

**DENATURED ETHANOL INPUT VAT
PRESENTATION
TO THE FINANCE AND PLANNING
PARLIAMENTARY COMMITTEE**

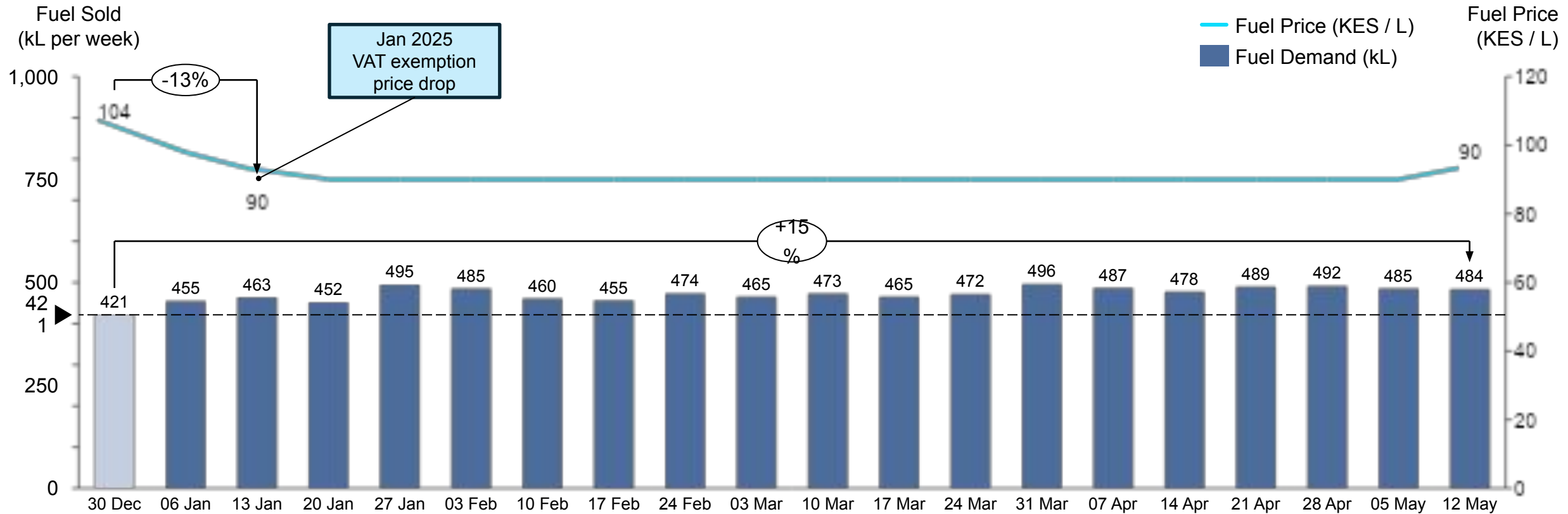
29 MAY 2025

IMPACT OF DENATURED ETHANOL VAT EXEMPTION

(EFFECTIVE 27TH DECEMBER 2024)

- VAT exemption was passed on to consumers in the form of an **immediate price reduction** from KES 104 to KES 90 per litre (13%)
- Benefits year-to-date due to VAT exemption/price reduction included:
 - **Increase in fuel sold of >1m litres**
 - **Consumer household savings of >KES 130m (>USD 1m)**
 - **Higher fuel demand to local ethanol suppliers and associated positive impacts** for Kenyan farmers (higher incomes), health (lower indoor air pollution), and the environment (less deforestation & lower carbon emissions)

Consumer price reduction & impact



After passing on the VAT exemption to consumers via price reductions, there was a 15% increase in weekly fuel demand

DENATURED ETHANOL INPUT VAT

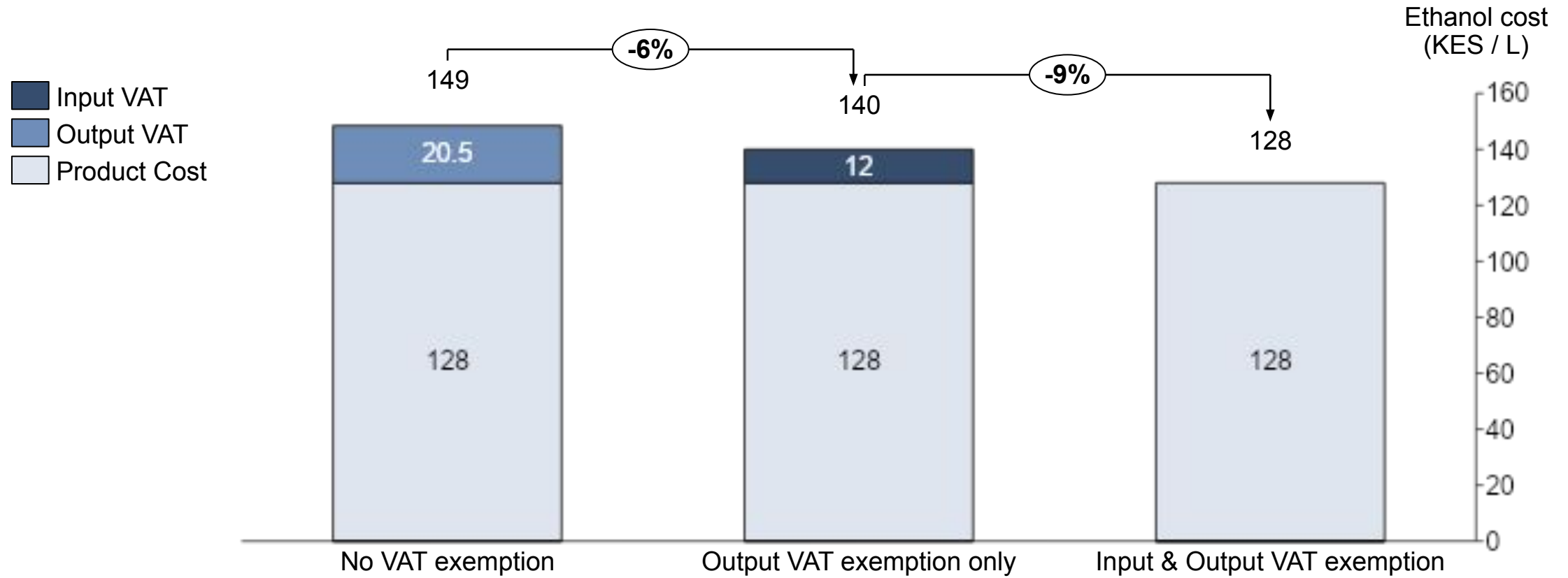
(TODAY'S BASELINE)

- Today, inputs used in the local manufacturing of denatured ethanol are not exempt from VAT (eg, molasses, electricity, diesel)
- The VAT exemption on the end product (denatured ethanol) without corresponding exemption on the inputs used to produce it means that **local manufacturers are not able to claim back the VAT**
- As a result, these **non-claimable VAT costs are passed along to low-income Kenyan households**, preventing the full benefit of the VAT exemption from being realised

DENATURED ETHANOL UPTAKE IS ALIGNED WITH GoK POLICY

- **GoK policy aims to bring ethanol cooking to 30% of Kenyan homes by 2030 via the Kenya National Cooking Transition Strategy**
- **KOKO remains 100% committed to delivering revenue to GoK and sharing benefits with Kenyan households, with 5-year estimates of:**
 - **KES 20b to households via community benefit share (price subsidy)**
 - **KES 20b to National Treasury via PAYE + corporate taxes**
 - **KES 20b to Ministry of Environment via carbon regulations fees**

Potential benefit of 'Input VAT' exemption



Making denatured ethanol inputs VAT exempt would result in cost savings of up to KES 12 / L (~9%), which would be passed on to low-income Kenyan households

DENATURED ETHANOL INPUT VAT

(FISCAL YEAR 2025-26 OPPORTUNITY)

- An Input VAT exemption for denatured ethanol would result in further **price reductions for low-income Kenyan households**
- Benefits from an Input VAT exemption for 2025-26 would include:
 - **Increase in fuel sold of >9m litres**
 - **Consumer household savings of >KES 430m (>USD 3m)**
 - **Higher fuel demand to local ethanol suppliers and associated positive impacts** for Kenyan farmers (higher incomes), health (lower indoor air pollution), and the environment (less deforestation & lower carbon emissions)

DENATURED ETHANOL INPUT VAT

(FINANCE BILL 2025 PROPOSAL)

- VAT Act 2013 provides a VAT exemption for “the supply of denatured ethanol of **tariff number 2207.20.00.**”
- We propose to amend Part 1, Section A to the First Schedule of the VAT Act 2013 by inserting:
- **“Inputs and raw materials locally purchased or imported for the manufacture of denatured bioethanol for cooking”**

SUMMARY OF SUBMISSION

ISSUE	CURRENT SITUATION	PROPOSAL	JUSTIFICATION	EXPECTED OUTCOME
VAT exemption on inputs used for local manufacturing of denatured bioethanol for cooking	<p>VAT Act 2013 provides a VAT exemption for “the supply of denatured ethanol of tariff number 2207.20.00.” (w.e.f. 27 Dec 2024)</p> <p>This exemption has already resulted in significant benefits to Kenyan households, sugarcane farmers, and the nation as a whole.</p> <p>However, an additional major contributor to the cost of ethanol cooking fuel is VAT on inputs used in the manufacture of denatured ethanol, including molasses, transport, and electricity.</p> <p>Because the output (denatured ethanol) is VAT exempt, but the inputs are non-exempt, local ethanol producers are at a disadvantage versus imported supply and are passing on the non-claimable portion of their input VAT as costs, which drives up the retail price of ethanol cooking fuel to Kenyan households.</p>	<p>We propose to amend Part 1, Section A to the First Schedule of the VAT Act 2013 by inserting:</p> <p>“Inputs and raw materials locally purchased or imported for the manufacture of denatured bioethanol for cooking”</p>	<p>In Kenya, the sugar and sugar by-products industries stand as fundamental pillars of the economy, contributing significantly to employment, rural development, and food security. With a rich history dating back to the early 20th century, this sector plays a pivotal role by offering livelihoods to thousands of Kenyan families and addressing the nation's economic needs. Specifically focusing on deriving ethanol from sugarcane propels the growth of the agro-processing sector, aligning with the East African Community's vision for value-addition within the Community. This approach ensures a stable market for our sugar producers, contributing to the sustainability of the sugar industry and improving farmers' livelihoods.</p>	<p>The extension of VAT exemption on inputs used in the production of denatured ethanol will support the growth of the local agro-processing industry by allowing local producers to recover input VAT.</p> <p>This reduction in costs will improve the competitiveness of local ethanol cooking fuel and reduce the costs of ethanol cooking to Kenyan households, driving higher demand and accelerating achievement of Government of Kenya's target for the green energy transition set out in the Kenya National Cooking Transition Strategy of 30% of households cooking with ethanol by 2030.</p>