Host Community Development Obligations:

A Roadmap for Exploration and Production Companies

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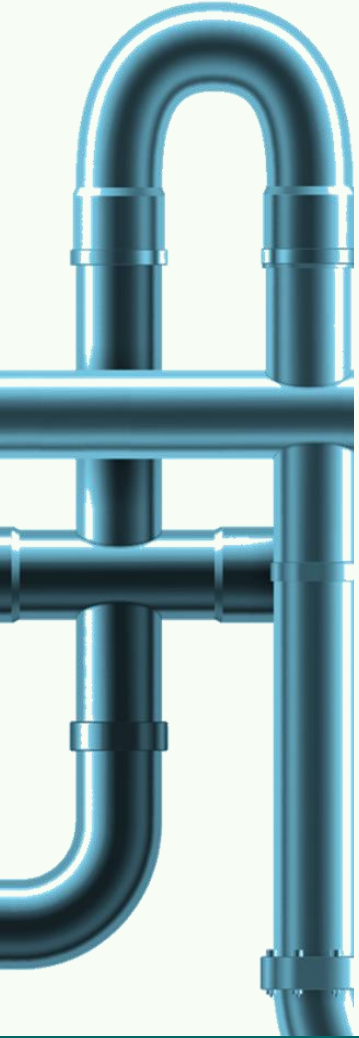
Introduction

The relationship between oil and gas companies and their host communities has long been a subject of legal and operational significance, particularly in resource-rich jurisdictions like Nigeria.

As Exploration and Production (E&P) companies navigate the regulatory landscape, they must also manage community expectations, environmental concerns, and the socio-economic impact of their operations. This delicate balance is reinforced by legislative frameworks that impose specific obligations on companies to foster sustainable development in host communities.

In Nigeria, the Petroleum Industry Act (PIA) 2021 has introduced a structured approach to host community engagement, requiring E&P companies to establish Host Community Development Trusts (HCDTs), which is aimed at ensuring direct community benefits. Beyond legal compliance, there is a growing recognition that a proactive and well-executed community development strategy is essential for operational stability, social license to operate, and long-term investment security.

This article sets out the key legal obligations placed on E&P companies under the PIA and related regulations, outlines a practical roadmap for compliance, and highlights operational best practices for sustainable community engagement.



Understanding Host Communities In Nigeria's Oil and Gas Sector

Host communities are the towns and villages located near oil and gas operations. These communities have supported Nigeria's petroleum industry since oil was first discovered in Oloibiri, Bayelsa State, in 1956. Yet, despite driving national revenues, most host communities have faced the worst side of oil production, pollution, damaged farmlands, unsafe water, poor infrastructure, and little economic opportunity.

Decades of oil spills, gas flaring, and land degradation have disrupted traditional livelihoods like fishing and farming. Health issues, environmental damage, and displacement have deepened the sense of exclusion. While oil companies and government agencies have often launched several development efforts through CSR projects, intervention programs, and derivation funds, these efforts were often short-term, inconsistent, or poorly managed. The result of this were either rising community frustration, legal action, and in some cases, violent unrest. Several landmark events highlights the breakdown in trust:

- **The Ogoni Crisis (1990s):** A major environmental and human rights movement that drew global attention to oil-related abuses.

- **Gbemre v. Shell (2005):** A Nigerian court decision declaring gas flaring unconstitutional, though enforcement remained weak.

- **Bodo Community v. Shell (2015):** A £55 million settlement for oil spills that devastated local lands and livelihoods.

- **Militant activity (2000s):** Groups like MEND disrupted oil operations in protest against marginalization and environmental harm.

These crises made it clear that voluntary goodwill wasn't enough. A formal, legally binding approach to host community development was needed. The PIA introduced that shift. It created the Host Community Development Trust (HCDT) framework, making it mandatory for oil companies to fund and support structured community development. For the first time, host communities were given a seat at the table, not just a share of the burden.

For Exploration and Production (E&P) companies, this marks a new reality that compliance is no longer optional. Beyond fulfilling a legal duty, a well-managed HCDT helps secure operational continuity, reduce conflicts, and build long-term trust with host communities.

Compliance Roadmap For E&P Companies

The PIA has introduced a formal structure for how oil and gas companies must engage with host communities through the creation and management of Host Community Development Trusts (HCDTs). To remain compliant and avoid regulatory or operational setbacks, E&P companies are expected to adopt a methodical approach to setting up and managing their obligations under the Act. The key stages are outlined below.

Step 1: Establish the HCDT as a Legal Entity

Before a company can commence disbursement or execution of community development projects, it must:

- Obtain regulatory approval from the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) for the proposed structure and governance model of the Trust.
- Register the Trust with the Corporate Affairs Commission (CAC) as a corporate entity.
- Constitute a Board of Trustees, including community representatives as required under the PIA.
- Set out the Trust's objectives, operating procedures, and oversight arrangements in line with the applicable regulations.

This legal and administrative groundwork forms the foundation for transparency, accountability, and community participation.

Step 2: Identify Community Needs and Define Project Priorities

The next step is project scoping and planning. Companies are expected to:

- Work through the Host Community Advisory Committee to consult with local stakeholders and identify pressing development needs.
- Conduct a needs assessment to ensure that proposed projects are feasible, measurable, and relevant to the host communities.
- Prepare a Community Development Plan (CDP), setting out the scope, timeline, and intended impact of proposed projects.
- Submit the CDP to NUPRC for review and approval prior to implementation.

Proper planning at this stage helps to manage expectations and reduce the risk of disputes during implementation.

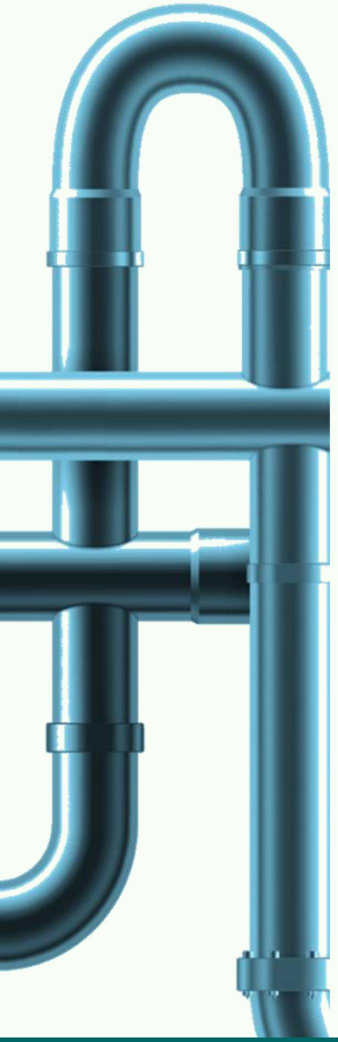
Step 3: Fund the Trust and Implement Financial Oversight

Once the HCDT is established, **companies must fund it annually with 3% of their actual operating expenditure from the preceding financial year**. The PIA prescribes how these funds must be allocated:

75% for capital projects

20% to a reserve fund for future use

5% for administrative expenses



E&P companies are also expected to:

- Maintain proper internal controls and bookkeeping;
- Conduct annual independent audits of the Trust's accounts; &
- Ensure any unutilised funds are invested in low-risk instruments in accordance with the regulations.

Failure to comply with the funding and financial control requirements may expose companies to regulatory penalties or audit queries.

Note: *Notwithstanding a company's obligation to contribute to the Host Community Development Trust Fund under the PIA, any host community involved in acts of vandalism, sabotage, or civil unrest resulting in damage to petroleum facilities or disruption of production shall forfeit access to the Fund for that year, to the extent of the cost of repairs. This provision places accountability on the host community, reinforcing the importance of local vigilance and cooperation in protecting oil and gas infrastructure.*

Step 4: Monitor, Report, and Maintain Regulatory Compliance

Ongoing compliance is essential for sustaining operations. Key obligations include:

- Submitting annual financial and operational reports to NUPRC;
- Monitoring and evaluating the impact of funded projects;
- Holding periodic community engagement meetings; and
- Establishing a grievance mechanism to address community concerns promptly and transparently.

These steps not only help meet regulatory expectations but also strengthen community relations and reduce the risk of conflict.

Risks and Liabilities For Non-compliance

Failure to comply with host community development obligations under the PIA can expose E&P companies to serious legal, financial, and reputational consequences. Beyond statutory penalties, non-compliance can disrupt operations, damage stakeholder relationships, and undermine long-term investment viability. The risks fall into three broad categories:

I. Regulatory and Legal Exposure

Fines and sanctions: The NUPRC has the authority to impose penalties on operators that fail to establish or fund a Host Community Development Trust (HCDT) as required.

Operational suspension: Non-compliant operators may face temporary or indefinite suspension of exploration or production activities.

License revocation: Persistent breaches of the PIA can result in the outright cancellation of Petroleum Prospecting Licenses (PPLs) or Petroleum Mining Leases (PMLs).

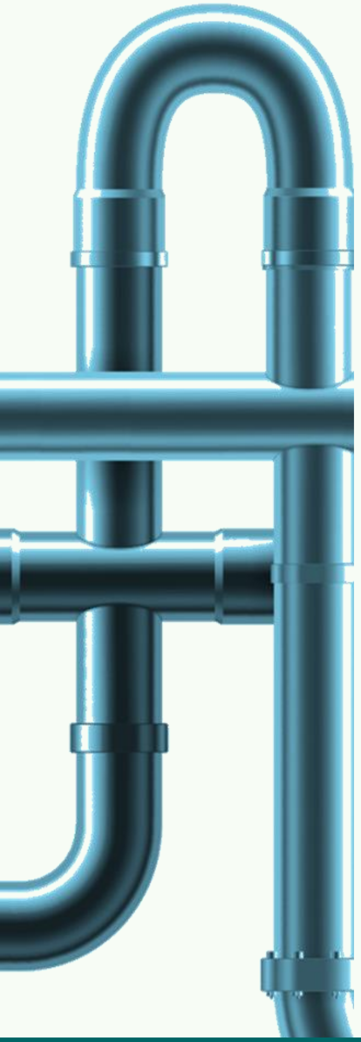
Litigation risk: Host communities can initiate legal actions for breach of statutory duties or environmental harm, exposing companies to costly and reputationally damaging court proceedings.

II. Community Relations and Security Risks

Project disruptions: Unmet obligations or weak community engagement may lead to protests, site blockades, or sabotage of critical infrastructure.

Reputational damage: Failure to deliver tangible benefits to host communities can erode public trust and harm a company's image among stakeholders, including regulators, investors, and the media.

Security concerns: In high-risk areas, poor community relations can escalate into security threats to personnel and assets, increasing the cost of operations and insurance.



III. Financial and Commercial Implications

Compensation claims: Communities may seek compensation for environmental degradation or unfulfilled development commitments, increasing operational costs.

Loss of capital access: Investors and lenders are increasingly focused on Environmental, Social, and Governance (ESG) compliance. Poor track records with host communities may result in loss of funding or restrictive financing terms.

Insurance risk exposure: Companies that are non-compliant or associated with community conflict may face higher insurance premiums or difficulty securing adequate coverage.

In today's regulatory environment, host community obligations are no longer a peripheral concern, they are integral to business continuity. E&P companies must treat compliance not just as a legal requirement, but as a strategic imperative.

Instances Where E&P Companies are not Expected to Contribute to Host Community Development Trust Fund

Relinquishment and Changes in the Area of Operation:

Where a community ceases to fall within the settlor's area of operation due to relinquishment, it no longer qualifies as a host community under the Trust. Relinquishment occurs when a settlor voluntarily surrenders a portion of its lease area, thereby altering the operational boundaries. If, as a result, a previously designated host community falls outside the revised area of operation, the settlor is no longer obligated to make contributions to the Trust in respect of that community. This exemption ensures that financial obligations under the PIA remain directly linked to the settlor's active areas of operation and prevents the allocation of Trust funds to communities no longer impacted by ongoing petroleum activities.[2]

Judicial Disqualification of a Host Community:

Another exemption under the Upstream Host Community Development Trust Regulations, 2022 is Where a final, unappealed judgment of a court of competent jurisdiction declares that a previously designated host community no longer qualifies as such under the PIA or any other applicable law, the settlor's obligation to contribute to the Trust in respect of that community ceases. This ensures that the Trust's resources are reserved exclusively for communities that meet the legal definition of a host community. It also affirms the role of the judiciary in validating community status and provides legal certainty to settlors, shielding them from obligations toward communities that have been lawfully excluded [3]

Note: *Holders of PPLs or PMLs who had established Host Community Development Trusts for midstream designated facilities (that would ordinarily be subject to the Midstream Regulations) would have been eligible for an exemption from incorporating Trusts pursuant to the Midstream Host Community Development Trust Regulations, 2024. To benefit from this exemption, the holders must have applied to the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) by February 2025 and submitted an annual report detailing host community activities related to those midstream facilities.*[4]

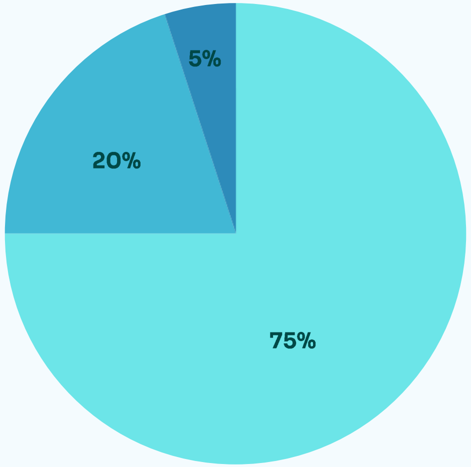
Legal Framework Governing Host Community Development

The framework for host community development in Nigeria's oil and gas sector is established under the PIA, supported by the Host Community Development Regulations (HCDR) 2022 and other relevant statutes. Together, these instruments impose legally binding obligations on operators to engage local communities through structured development initiatives.

I. The Petroleum Industry Act 2021

The PIA makes it mandatory for licensees, lessees, and holders of petroleum rights to establish a Host Community Development Trust (HCDT) for each of their host communities (Section 235). The Trust must be registered as a legal entity and operated in accordance with a governance structure approved by NUPRC.

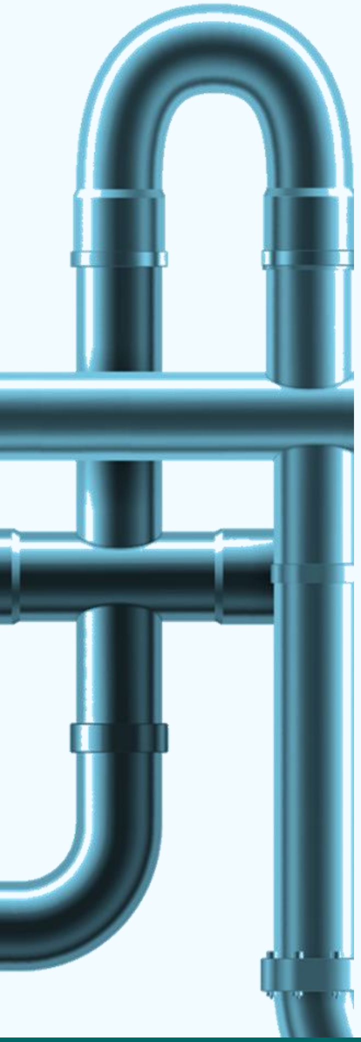
Operators are required to contribute 3% of their actual annual operating expenditure (OPEX) from the preceding year to the HCDT (Section 240). These funds must be used solely for community development, allocated as follows:



- 75% for capital projects (infrastructure, health, education, empowerment, etc.)
- 20% for a reserve fund
- 5% for administrative expenses

The PIA also outlines a three-tier governance system comprising:

- A Board of Trustees (BoT) to hold and manage the Trust funds
- A Management Committee to implement approved projects
- A Host Community Advisory Committee to liaise with the communities and advise on project priorities



II. Host Community Development Regulations (HCDR) 2022

The Host Community Development Regulations, issued by NUPRC in 2022, were made pursuant to the PIA and are legally binding on all petroleum operators. They set out the operational and procedural requirements for complying with host community obligations under the Act.

Key provisions include:

- **Registration and approval of HCDTs:** The Regulations prescribe the formal process for incorporating a Host Community Development Trust and obtaining NUPRC approval of its structure and governance.
- **Community Development Plans (CDPs):** Operators are required to prepare and submit a CDP outlining proposed development projects for each host community. CDPs must be based on a needs assessment and approved by the NUPRC before any funds can be disbursed.
- **Financial management and audit requirements:** The Regulations impose strict financial controls, including record-keeping, independent audits, and restrictions on fund utilisation. Surplus funds must be invested in line with prescribed guidelines.
- **Reporting obligations:** Operators must submit annual financial and operational reports relating to the HCDT, including updates on project implementation and community impact.

These Regulations are enforceable under the PIA and form part of the compliance obligations of all Exploration and Production (E&P) companies operating in Nigeria. Failure to comply may result in regulatory penalties, suspension of operations, or other enforcement actions by the NUPRC.

III. Other Relevant Legislation

In implementing host community obligations, operators must also navigate related legal frameworks:

- **NOGICD Act, 2010:** Requires prioritisation of local employment, training, and procurement in oil and gas operations.
- **Environmental Impact Assessment (EIA) Act, 2004:** Mandates environmental and social assessments before project commencement.
- **Land Use Act, 1978:** Governs land acquisition, compensation, and tenure issues relating to oil and gas activities.

Recommended Best Practices for Effective Community Engagement and Compliance

To successfully meet their obligations under the Petroleum Industry Act and build lasting relationships with host communities, E&P companies should adopt the following strategic practices:

Prioritise early and ongoing engagement

Frequent and meaningful consultation with host communities should begin well before project execution and continue throughout the lifecycle of operations. This helps manage expectations, identify real needs, and build trust which is critical for maintaining social licence to operate.

Invest in projects that deliver long-term impact

Development initiatives should go beyond short-term infrastructure to include sustainable, high-impact projects, such as access to healthcare, education, clean energy, and livelihood support. A strategic focus on sustainability can significantly improve community outcomes and reduce tension.

Strengthen governance and oversight of HCDTs.

Operators should ensure that Trust structures are governed transparently, with appropriate checks and independent oversight. Clear accountability in fund management enhances credibility and reduces the risk of misappropriation or conflict.

Build local capacity through skills and employment

Empowering host communities economically is essential. Companies should implement vocational training, local hiring, and enterprise development programs that enable community members to participate meaningfully in the value chain.

Establish a clear and fair grievance mechanism

A well-defined dispute resolution framework allows community concerns to be addressed promptly and constructively. This reduces the risk of escalation and fosters a culture of accountability and mutual respect.

Conclusion

The PIA has reshaped the legal and operational landscape for oil and gas operators in Nigeria, placing host community development at the centre of upstream activities. What was once a discretionary CSR effort is now a statutory obligation, complete with financial commitments, governance structures, and regulatory oversight.

For E&P companies, compliance is no longer optional. But more than a legal requirement, effective host community engagement is a strategic tool for reducing operational risk, maintaining social licence, and aligning with ESG expectations. Those who treat community development as an integral part of project planning, and not an afterthought will be better positioned to achieve long-term stability, regulatory goodwill, and investor confidence.

The companies that succeed in today's environment will be those that embed host community obligations into the core of their operations delivering measurable benefits to their communities while safeguarding their own commercial interests.

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Stren & Blan Partners is a full-service commercial Law Firm that provides legal services to diverse local and multinational corporations. We have developed a clear vision for anticipating our client's business needs and surpassing their expectations, and we do this with an uncompromising commitment to Client service and legal excellence

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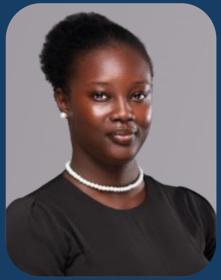

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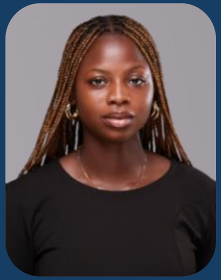

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