

Host Communities Development under PIA 2021: On Matters of Law or Policies on Petroleum Industry Operations

By

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Abstract

This paper examines the dynamics of host communities development under the Petroleum Industry Act (PIA) 2021, focusing on the legal, regulatory, and operational structures shaping community development in Nigeria's petroleum sector. It highlights the gap between the PIA's statutory framework and the realities in host communities, where issues like ambiguous boundaries, opaque costs, elite capture, and inconsistent compliance hinder progress. The study evaluates how structural constraints, such as contracting cycles, high costs, security challenges, and ineffective local content, undermine the Act's capacity for sustainable development. Using doctrinal legal analysis and industry data, the paper assesses the effectiveness of the Host Communities Development Trust (HCDDT) in translating the mandated 3% operational expenditure into tangible outcomes. It finds that while the PIA offers a transformative framework, systemic inefficiencies and governance weaknesses threaten its long-term impact. The paper recommends institutional reforms, including enhanced transparency, capacity strengthening, and streamlined regulatory procedures, to achieve the Act's developmental objectives. It also suggests a bill to hold trust leadership accountable for unexecuted projects. This paper contributes to the discourse on resource governance, legal reform, and community rights in extractive industries, offering insights for policymakers, regulators, industry actors, and scholars.

Keywords: Petroleum Industry Act, Host Communities Development Trust, regulatory governance, local content, operational expenditure, oil and gas law.

Introduction

The emergence of the Petroleum Industry Act (PIA) 2021 within the Nigerian state undoubtedly marked a consequential moment in Nigeria's decades-long struggle to recalibrate its petroleum governance architecture and restore coherence to a sector long governed by sprawling, antiquated, and oft-contradictory enactments.¹ Since the first commercial strike in Oloibiri, the Nigerian oil industry has so far operated within a 'labyrinth of legislation' that seldom reflected the present complexities of modern crude oil extractive governance. For the many years that followed, corporate benevolence and ad-hoc social responsibility projects were treated as sufficient gestures to oil-bearing communities, despite the palpable evidence of ecological despoliation, social dislocation, and chronic underdevelopment in the Niger Delta.² Sadly so, for the many of the oil-producing communities in the Niger Delta region like Ijaw, Urhobo, Itsekiri,

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¹ Odunuga, O, 'The Petroleum Industry Act (PIA): One Year On- Impact, Challenges, and the Road Ahead' (2023) 6(8) *Iconic Research and Engineering Journals* 373-377.

² Okhiredhu D I and others, 'Overcoming Policy and Regulatory Barriers: Accelerating Nigeria's Transition to Renewable Energy' (2025) 11(2) *IIARD International Journal of Geography & Environmental Management* 88-108.

Ogoni, and others, the discovery of crude altogether marked the beginning of enduring hardship, not prosperity. Their creeks and coastlines became the extraction points of billions of dollars' worth of resources, yet the region remains one of Nigeria's poorest and least developed. This is one of the many narratives that the Petroleum Industry Act 2021 altered, fundamentally, by transforming community development from a discretionary, philanthropic endeavour into a statutory obligation woven into the operational fabric of the petroleum exploration and production of the Nigerian state.³

The legislation introduces a reimagined definition of "host communities," extending the designation beyond the immediate locales where crude oil extraction occurs to other adjoining and appurtenant communities.⁴ This is visible in areas like Ukwa West, Ugwunagbo and Aba North LGAs of Abia State where oil extraction activities have left neighbouring communities like Owaza, Umuorie and Umuokwa, and others in ecological despoliation and chronic underdevelopment.⁵ This expanded conception seeks to capture the broader socio-geographic realities of oil operations,⁶ where impacts often radiate beyond pipeline corridors and wellhead zones.⁷ The Host Communities Development Trust (HCDDT) regime, mandated under Chapter 3 of the Petroleum Industry Act,⁸ compels operators to allocate a statutory percentage of their operating expenditure toward structured development initiatives.⁹ This shift from informal corporate charity to a regulated, rights-based developmental framework reflects a deliberate effort to foster sustainable prosperity,¹⁰ mitigate conflict, and recalibrate the relationship between extractive enterprises and the communities that bear the externalities of their operations.¹¹

The Federal Government's recent gazetting of twenty-one upstream petroleum regulations particularly emphasizes a broader attempt to modernise the sector and align Nigeria's energy industry with international governance norms.¹² The Nigerian Upstream Petroleum Regulatory Commission (NUPRC), under the leadership of its Commission Chief Executive, has sought to inject regulatory precision into the industry's operations by unveiling rules that address measurement transparency, community development, gas emissions, domestic gas obligations, operational safety, and decommissioning standards.¹³ Citing section 22 of the 1999 Constitution (as amended),¹⁴ and section 7 of the Petroleum Industry Act (PIA) 2021,¹⁵ the leadership of the

³ Adegboyso O S and others, 'The impact of government policies on Nigeria economic growth (case of fiscal, monetary and trade policies)' (2021) 7(59) *Future Business Journal*, 34-49.

⁴ Borha D O E, and Olujobi O J, 'An examination of the Petroleum Industry Act 2021: prospects, challenges, and the way forward' (2023) 12(551) *F1000Research*, 67.

⁵ Izu-Emmanuel O and Thomas, N C, 'An Appraisal of the Legal Roles of the Principal Regulatory Institutions in the Petroleum Industry of Nigeria under the Petroleum Industry Act 2021' (2024) 12(1), *Rivers State University Journal of Public Law* 9-22

⁶ Onuh, P I, 'An Analysis of the Petroleum Industry Act 2021 as a Panacea to Achieving the Economic Objectives in Chapter Two of Nigeria's Constitution' (2021) 10(2) *Benue State University Law Journal*, 203-217

⁷ Ibid

⁸ Petroleum Industry Act 2021, Ch. 3.

⁹ Nwoke U, *Regulating Corporate Social Responsibility in Nigeria: An Evaluation Through the Lens of the Old Institutional Economic Theory* (Sage Publications, 2024) 143-177.

¹⁰ Oghenevwe Donatus Ovwoshokpita, 'The Host Communities' Development Trust Under The PIA: A Trap Or A Tool For Peacebuilding?' (2025) 3(1) *SSRN Electronic Journal (Rivers State University Journal)*, 1-9.

¹¹ Nwoke U, art cit 10

¹² Ibid (n 12), 4.

¹³ Agbarakwe Ugochukwu H and Bredino Sampson M, 'Nigerian Petroleum Industry Act 2021 & Host Communities Development: Issues & Challenges' (2024) 9(2) *Saudi Journal of Humanities and Social Sciences* 38-44.

¹⁴ Constitution of the Federal Republic of Nigeria (as amended), s 22.

NUPRC believed that they were tasked with publishing reports on upstream operations, which is a critical obligation that can drive industry growth. These instruments are presented as part of a sweeping regulatory renaissance intended to attract capital, streamline administrative processes, and reinforce accountability at every stage of the upstream value chain. Of particular relevance are the Host Community Development Regulations, which operationalise the mandate of the Petroleum Industry Act by providing clearer protocols for trust creation, fund administration, and community engagement.¹⁶

This expansive rule-making has unfolded against the backdrop of fluctuating crude oil output, persistent infrastructural decay, serial divestments by international oil companies, and global imperatives for decarbonisation.¹⁷ Nigeria's recent attainment of a peak production of 1.8 million barrels per day, though significant, remains precarious amid continuing challenges of theft, pipeline vandalism, and environmental pressures. The government's introduction of a decarbonisation and sustainability blueprint (comprising seven strategic pillars) signifies its attempt to reposition the country within an energy structure increasingly defined by climate commitments and technological transformation. Industry leaders have urged stakeholders to embrace these regulatory developments, noting their potential to elevate the competitiveness of Nigeria's upstream operations and unlock latent investment opportunities.¹⁸

Within this matrix of reform in the nation, the provisions relating to host communities constitute one of the most socially consequential innovations of the Petroleum Industry Act. They carry the promise of redressing historical grievances, institutionalising community participation, and fostering a more harmonious coexistence between operators and the communities on whose lands petroleum wealth is extracted. Yet their success remains tethered to questions of implementation fidelity, transparency, local ownership, and the ability of governance institutions to withstand entrenched bureaucratic and political pressures. As stakeholders converge at industry conferences to contemplate Nigeria's place within an evolving global energy order, the imperatives of community development, environmental preservation, and regulatory credibility continue to occupy the centre of national discourse.¹⁹

The big question is thus: What explains the persistent developmental inertia and cyclical conflict in Nigeria's oil-bearing communities despite the arrival of an omnibus statute that promises structural reform and compulsory community-oriented investment? The Petroleum Industry Act of 2021 was heralded in September 2021 by the former President, the now late Muhammadu Buhari, with the gains of institutional restructuring and commercialization of the Nigerian National Petroleum Corporation (NNPC) as a legislative watershed by the Federal Government of Nigeria, intended to resolve decades of regulatory incoherence, fiscal ambiguity, and corporate impunity that had long undermined host-community welfare.²⁰

¹⁵ Petroleum Industry Act 2021, s 7.

¹⁶ Ibid (n 15), 40.

¹⁷ Amucheazi C and others, 'A reassessment of the challenges of enforcement of foreign judgments in Nigeria: the need for legislative reform to ease business' (2024) 20(2) *Journal of Private International Law* 473-499.

¹⁸ Bridgeforte Attorneys, *An Overview of the Petroleum Industry Act, 2021* (Bridgeforte Attorney Publishers, 2022), 1-10.

¹⁹ Rashid M B and others, 'Redressing Historical Bias: Exploring the Path to an Accurate Representation of the Past' (2023) 4(3) *Journal of Social Science* 698-705.

²⁰ Odunuga, O, art cit 2.

In the view of the researcher, a critical gap emerges in the dissonance between the law's elaborate promises and the fragmented, uneven realities unfolding within host communities. Early observations reveal persistent tensions over settlor-determined community boundaries, disagreements over trust membership, perceived opacity in cost calculations for the statutory contribution, and scepticism about the capacity of community-appointed boards to function without elite capture.²¹ The study therefore seeks to examine these policies, evaluate the extent to which the legal and regulatory architecture of the Petroleum Industry Act can genuinely foster sustainable development in host communities.

Literature Review

Evolution of the Petroleum Industry Bill (PIB) to the Petroleum Industry Act (PIA)

Oladiran²² in his scholarly work on the petroleum governance currently in Nigeria frequently traced the origins of the Petroleum Industry Act (PIA) 2021 to the prolonged legislative history of the Petroleum Industry Bill (PIB), a reform initiative first introduced in 2008. During its “bill for a law” phase, the PIB was widely debated due to its ambitious attempt to consolidate and modernize the entire legal framework governing the oil and gas sector. Central to these debates was the question of how to structure host community participation, how to prevent elite capture, and how to build accountability mechanisms that would ensure development funds were used responsibly.

Borha and Olujobi²³ consistently argued that the host community provisions in the PIB, though innovative, lacked clear statutory penalties for non-performing trust leadership. This gap implied that even after the bill became law, the problem of unexecuted projects and mismanaged funds could persist unless explicit accountability clauses were introduced. According to them, when the PIB eventually transformed into the PIA 2021, many of these structural concerns resurfaced as scholars observed that the Act, although more detailed than its predecessor, still left unresolved questions surrounding the enforceability of performance obligations imposed on Host Communities Development Trusts (HCDTs).

Policy Interventions and Regulatory Reforms influencing Host Community Development

The President of the Federal Republic of Nigeria, Bola Ahmed Tinubu, signed three significant Executive Orders into law effective 28th February 2024, which are:²⁴ (i) the Presidential Directive on Local Content Compliance Requirements, (ii) the Presidential Directive on Reduction of Petroleum Contracting Costs and Timelines, and (iii) the Oil and Gas Companies (Tax Incentives, Exemptions, Remission, Etc.) Order.²⁵ These policy instruments are intended to reshape the regulatory scenery of the petroleum sector in the country by strengthening local content enforcement, streamlining contractual processes, and enhancing fiscal incentives to

²¹ Yuhao T, ‘Historical institutionalism, political settlement and land ownership system in Nigeria’ (2025) 17(1) *International Journal of Urban Sustainable Development* 136-153.

²² Oladiran Akinsola Ayodele, ‘An Analysis of the Petroleum Industry Governance Bill in Nigeria: Prospects and Challenges’ (2021) 1(1) *Turf Law Journal* <<https://doi.org/10.62726/tlj.v1i1.14>> accessed on November 17, 2025.

²³ Borha David Oladeji and Olujobi Olusola Joshua, ‘An examination of the Petroleum Industry Act 2021: prospects, challenges, and the way forward’ (2023) 12(1) *F1000Research*, 551.

²⁴ Abubakar I R, ‘Predictors of inequalities in land ownership among Nigerian households: implications for sustainable development’ (2021) 10(1) *Land Use Policy* 101.

²⁵ Atsegbua L, *Oil and Gas Law in Nigeria (Theory & Practice)* (4th edn, Four Pillars Publishers 2021) 187-206.

attract new investment.²⁶ At a time when the Petroleum Industry Act (PIA) 2021 seeks to reconfigure governance structures, reform host community relationships, and stimulate investment confidence, these Executive Orders signed into law by the President represent a complementary policy layer that can either support or constrain the implementation of the host community development objectives of the PIA.²⁷

In the light of these realities, analysts have evaluated the first two directives and focused on their purpose, scope, and potential sectoral impact.²⁸ Their review emphasizes that strengthening local content and reducing contracting bottlenecks can improve operational timelines and reduce project overheads for oil companies which specifically are factors that directly influence the quantum and predictability of contributions to the Host Communities Development Trust Fund (HCDTF).²⁹ Local content legislation and policy frameworks have increasingly become central concerns for national authorities and industry stakeholders in hydrocarbon-producing states like Akwa Ibom, Lagos, Delta, Rivers, Bayelsa, Ondo, Edo, Imo, Abia, Kogi, Bauchi and Gombe States.³⁰

Hansen³¹ and Ovadia³² observe a marked expansion of such policies across Africa as resource-endowed nations design statutory mechanisms to manage extraction and maximise domestic participation. In alignment with this trend, the Federal Government of Nigeria enacted the Nigerian Oil and Gas Industry Content Development Act (NOGICDA) on April 2, 2010,³³ establishing detailed provisions, regulatory thresholds, and minimum quotas for indigenous involvement in various segments of the petroleum value chain, along with sanctions for non-compliance.³⁴ Nigeria's local content regulators set a benchmark to increase domestic content in the industry from approximately 26% in 2017 to an ambitious 71% by 2027, a trajectory that demands robust, competitive, and scalable strategic interventions.³⁵

Since the Trust Fund is financed through a mandatory 3% levy on the preceding year's operating expenditure of settlor companies, any policy capable of reducing costs, enhancing efficiency, or

²⁶ Olujobi O J, 'Nigerian Petroleum, Energy and Gas Resources Law (Legal Theories, Cases & Practice) Petroleum Industry Act 2021 & Climate Change Act 2021. (Ikeja, Lagos: Princeton & Associate Publishing Limited, 2022).

²⁷ Ibid

²⁸ Otu M. and others, 'An Appraisal of the Legal Frameworks and Policy Shift in the Nigerian Energy Sector' (2024) 23(2) *Nature Environment and Pollution Technology* 1167-1174.

²⁹ Ibid

³⁰ Acheampong T and others, 'An assessment of local-content policies in oil and gas producing countries' (2022) 9(4) *Journal of World Energy Law and Business* 282-302.

³¹ Hansen M, 'Toward a strategic management perspective on local content in African extractives: MNC procurement strategies between local responsiveness and global integration' (2020) 6(1) *Africa Journal of Management* 24-42.

³² Ovadia J S, 'Local content and natural resource governance: The cases of Angola and Nigeria' (2024) 1(2) *The Extractive Industries and Society* 137-146.

³³ Nigerian Oil and Gas Industry Content Development Act 2010.

³⁴ Adeleye N and others, 'Agro-industrialisation and financial intermediation in Nigeria' (2020) 11(3) *African Journal of Economic and Management Studies*: 443-456.

³⁵ Opeoluwa A A and others, 'Policy asymmetries and fiscal sustainability: Evidence from Nigeria' (2021) 12(2) *African Journal of Economic and Management Studies* 302-320.

stimulating increased project activities has the potential to affect the funding available for host community development projects under the PIA.³⁶

Nigeria recorded an estimated 69% decline in oil and gas investments between 2017 and 2022. The contraction was far more severe than the global average drop of 28% recorded in the same timeframe, with the rate oscillating from a peak of about 520 in March 2017 to roughly 350 by August 2017. This fluctuation was driven largely by a shortage of foreign exchange (following a dramatic halving of oil revenues) and speculative pressures, according to claims by the Central Bank. During this period, the official exchange rate remained fixed at 360.³⁷

Multiple structural constraints (including prolonged contracting cycles, high operational costs, regulatory uncertainty, and security challenges) have contributed to this investment decline. The issue of multi-layered contractor arrangements, often introduced to satisfy local content requirements on paper rather than in practice, has also been widely documented.³⁸ Such intermediaries frequently lack technical capacity or in-country expertise to deliver contracted work efficiently, resulting in project delays, inflated service costs, and reduced investor confidence. These inefficiencies indirectly undermine the broader developmental agenda of the PIA by constraining funding that should accrue to host communities for infrastructure, capacity building, and environmental remediation.³⁹

Constitutional Economic Objectives and their Influence on Petroleum Sector Reforms

The Fundamental Objectives and Directive Principles of State Policy, articulated in Chapter Two of the 1999 Constitution of the Federal Republic of Nigeria,⁴⁰ originate from similar provisions in the 1979 Constitution.⁴¹ These provisions articulate the State's commitments to economic governance, resource management, and social welfare. Specifically, Section 16 establishes the government's responsibility to manage Nigeria's natural and economic resources in a manner that promotes a dynamic, self-reliant, and prosperous national economy.⁴² Subsection 1 mandates the State to harness national resources for the collective good, ensure efficient and equitable control of the economy, and protect every citizen's right to engage in lawful economic activities outside sectors designated as exclusive government preserves.⁴³ Section 16(1)(a) is stipulated that the State should steer its policies to achieve the following objectives:⁴⁴

(a) Promoting a planned and well-balanced economic development.

³⁶ Okhirebhu, D I, and others, 'Overcoming Policy and Regulatory Barriers: Accelerating Nigeria's Transition to Renewable Energy' (2025) 11(2) *IIARD International Journal of Geography & Environment Management* 88-108.

³⁷ Najeem A O, 'Impact of Exchange Rate Fluctuation on Nigeria Economy Growth' (2024) 8(2) *IRE Journals* 706-723.

³⁸ Adepu N and others, 'Analysing the factors affecting construction project schedules amidst COVID-19 pandemic' (2023) 4(1) *Project Leadership and Society*, 24.

³⁹ Okpalaoka C, 'Infrastructural Challenges in Nigeria and the Effect on the Nigerians Economy: A Review of Literature' (2021) 8(4) *Environmental and Earth Sciences Research Journal* 159-162. See also Echono S T, 'Risk Factors Affecting Infrastructure Projects in Nigeria' (May 23-25, 2024) *Artificial Intelligence for Human-Technologies Economy Sustainable Development* 695.

⁴⁰ Constitution of the Federal Republic of Nigeria 1999 (as amended), Ch. 2.

⁴¹ Constitution of the Federal Republic of Nigeria 1979

⁴² *Ibid*, art cit 42, s 16

⁴³ *Ibid*, s. 16(1).

⁴⁴ *Ibid*, s 16(1)(a)

(b) Ensuring that the nation's material resources are efficiently harnessed and distributed for the collective benefit.⁴⁵

(c) Preventing the operation of the economic system in a way that leads to the concentration of wealth or control over the means of production and exchange in the hands of a select few individuals or groups.⁴⁶

(d) Providing all citizens with appropriate and adequate housing, food, a reasonable national minimum wage, elderly care, pensions, as well as support for the unemployed, sick, and disabled.⁴⁷

The Petroleum Industry Act 2021

The Petroleum Industry Act (PIA) restructures governance in the sector through the creation of two principal regulatory bodies,⁴⁸ which are the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA).⁴⁹ It also transforms the former national oil corporation into the Nigerian National Petroleum Company (NNPC) Limited, while outlining the establishment of both the Frontier Exploration Fund and the Midstream and Downstream Gas Infrastructure Fund. Provisions enabling the incorporation of Joint Ventures are likewise embedded in the Act.⁵⁰

On administrative matters the Petroleum Industry Act requires operators of marginal fields to transition to Petroleum Mining Leases within eighteen months of its commencement.⁵¹ It introduces new licensing categories, including the Petroleum Prospecting Licence (PPL), the Petroleum Exploration Licence (PEL), and the Petroleum Mining Licence (PML).⁵² A model form of licence or lease is stipulated for bid rounds, and the Act mandates the creation of decommissioning and abandonment funds for petroleum installations onshore and offshore. Anti-competition rules applicable to licensees are also articulated.⁵³

With respect to Host Community affairs, the Act provides for the formation of Host Communities Development Trusts, funded through a compulsory contribution of three percent of each settlor's actual annual operating expenditure from the preceding fiscal year. It further requires that individuals appointed to the Board of Trustees of each Trust must originate from the host communities concerned.⁵⁴

The fiscal provisions of the PIA eliminate the former investment allowance for credit and replace it with a Production Allowance.⁵⁵ They introduce Hydrocarbon Tax and Companies Income Tax

⁴⁵ Ibid (n 35).

⁴⁶ Dike S C & others, 'An Appraisal of the Fiscal Laws of Oil and Gas Industry Operation in Nigeria' (2023) 3(1) *African of International Energy and Environmental Law* 1-21

⁴⁷ Ibid, s. 16(2)

⁴⁸ PIA, s 7(1).

⁴⁹ Odunuga, O, art cit 2.

⁵⁰ Adebisi S A and Ezebuio K N, 'Analysis of the Petroleum Industry Act and its impact on the Nigerian Oil and Gas Sector' (2023) 6(3) *Gusau International Journal of Management and Social Sciences*: 293-312

⁵¹ PIA, s 94(1).

⁵² Ibid, s 94(9).

⁵³ Ibid, s 232 & 233.

⁵⁴ Ibid, s 235.

⁵⁵ Bill and Deep Offshore, s 68(3).

in lieu of the erstwhile Petroleum Profits Tax.⁵⁶ The Act also adopts the minimum Hydrocarbon Tax concept anchored on the Cost–Price Ratio, imposes a 0.5 percent levy on the wholesale price of petroleum products and natural gas sold domestically, and prescribes stringent penalties for late submission of tax returns with ₦10,000,000 for the initial day of default and ₦2,000,000 for each day thereafter.⁵⁷

Objectives of the HCDDT and Implementation of 3% Annual Expenditure (OPEX)

The Host Communities Development Trust is designed to fund and implement initiatives that promote the long-term welfare of host communities. Its aims include supporting sustainable development projects, carrying out infrastructural improvements within the limits of funds managed by the Board of Trustees, and advancing educational opportunities for community members. It also seeks to encourage local environmental protection efforts and to invest a portion of the available resources on behalf of these communities.⁵⁸

Under the Petroleum Industry Act (PIA) 2021, a major reform intended to strengthen transparency, efficiency, and equity in Nigeria's oil and gas sector, the Host Community Development Trust (HCDDT) requires oil companies to contribute 3% of their annual operating expenditure. This mandatory contribution is meant to guarantee that communities directly affected by petroleum extraction receive meaningful development support and fair compensation.⁵⁹ The level of compliance with these obligations however remains uncertain, and weak implementation has produced several negative outcomes for host communities.⁶⁰

Limited adherence to the PIA has intensified socio-economic hardship among host communities already struggling with environmental damage and declining livelihoods, increasing the risk of tension and unrest. The failure to provide the required funds has also slowed environmental mitigation and obstructed sustainable development efforts, worsening ecological deterioration. Recurring defaults have further weakened trust between oil companies and host communities, creating a strained operating atmosphere and complicating sector governance.⁶¹

The Host Community Development Trust (HCDDT) aims to address the development needs of host communities affected by oil and gas operations. The implementation of the HCDDT involves the following objectives and the allocation of funds from the 3% of the operator's annual operating expenditure (OPEX) as follows:

- 1) 75% for capital projects: This portion is allocated for infrastructure development and projects that directly benefit the host communities.
- 2) 20% for reserves: This amount is used for the financial reserves of the HCDDT.
- 3) 5% for administrative expenses: This is allocated for the administrative costs associated with managing the HCDDT.⁶²

⁵⁶ PIA, s 259(a).

⁵⁷ Ibid

⁵⁸ Oghenevwe D O, 'The Host Communities' Development Trust Under The PIA: A Trap Or A Tool For Peacebuilding?' (2025) 2(1) *SSRN Electronic Journal* 32.

⁵⁹ Ibid (n 45).

⁶⁰ Alhassan H and others, 'Regulatory Compliance, Ethical Considerations, Audit Quality and Transparency' (2024) 26(12) *IOSR Journal of Business and Management* 58-65.

⁶¹ Y Omorogbe, *Oil and Gas Law in Nigeria: Simplified Series* (Malthouse Press Limited 2021) 64-79.

⁶² Ibid.

The HCDDT is funded with 3% of the operator's OPEX from the previous year, and additional funds can come from donations, gifts, or grants. The funds are used exclusively for the development of host communities in accordance with the Host Community Development Plan (HCDDP) prepared by the operator and approved by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) or the Authority as the case may be. The HCDDT is overseen by a board of trustees, management committee, and advisory committee, with the operator responsible for overseeing the activities of these committees.⁶³

The implementation of the HCDDT is crucial for ensuring that host communities receive meaningful benefits and are involved in the governance of natural resources. It also aims to address the environmental and social impacts of oil exploration and production, promoting transparency, efficiency, and fairness.⁶⁴

The Nigerian Upstream Petroleum Regulatory Commission (NUPRC) recently revealed that the Host Community Development Trust (HCDDT) fund has expanded to ₦373 billion as of October 13, 2025, with 536 development projects currently underway across numerous host communities. The Commission explained that this fund includes ₦125 billion and \$168.9 million contributed by oil companies in accordance with Section 235 of the Petroleum Industry Act (PIA) 2021. The law requires operators (referred to as settlers) to contribute 3% of their previous year's operating expenditure to a dedicated trust that supports host communities.⁶⁵

These contributions, deposited in BBB-rated financial institutions, are channelled into projects selected through community-driven needs assessments. The intention is to improve infrastructure, education, healthcare, environmental management, and youth empowerment in oil-producing areas, particularly within the Niger Delta. The model is designed to reduce pipeline sabotage and promote greater stability, cooperation, and shared development within the region.⁶⁶

Each Host Community Development Trust is governed by a Board of Trustees and a Management Committee, ensuring accountability and active community participation.⁶⁷ Although the NUPRC does not directly administer the funds, it oversees compliance and tracks implementation through its HostComply monitoring platform, fulfilling its regulatory responsibilities.⁶⁸ In line with the PIA's rollout, the Commission has also supported the commissioning of over ten completed projects and initiated ten additional projects under the Obagi Host Community Development Trust in Rivers State, managed by Total Energies.⁶⁹ The PIA 2021, and particularly the HCDDT) model would depend not just on compliance, but on collaboration, trust, and shared accountability.

⁶³ Ibid (n 30 & 31).

⁶⁴ Ibid

⁶⁵ Olawin D, art cit 15.

⁶⁶ Gowda A T P, 'The Role of Financial Institutions in Economic Development: A Study' (2020) 7(2) *International Journal of Research and Analytical Reviews* 697-705.

⁶⁷ Musa B M, 'Sustainable Development and Population Dynamics in Nigeria: Challenges, Opportunities, and Policy Implications' (2025) 2(1) *Al-Qalam Journal of Sociological & Anthropological Studies* 170-178.

⁶⁸ Ibid, 171

⁶⁹ Ibid, 174.

Transparency, Fiscal Governance, and the Problem of OPEX Ambiguity

Another major theme within the literature concerns the weaknesses of fiscal transparency and the challenges associated with calculating the mandatory 3% Operating Expenditure (OPEX) allocation for host communities. Ishaku et al.,⁷⁰ examining extractive industry governance often emphasise that opaque financial structures create room for settlor manipulation, disputes over expenditure categories, and persistent mistrust between communities and operators. Comparisons with global best practices (from the Petroleum Revenue Management Act of Ghana) demonstrate that without a standardised method for calculating annual operational expenditure, host community funds risk becoming contested and inconsistent. Ghana's Petroleum Revenue Management Act (PRMA) has been a significant step towards improving the management and use of petroleum revenues in the country.⁷¹ The existing gap in literature in this space therefore calls for the establishment of a uniform OPEX template, greater audit rigor, and statutory guidelines designed to prevent the blending of project, administrative, and reserve funds within HCDTs.

The Structural gap between Statutory Intent and On-ground realities

We observe that while the PIA 2021 establishes a comprehensive regulatory architecture for host community development, a very significant divide exists between statutory expectations and field-level implementation. The ambition of the PIA to create sustainable development through HCDTs is undermined by ambiguous community boundaries, inconsistent settlor compliance, and an absence of enforceable accountability provisions.⁷²

We further observes that the perceived opacity surrounding the calculation of the 3% OPEX allocation remains one of the most contested aspects of PIA implementation. This undermines host community trust and creates an environment where allegations of underfunding or withholding of statutory contributions become very common. The absence of more standardised audit protocols and clearly prescribed qualifications for independent auditors compounds this situation, and by the same token, makes it difficult for host communities, regulators, and civil society actors to verify expenditures or assess the true value of contributions meant to drive development.

Community boundary disputes pose major impediments to the execution of development projects. Whenever corporate operators unilaterally define host communities by competing claims made by these communities, inter-community tensions emerge. This often results in the suspension of trust operations or the fragmentation of development benefits.⁷³ These structural weaknesses, in the view of the researcher become even more consequential in light of the penalty

⁷⁰ Ishaku Ahmed A and Muhammad A A and Abdulkarim Ibn S, 'Fiscal Transparency and Accountability in Developing Economies Public Finance: Theoretical Perspectives on Challenges and Opportunities' (2024) 4(1) *Kashere Journal of Accounting and Finance* 69.

⁷¹ Asenso J K and Ackah I, *Fiscal Policy and Petroleum Revenue Management Is Ghana on the Path to Beating the Resource Curse* in Acheampong T and Kojo Stephens T (eds) *Petroleum Resource Management in Africa* (Palgrave Macmillan 2022).

⁷² Ibid (n 10).

⁷³ Freeman, R. & Mcvea John. 'A Stakeholder Approach to Strategic Management' (2021) 9(1) *SSRN Electronic Journal* 38.

clauses as stated in section 273 of the PIA, which allow deductions from host community funds when vandalism or sabotage occurs.⁷⁴

Recommendations

- 1) A more transparent and standardised framework for defining host community boundaries should be developed to eliminate disputes arising from settlor-driven classifications. Establishing an independent boundary-verification mechanism would enhance legitimacy and reduce conflicts among neighbouring communities.⁷⁵
- 2) A uniform and publicly verifiable method for calculating annual operating expenditure should be mandated to address concerns about opacity in determining the 3% contribution. Regulators should require periodic independent audits and compel operators to disclose cost components relevant to Host Communities Development Trust Fund (HCDTF) assessments.
- 3) A security-sector coordination framework should be established to address persistent risks such as vandalism, sabotage, and community-company conflicts. Strengthening community policing, grievance-handling structures, and early-warning systems would reduce disruptions that escalate operational expenses and diminish HCDTF contributions.
- 4) There is a need for the Nigerian legislature to introduce a targeted amendment or a new bill that formally codifies accountability obligations for HCDT leadership, specifying statutory definitions of non-performance, penalties for failure to execute approved projects, and regulatory procedures for administrative enforcement by the NUPRC.
- 5) Financial transparency should be strengthened through the adoption of a uniform, regulator-certified OPEX calculation template that operators must use annually, backed by clear audit protocols and mandatory digital disclosure requirements to enhance fiscal credibility.
- 6) Boundary legitimacy must be institutionalised through the establishment of multi-stakeholder verification committees involving NUPRC representatives, state survey agencies, and recognised community elders to prevent conflicts and ensure that host communities reflect social and geographical realities rather than corporate discretion.
- 7) Digital oversight mechanisms should be expanded through the enhancement of the HostComply system, incorporating real-time dashboards, geospatial mapping, expenditure tracking features, and mandatory KPI reporting to elevate transparency and create measurable benchmarks for project performance.
- 8) Community-based security and grievance-management frameworks should be formalised to mitigate vandalism risks, reduce the incidence of penalties deducted from host community funds, and align community incentives with the protection of petroleum infrastructure through structured early-warning systems and locally managed surveillance initiatives.

⁷⁴ PIA, s 273. Section 273 of the PIA prescribed penalty for non-compliance with the provisions of any regulations made under the Act. The section provides the penalties below: 2 million for every and subsequent day in which a company fails to file return.

⁷⁵ Koko, Charles Josiah, 'Host Communities' Rights to Participation and Consultation in the Petroleum Industry in Nigeria: An Appraisal' (2022) 8(1) *African Journal* 127.

Conclusion

The findings of the study reveal a profound disconnection between the statutory aspirations of the Petroleum Industry Act 2021 and the uneven, often troubled lived experiences within host communities. While the PIA introduces an unprecedented governance framework intended to foster transparency, accountability, and sustained development, the practical implementation remains beset by structural, administrative, and socio-economic constraints. Disputes over community boundaries, mistrust in trustee selection processes, and opacity in contribution calculations continue to undermine community confidence. Sectoral inefficiencies (including cumbersome contracting procedures, inflated operational costs, and misapplied local content practices) further erode the financial base on which the Host Communities Development Trust relies. These systemic challenges diminish the transformative potential of the law and weaken its ability to deliver sustainable growth, environmental remediation, and social stability in oil-bearing regions.

Historically, oil companies in Nigeria relied on volatility management, paying off aggrieved groups, responding to grievances only when production was threatened, or negotiating memoranda of understanding that dissolved under political strain. The result was an environment where both investment and development were episodic. Under the new trusts, the communities elect trustees, who then appoint a management committee, which in turn selects project advisors and fund managers. All expenses and withdrawals are audited and disclosed to the community and the Nigerian Upstream Petroleum Regulatory Commission (NUPRC). The PIA also contains a penalty clause: any vandalism or interference by community members automatically triggers a deduction from the trusts allocated development funds. “If pipelines are sabotaged, the trust loses money, not the company.” At the centre of a governance experiment: communities must transition from protest politics to administrative accountability. The communities expect fairness, integrity and results.” The trustees must maintain four mandatory bank accounts (collections, project, administrative, reserve) and the separation of power between trustees, management committees, and fund managers. No usurpation of roles. Board of trustees approves, management committees execute.