



## **Proposed changes in the Finance Bill 2025 affecting Off-grid Solar Industry**

### **1. Background**

The [Finance Bill 2025](#), which outlines changes in government taxation matters, 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 is the proposal to remove tax incentives (i.e. VAT exemptions and VAT zero-rating) on several items including off-grid solar components and products (See annex for details). This will affect the affordability of Off-grid Solar (OGS) components and components as the prices of the items will increase.

### **2. Overview of electrification**

There has been a remarkable increase in the electrification rate in Kenya currently at about 75%, with over 30% estimated to be attributed to off-grid solar solutions.

Despite the overall progress in electrification across the country, many underserved counties in the 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 regions were significantly lower at just 7%. By 2024, national electrification has risen to 75%, yet the ASAL regions remain behind, with an electrification rate of only 45%.

### **3. Impact of Off-grid solar industry**

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, OGS has had a notable economic impact. The sector has contributed to national revenue through taxes such as PAYE, corporate taxes, and other levies. Moreover, OGS has supported economic growth by creating opportunities for dealers, agents, technicians, and other stakeholders, promoting income generation 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 potential to stimulate economic development and employment in rural areas as well as boosting food security and improving productivity in agricultural value chains. This market segment is still nascent and requires incentives and support.

### **4. Implication of the Finance Bill 2025 Changes to the Off-grid Solar Industry**

The removal of VAT exemptions on Off-Grid Solar (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.

This will result in market shrinkage which could force smaller or newer companies to exit the sector due to unsustainable operational costs. This will also deter private sector investment, particularly in underserved and remote regions, where operational costs are already high. This will slow down national electrification efforts.

These changes will also have broader economic consequences across the OGS value chain. Job losses are expected across formal and informal sectors, affecting employment in distribution, and support services. As business activity slows, tax contributions from the sector, including corporate tax, PAYE, and other taxes, will decrease, reducing government revenue. At the local level, dealers, agents, and technicians will see a significant drop in income, weakening local economies and reducing financial resilience at the community level. Overall, the VAT policy shift could undermine both the social and economic gains the OGS sector has made in the country.

Furthermore, this policy shift also contradicts other policy strategy measures for encouraging agricultural productivity especially Kenya's Agricultural Mechanization Policy and National Irrigation Strategy and Investment Plan (NISIP) which supports incentives for agricultural and irrigation equipment to boost agricultural productivity, irrigation and food security.

## 5. Recommendation

To ensure continued progress toward universal energy access, particularly in underserved areas, and to promote productive energy use, it is crucial to preserve tax incentives that support the growth of the off-grid solar sector. **We therefore recommend retaining the current VAT exemptions and incentives for off-grid solar products and components as provided under existing tax legislation.**

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

#	Specific changes in the Finance Bill	Description	Implication
1	<b>36. Section A of Part I of the First Schedule to the Value Added Tax Act is amended—</b>  <i>(k) by deleting paragraph 113:</i>  <i>Provided that an exemption that had been approved pursuant to paragraph 113 before the deletion of paragraph 113 came into effect shall</i>	Paragraph 113 is an item in the First Schedule of the VAT Act on Tax Exempt Goods/Supplies as stated below:  <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>	VAT status for specialized equipment for development and generation of solar and wind energy shall therefore change to standard rated i.e. 16%

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	<i>continue to apply until the 30th June, 2026;</i>		
2	<b>36. Section A of Part I of the First Schedule to the Value Added Tax Act is amended—</b>  <i>(p) by adding the following new paragraphs immediately after paragraph 154—</i> <i>161. The supply of solar and lithium ion batteries.</i>	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:  <i>“161. The supply of solar and lithium ion batteries.”</i>	VAT status for solar and lithium-ion batteries changes to VAT Exempt, meaning that companies cannot claim input VAT
3	<b>37. The Second Schedule to the Value Added Tax Act is amended in Part A—</b>  <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.