REGULATORY IMPACT STATEMENT (RIS)

For

THE DRAFT PETROLEUM (LOCAL CONTENT) REGULATIONS, 2025

APRIL, 2025

TABLE OF CONTENTS

1. INTRODUCTION

The Petroleum Act, 2019, provides a framework for the exploration, development, and production of petroleum in Kenya. To operationalize the Act, the Cabinet Secretary proposes the Draft Petroleum (Local Content) Regulations, 2025 (Draft Regulations) under Section 50(4) as read with Section 127 (bb) of the Act which empowers the Cabinet Secretary to make Regulations regarding local content development, capacity building and development in the upstream petroleum sector.

These Draft Regulations aim to promote participation of Kenyans and Local Entities in provision of goods and services, in the petroleum industry value chain and related industries that will sustain economic development. Furthermore, it will encourage capacity building, and value addition in the petroleum industry.

1.1. Regulatory Impact Statement

Section 6 of the Statutory Instruments Act (Cap. 2A), (SIA) provides that if a proposed statutory instrument is likely to impose significant costs on the community or a part of the community, the regulation making authority shall, prior to making the statutory instrument, prepare a regulatory impact statement about the instrument.

This Regulatory Impact Statement was prepared in accordance with the provisions of Section 7 of the Statutory Instruments Act, Cap 2A.

2. STATEMENT OF OBJECTIVES

2.1. General Objective

The overall regulatory objective and justification of the Draft Regulations is to provide a framework for promotion of local participation, capacity building, and value addition in the petroleum industry.

2.2. **Specific objectives:**

i. Maximize value addition through Local Content development and local participation in the petroleum industry.
ii. Promote participation of Kenyans and Local Entities in provision of goods and services in the petroleum industry value chain and related industries that will sustain economic development.
iii. Promote creation of employment through the use of local expertise along the entire value chain of the petroleum industry and to retain the requisite skills within the country.
iv. Develop local capacity along the entire value chain of the petroleum industry through education, skills and technology transfer and research and development.
v. Enhance local ownership and use of local assets, goods and services in the Petroleum Industry.
vi. Achieve the minimum levels of local participation in employment and supply of goods and services.
vii. Promote development of competitiveness of local businesses.
viii. Provide for a robust, transparent monitoring, enforcing and reporting mechanisms for local content obligations.

3. STATEMENT ON THE EFFECT OF THE DRAFT REGULATIONS

The petroleum sector currently lacks a comprehensive framework for local content. The following existing Regulations are outdated and insufficient to address best petroleum industry practices in petroleum operations:

i. The Petroleum (Exploration and Production) Regulations, 1984 (L.N. 193/1984); and
ii. The Petroleum (Exploration and Production) (Training Fund) Regulations, 2006 (L.N. 132/2006).

This has led to limited local participation and missed economic opportunities. The Draft Regulations represent a transformative step toward addressing these gaps. Key impacts of the proposed Draft Regulations include:

i. Establishment of clear, phased targets for local participation in employment, goods, and services across upstream, midstream, and downstream operations. This ensures predictability and measurable progress in local capacity building.
ii. Mandating priority for Kenyan citizens and Local Entities in employment and procurement. This will unlock economic opportunities for Kenyan businesses and professionals.
iii. Technology transfer and skills development will allow for knowledge transfer and long-term local capability development.
iv. Creation of a centralized register for local goods, services, and expertise will streamline compliance and connect industry players with qualified Kenyan providers.

4. ASSESSMENT OF OTHER PRACTICABLE MEANS OF ACHIEVING THE OBJECTIVES

4.1. Option 1: Maintaining the Status Quo

Maintaining the status quo would perpetuate the dominance of foreign entities at the expense of local economic inclusion. Without enforceable local content targets, Kenyan businesses and citizens would continue to face limited opportunities in employment, procurement, and technology transfer, stifling the sector's potential to drive sustainable development.

The absence of structured participation requirements would also hinder capacity-building efforts, leaving Kenya reliant on external expertise rather than fostering selfsufficiency. Instead, a robust framework with measurable targets, as outlined in the regulations, is essential to ensure equitable benefits, enhance competitiveness, and align the petroleum industry with Kenya's broader economic empowerment goals.

Therefore, Status Quo is **NOT A DESIRABLE OPTION** as it fails to address the need for local participation and economic inclusion.

4.2. Option 2: Use of Working Manuals and Guidelines

Section 2 of the SIA defines Statutory Instruments to include guidelines, directions and regulations as statutory instruments therefore requiring comprehensive scrutiny and publication as required by Sec.4 of the SIA.

A working manual or any form of document established in the execution of the Petroleum Act (Cap 308) falls under the threshold of a Statutory Instrument and therefore has to go through the progression process as required by the SIA.

In addition, working documents could face legal challenge as they cannot be used to create offences and penalties, which are necessary for their effective application as well as challenge in court on the applicability and validity.

4.3. Option 3: Developing the Draft Regulations

The Draft Regulations will provide a crucial framework to maximize Kenyan participation in the petroleum sector through mandatory local employment, procurement of local goods and services, and technology transfer targets. These regulations will stimulate job creation, develop local expertise, and retain economic value - aligned with Kenya's development goals. The structured approach ensures petroleum resources benefit Kenyans while building a competitive domestic industry.

This is the **PREFERRED OPTION,** as it aligns with national development goals and the Petroleum Act (Cap 308).

5. COST-BENEFIT ANALYSIS

Economic Assessment/Impact	
Impact/Benefit	**Remarks**
Economic Growth	Promote participation of Kenyans and Local Entities in provision of goods and services in the petroleum industry value chain and related industries that will sustain economic development. Increased local employment opportunities.
Government Revenue	Local participation reduces capital flight and retains value in Kenya.
Investor Confidence	Clear rules enhance predictability for investors.
Environmental Assessment/Impact	
Impact/Benefit	**Remarks**
Community driven conservation efforts	Developing local capacity along the entire value chain may lead to advocacy for sustainable practices and community driven conservation efforts.
Social Assessment/Impact	
Impact/Benefit	**Remarks**
Skills Development	Training programs, research and development and technology transfer will build local expertise.
Infrastructure Development	It may lead to improved infrastructure, including roads, communication, emergency facilities and other social amenities.

6. ADMINISTRATION AND COMPLIANCE COSTS

The development of these regulations will entail administrative and compliance costs for both government and industry stakeholders, with the Authority bearing expenses related to monitoring, database maintenance, capacity-building initiatives and enforcement activities.

7. ANY OTHER MATTERS SPECIFIED BY THE GUIDELINES

According to Regulation 3 of the proposed Regulations, all matters prescribed for in the Regulations relate to and shall apply to the Petroleum Industry.

8. COPY OF THE DRAFT REGULATIONS

The Draft Petroleum (Local Content) Regulations, 2025 are annexed herein.