated
- TAHA initiative to establish bonded warehouse system for horticulture is a welcome strategic move in efforts to address logistic challenges facing traders in Tanzania and more so horticulture investors.
- Bonded warehouse system is a complementary mechanism to enhance investment in horticulture in Tanzania. This framework shall augment the investment incentive package in the sector.
- Since duty need not be paid on goods which are produced in a Free Industrial Zone pending export if they are stored in a bonded warehouse; then application of the system for exporting horticulture products will add to competitiveness of Tanzania horticulture products.
- Bonded warehouse is a key instrument of trade facilitation, so non application of the system is a self denial of opportunity to enhance trade competitiveness of Tanzania agro produce.
4.3 Identification of Bonded Warehouse Goods

Considering the different challenges the investors in the horticultural industry are faced with in Tanzania, especially the tax exemptions and the varying classification of horticultural input the investors are thirsting for a scheme that would allow them a time and cost effective access to the input. The challenges vary from unnecessary delays at the border, confusions on what should be exempted to huge amounts of money paid as taxes on what should be instead tax exempt. It is on this basis that TAHA should provide guidance to the Government (Customs) Authority on the provisional list of goods that should be included in the bonded warehouse system. The study recommends drawing this list from the Ugandan experience, as noted in the TAHA 2009 report.

First, agro-input and other goods which are related to the horticultural production, defined broadly to allow possible revision over time. These include fertilizers, pesticides, insecticides, fungicides, rodenticides, herbicides, ant sprouting products and plant growth regulators. All the goods which are exempted under this scheme are given special codes in the Customs Procedure Codes (CPC), which helps the customs officers at the border and others using the system anywhere else to differentiate the goods from others which are taxed.

Second, the list should also include necessary inputs and equipments directly used in the production of horticultural produce. These include:
- Greenhouses plastics, irrigation and postharvest
- plant materials,
- kraft paper used for production of packaging materials (boxes)
- Agro-nets used for covering horticultural crops
- Etc.

These goods may be regarded as “deemed capital” so as to integrate the goods under general incentive regime with the Bonded Warehouse Scheme. There is likelihood for the government to remove deemed capital goods from the list of tax exempted goods, a fact that has raised concerns and pose a threat to potential investors.

Thirdly, Zero-rated treatment can be enjoyed in purchase of capital goods and other farm inputs such as Planters, harrows, combine harvesters, fertilizer distributors, liquid or powder sprayers for agriculture, spades, shovels, mattocks, picks toes, forks and rakes, axes and other tools of a kind used in agriculture, horticulture or forestry.
Fourthly, streamline import procedures by having all the necessary clearance agencies informed of the bonded warehoused goods for the horticulture industry. These include the Ministry of Agriculture and other standards bodies on (such as PHS, Radiation Commission) informed of the existence of horticultural bonded warehouse scheme. This is important since investor will have to get an import permit from the Ministry of Agriculture, and be subject to verification and testing by PHS department.

5 CONCLUSIONS AND RECOMMENDATIONS

This report has built a strong case for establishing BWS for horticulture industry in Tanzania, and reviewed the laws and regulations underlining the process, requirements and conditions for licensing, operating and managing such a scheme. Furthermore, the report presents views of key actors and potential beneficiary of a bonded warehouse facility, and established its potential benefit in terms of improving business environment and performance of the horticulture sector. Finally, the report will, in this section, recommend some input for developing the advocacy strategy for TAHA in lobbying with Government to establish the scheme, based on the experience from Uganda’s successful experience and insights from this study. Nonetheless, this section starts by highlighting the key messages of findings.

5.1 Summary of Key Messages

Operation of BWH is beneficial to both the government and private investor. Review of the laws and regulations show that establishment costs are not prohibitive and the process is not restrictive. The process, cost and other requirements are detailed in CMA 2004 and its regulation of 2010.

The investors and actors support the proposed establishment of a bonded warehouse scheme and have pledged collaboration to make it a success. All the major horticultural investors/farmers consulted have supported the idea of establishing the bonded warehouse.

They are concerned with deteriorating business environment and declining investments in the horticulture industry relative to their main competitors (Kenya). As part of their strategy, most investors are also considering (except few who have already done so) to apply for a TIC certificate of incentives, and would like to understand how the incentive scheme is associated with the bonded warehouse system.

Clearly, TAHA has an immense role in facilitating the dialogue and lobbying with Government, building capacity and awareness of the system, and sorting out key
operational challenges ahead of time. This report will therefore provide inputs to preparing an advocacy strategy to engage with key partners and stakeholders (the Government through TRA, major actors in the industry, the Line Ministry and import clearance agencies, and the media). Furthermore, TAHA would wish to recruit an experienced and credible officer-in-charge of this initiative, to provide technical assistance to TAHA and help to set up the system.

TAHA members and potential beneficiaries should opt to develop a private BWS specifically tagged to the horticulture sector, and based on the regular imported inputs (raw materials) or equipment. Licensing may be processed for individual farmers/investors (as opposed to general facility).

It is important to note, however, that most investments/farmers are relatively smaller scale (compared to Kenya), which means they import small-small quantities several times that increased their individual logistics costs of importing. It appears therefore that, a joint bonded warehouse facility would have potential to mitigate their costs of storage and lack of economies of scale. Some of the companies recommend TAHA to establish and manage the BWH. This however does not limit individual companies setting their own BWS.

5.2 Towards an Advocacy Strategy
The key objective of this section is to develop input that will inform a communication and advocacy strategy for TAHA in pursuing a roadmap and lobbying process for a successful establishment of bonded warehouse scheme in the horticulture industry. The section will draw heavily from the experience of TAHA and lessons learned from the visit to Ugandan counterpart, consultations and views from the potential beneficiaries and other players in the horticulture industry, and finally but most importantly, the institutional actors.

First and foremost, the core aspects of the advocacy should revolve around the policy and concept of Public Private Partnership (PPP) since the BWS has potential to benefit both the public and private sector. Evidence from the Ugandan experience shows that, once the government (commissioner of TRA) is convinced that the applicant is credible and has economic impact; the commissioner can (in addition to issuing of license) extend a helping technical hand in facilitating operation of the BWS.

Secondly, the advocacy should clearly demonstrate how the scheme will be beneficial in addressing some of the typical challenges in the industry and in increasing its competitiveness. For this purpose, export and import documentation need to be
streamlined in the system; and that it presents a significant opportunity for Tanzania to develop and attract investment in the Horticulture industry.

Thirdly, the advocacy strategy paper should demonstrate key attributes of the proposed system, including (but not limited to):

- **Flexibility** – to accommodate the changing circumstances or market trends.
- **Comprehensiveness** – broaden the list of warehoused goods so as not to restrict possibility for innovations or changing technology.
- **Transparency and simplicity** – to make it easier to operate and manage.
- **Scalability** – to accommodate possible growth of the industry.
- **Responsiveness** – to accommodate needs of the beneficiaries.
- **PPP spirit** – as noted earlier, to facilitate achievement of the policy and industry objectives.

Fourthly, the advocacy should prepare the roadmap and work plan, outlining strategic partners and their respective role in the process (the Government through TRA, major actors in the industry, the Line Ministry and import clearance agencies, and the media), key milestones and timeline, and the cost for achieving the outcomes. The report provides initial core list of partners TAHA may start to engage in this process in annex 6.4. For this purpose, the advocacy should underline the fact that the BWS is a feasible idea in that the establishment costs are not prohibitive and the process is not restrictive.

Finally, the advocacy should identify the risks involved, both in the process and in actual operation of bonded warehouse facility, so as to devise mitigation plan/mechanism. These include checks and balances that will ensure that the system is not abused neither is it burdensome to industry. For instance, mis/under declaration by farms, deliberate mistakes, security against fraud and theft, financial discipline not to over/under insure, and avoid the punitive measures.

### 5.3 Proposed Next Steps

The following are the key next steps.

1. **The Consultants to revise and finalize the report based on the comments from TAHA and stakeholder workshop**
2. **The consultants to help TAHA in organizing and facilitating the stakeholders’ workshop**
3. **The consultants in consultation with TAHA to produce the final report reflecting stakeholders’ inputs.**
4. TAHA (and may wish to contract and or seek support from consultants) to prepare Position paper on *Horticulture Bonded Warehouse System* that outlines the communication and Advocacy strategy, the Partners and Roadmap/Work plan

5. TAHA will further undertake the following:
   a) Arrange briefing to the Strategic Partners to approve the work plan/Roadmap
   b) Launch the Lobbying and Consultation process with the Government
   c) Give feedback to the Beneficiaries/Actors and initiate the licensing arrangements
   d) Prepare the operational and management capacity by recruiting the Officer-in-Charge to provide the needed Technical Assistance (TA) with possible funding from the Strategic Partners.
   e) Promote (market) and deploy the Scheme for the horticulture investors/farmers to apply for license.
   f) Monitor and assess the process and progress against the roadmap and conditions of license, with on-going support.
   g) Undertake periodic review with feedback to/from the actors and beneficiaries in order to improve the usefulness or design of the bonded warehouse scheme.

As a final remark, the interviewed companies urged all industry actors to consolidate their collaboration to continue working together to improve their competitiveness and productivity.

6 APPENDICES

**Appendix 6.1: List of people and organizations Interviewed for this Study**

<table>
<thead>
<tr>
<th>Name Of Institution/Enterprise</th>
<th>Contacts Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Hortanzia</td>
<td>Yusuf Yusufali</td>
</tr>
<tr>
<td></td>
<td>Finance/Administration/human resource and Logistic Manager</td>
</tr>
<tr>
<td>2. RIJK ZWAAN-Q-SEM</td>
<td>Harald Peeters</td>
</tr>
<tr>
<td></td>
<td>Managing Director</td>
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<tr>
<td>3. RIJK ZWAAN_Q-SEM</td>
<td>Tufike Elisa Mjemah</td>
</tr>
<tr>
<td></td>
<td>Financial Controller</td>
</tr>
<tr>
<td>4. FIDES Tanzania</td>
<td>Bert Kuyper</td>
</tr>
<tr>
<td></td>
<td>Managing Director</td>
</tr>
<tr>
<td>5. Said Salim Bakhresa &amp; co</td>
<td>Said Mohamed</td>
</tr>
<tr>
<td></td>
<td>General Manager</td>
</tr>
<tr>
<td>6. Said Salim Bakhresa &amp; co</td>
<td>Hussein Sufian Ally</td>
</tr>
<tr>
<td></td>
<td>Assistant General Manager</td>
</tr>
<tr>
<td>7. Ministry of Industry and Trade (MIT)</td>
<td>Mr. Edward Sungula</td>
</tr>
<tr>
<td></td>
<td>Director of Policy and Planning-MIT</td>
</tr>
<tr>
<td>8. Ministry of Industry and Trade (MIT)</td>
<td>Odilo Majengo</td>
</tr>
<tr>
<td></td>
<td>Director of Trade Promotion and Marketing</td>
</tr>
<tr>
<td>No.</td>
<td>Name Of Institution/Enterprise</td>
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<tr>
<td>1.</td>
<td>Prime Minister`s Office</td>
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<td>2.</td>
<td>Ministry of Agriculture Food Security and Cooperatives</td>
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<tr>
<td>4.</td>
<td>Ministry of Lands</td>
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<tr>
<td>5.</td>
<td>Tanzania Revenue Authority- Customs</td>
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<tr>
<td>6.</td>
<td>Tanzania Private Sector Foundation (TPSF)</td>
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Appendix 6.2: Copy of laws and regulations (CMA, 2004; CMR, 2010)
Available at www.eac.int/customs/index.php?option=com_docman
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Appendix 6.3: Notice by Commissioner of Customs on revised Bonded Warehouse regulations (2006)
To be attached in the final draft

Appendix 6.4: List of Partners to Engage on Advocacy in the Process of Establishing BWS in horticulture

<table>
<thead>
<tr>
<th>Name Of Institution/Enterprise</th>
<th>Rationally</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Prime Minister`s Office</td>
<td>Head of government business responsible for coordination and Private sector development and investment division</td>
</tr>
<tr>
<td>2. Ministry of Agriculture Food Security and Cooperatives</td>
<td>Line Ministry</td>
</tr>
<tr>
<td>4. Ministry of Lands</td>
<td>Actor- Land Use Plan</td>
</tr>
<tr>
<td>5. Tanzania Revenue Authority- Customs</td>
<td>Key Actor- Custodian of BWHS</td>
</tr>
<tr>
<td>6. Tanzania Private Sector Foundation (TPSF)</td>
<td>Umbrella Private Sector Organization</td>
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<tr>
<td></td>
<td>Actor/Actor-</td>
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<tr>
<td>7.</td>
<td>Agriculture Council of Tanzania (AcT)</td>
</tr>
<tr>
<td>8.</td>
<td>Tanzania Freight Forwarders Associations (TAFFA)</td>
</tr>
<tr>
<td>9.</td>
<td>Tanzania Truck Owners Association (TATOA)</td>
</tr>
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<td>10.</td>
<td>Media</td>
</tr>
<tr>
<td>11.</td>
<td>Tanzania Investment Centre (TIC)</td>
</tr>
<tr>
<td>12.</td>
<td>Export Processing Zone Authority (EPZA)</td>
</tr>
<tr>
<td>13.</td>
<td>Investors in the Sector</td>
</tr>
<tr>
<td>14.</td>
<td>Southern Agricultural Growth Corridor of Tanzania</td>
</tr>
</tbody>
</table>