

To: The Departmental Committee on Finance and National Planning, National Assembly

From: Acumen Fund, Inc.

Date: May 27th, 2025

Subject: Proposed Changes in the Finance Bill 2025 affecting the Off-Grid Solar Industry

1. Background

The [Finance Bill 2025](#) (“**Bill**”), which outlines the proposed changes in Kenyan tax legislation, was officially submitted to Parliament on 30th April 2025 for public participation, debate, amendments and approval. One of the key highlights of the proposed Bill raised by our investees in the Off-grid Solar (**OGS**) sector (“**Investees**”) relates to the proposed withdrawal of VAT exemptions and zero-rating on various products, including OGS components and equipment (See annex for details).

Our Investees have indicated that if enacted, these changes would lead to higher prices for OGS products, significantly affecting affordability for end users and potentially undermining the growth of the sector. This memo summarizes, based on input from our Investees, the current status of electrification in Kenya and the likely implications of the proposed amendments.

2. Overview of electrification

There has been a remarkable increase in the electrification rate in Kenya, which is currently at about 75%. According to our Investees, it is estimated that over 30% of this progress is attributed to OGS solutions.

Despite the overall progress, many underserved regions in the arid and semi-arid lands (“**ASAL**”) and pastoral regions continue to lag, experiencing slower growth compared to other areas. In 2009, Kenya's national electrification rate stood at 24%, while the ASAL areas were significantly lower at just 7%. By 2024, national electrification had risen to 75%, as the ASAL regions remain behind, with an electrification rate of only 45%.

3. Impact of the OGS industry

Our Investees report that, over the past five years, OGS companies have distributed over 10 million products, playing a significant role in increasing Kenya's electrification rate. These efforts have made OGS a key driver in providing basic electricity access to households and communities outside the reach of the national grid, in line with the Kenya National Electrification Strategy (“**KNES**”) and the country's goal of achieving universal and affordable electricity access.

In addition to expanding energy access, our Investees highlight that OGS contributes to economic growth by creating employment opportunities (e.g., for agents, dealers, and technicians), generating tax revenue (e.g., PAYE and corporate income taxes), and stimulating local economic activity.

In addition, productive use of energy (“**PUE**”) in off-grid areas, for instance, solar water pumping and irrigation, solar-powered milling and agro-processing, among others, is emerging and has the potential to improve agricultural productivity, food security, and rural livelihoods. This market segment is still nascent and requires incentives and support.

4. Implications of the Bill to the OGS Industry

Our Investees project that removing VAT exemptions on OGS components and products is projected to increase both end-user prices and the cost of developing solar mini-grid projects by over 16%. This policy shift risks making these essential technologies unaffordable for low-income households and raising the cost of electricity generation in off-grid areas.

They further caution that these changes could shrink the market, forcing smaller or newer companies to exit the sector due to unsustainable operational costs. This will deter private sector investment, particularly in underserved

and remote regions, where operational costs are already high, ultimately slowing down national electrification progress.

With reduced economic activity, our Investees anticipate (i) job losses across formal and informal sectors, affecting employment in distribution, and support services; (ii) tax contributions from the sector, including corporate tax, PAYE, and other taxes, will decrease, reducing government revenue; and (iii) dealers, agents, and technicians will see a significant drop in income, weakening local economies and reducing financial resilience at the community level.

Furthermore, this policy shift also does not align with other policy strategy measures that encourage agricultural productivity, especially Kenya's Agricultural Mechanization Policy and National Irrigation Strategy and Investment Plan ("NISIP"), which promotes incentives for agricultural and irrigation equipment to boost agricultural productivity, irrigation, and food security.

Overall, the VAT policy shift could undermine the social and economic gains the OGS sector has made in the country.

5. Recommendation

To ensure continued progress toward universal energy access, particularly in underserved and ASAL regions, and to promote productive energy use, it is crucial to **retain the current VAT exemptions and incentives for OGS products and components as provided under existing tax legislation**. Preserving these provisions is viewed as essential to sustaining sector growth, protecting livelihoods, and aligning with Kenya's broader development goals.

Annex 1: Overview of the changes in the Finance Bill 2025 affecting the OGS Industry

#	Specific changes in the Finance Bill	Description	Implication
1	<p>36. Section A of Part I of the First Schedule to the Value Added Tax Act is amended—</p> <p><i>(k) by deleting paragraph 113:</i></p> <p><i>Provided that an exemption that had been approved pursuant to paragraph 113 before the deletion of paragraph 113 came into effect shall continue to apply until the 30th June, 2026;</i></p>	<p>Paragraph 113 is an item in the First Schedule of the VAT Act on Tax Exempt Goods/Supplies as stated below:</p> <p><i>"113. Specialized equipment for the development and generation of solar and wind energy, including photovoltaic modules, direct current charge controllers, direct current inverters and deep cycle batteries that use or store solar power, upon recommendation to the Commissioner by the Cabinet Secretary responsible for matters relating to energy. [Act No. 8 of 2021 s. 27(a)(xxv)]"</i></p>	VAT status for specialized equipment for development and generation of solar and wind energy shall therefore change to standard rated i.e. 16%
2	<p>36. Section A of Part I of the First Schedule to the Value Added Tax Act is amended—</p> <p><i>(p) by adding the following new paragraphs immediately after paragraph 154—</i></p> <p><i>161. The supply of solar and lithium ion batteries.</i></p>	<p>A new paragraph has been included in the First Schedule of the VAT Act on Tax Exempt Goods/Suppliers based on the change of VAT status from Zero-rated to Exempt. The new paragraph is as stated below:</p> <p><i>"161. The supply of solar and lithium ion batteries."</i></p>	VAT status for solar and lithium-ion batteries changes to VAT Exempt, meaning that companies cannot claim input VAT

#	Specific changes in the Finance Bill	Description	Implication
3	37. The Second Schedule to the Value Added Tax Act is amended in Part A— <i>(f) by deleting paragraph 32</i>	Paragraph 32 is an item in the Second Schedule of VAT Act for Zero Rated Supplies as stated below: <i>“32. The supply of solar and lithium-ion batteries.”</i>	VAT status for solar and lithium-ion batteries changes to VAT Exempt, meaning that companies, particularly those doing local assembly, cannot claim input VAT.

We thank the Committee for the opportunity to share our input.

Regards
Acumen Fund, Inc.