



HOST COMMUNITIES DEVELOPMENT TRUSTS

Understanding Nigeria's Legislated Approach to Impact and Benefit Agreements

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In-conversation session

Toronto Metropolitan University Institute for the Study of CSR

January 23, 2026

BIOS

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Lotanna is the co-founder of The Bridge Healthcare Access Initiative – a non-profit organisation procuring access to primary healthcare for underprivileged Nigerians through enrollment to health insurance, among other strategies. Lotanna will be speaking in his personal capacity.



Ibrahim Yeku is a distinguished lawyer with more than 17 years of experience, spanning both private legal practice and in-house counsel roles at the law firm of Solola & Akpana and TotalEnergies EP Nigeria Limited. He possesses deep expertise in oil and gas law, complex litigation, grievance management, host community relations, contracts and procurement, and regulatory compliance.

He earned his LLB from Lagos State University, a BL from the Nigerian Law School, and an LLM in Compliance and Risk Management from Thomas Jefferson School of Law, San Diego, California. He serves on the Editorial Advisory Board of the Compliance Professional Magazine (Society for Corporate Compliance & Ethics, SCCE) and he is the Country Advisor for the International Due Diligence Organization (IDDO)

INTRODUCTION



Corporate Social Responsibility (CSR) has evolved over the years. It has been associated with charity, ESG, corporate governance, social investment, etc.



In its original conception, CSR is voluntary. Connoting a business going beyond what is required by law to contribute to communities in diverse possible ways – usually economic.



Companies have increasingly adopted CSR initiatives as a strategic tool for maintaining the goodwill of key external stakeholders, including customers and host communities.



Some countries have gone even further to implement mandatory CSR regulations – India, Indonesia, Mauritius

INTRODUCTION



In 2021, Nigeria enacted the Petroleum Industry Act (PIA) which mandates oil and gas licensees to set up Host Communities Development Trusts (HCDT) and to contribute annually to the HCDTs. These HCDTs would then take over most of the developmental initiatives that licensees have implemented or are expected to implement in those communities.

In this presentation, we will discuss

- the background to the relationship between host communities and oil and gas companies
- the CSR approaches pre-PIA
- the objectives of pursuing a legislated IBA approach for the Niger Delta
- the organizational and operational structure of HCDTs
- early results from implementation of HCDTs
- prospects and challenges associated with the HCDT approach.

BACKGROUND

Amalgamation of Nigeria

Two distinct British colonies (Northern Nigeria and Southern Nigeria) were amalgamated into one for administrative convenience as well as for the economic reason of balancing the budget deficits of Northern Nigeria with the surpluses of Southern Nigeria.

“more especially in the prospect of mineral”

Lord Fredrick Lugard (then Governor of Northern Nigeria and the architect of the amalgamation)

Following the amalgamation, all mineral interests in the resultant Nigeria were vested in the British Government, thus, the foundation of the federalization of oil and gas resources



BACKGROUND

Derivation Principle

Nigeria then operated a regional government structure, with the three regions – Northern Nigeria, Western Nigeria, and Eastern Nigeria economically semi-autonomous.

Over time, Nigerians became more involved in politics and governance. Whilst the colonial constitutions still maintained the British Government as the owner of all mineral rights, the British eventually agreed that all (100%) rents, and royalties from any mineral belonged to the region where the mineral was derived.

This is known in Nigeria as the Derivation Principle – attributing mineral wealth to the region of origin.

BACKGROUND

Discovery of Oil in Commercial Quantity and Independence

When oil was discovered in commercial quantities in 1956 in the then Eastern Region, the economic potential of the resource for the country was recognized and so the derivation principle was amended as follows (and eventually included in the 1960 Independence Constitution):

- 50% (Region of origin)
- 20% (the Federal Government)
- 30% (the other regions)



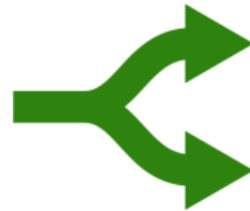
BACKGROUND

Conflicts



Coups and stronger federal government

High concentration of finances in the Federal Government



1967 - abolition of regional system and devolution into states

Further strengthening the federal government. Derivation Principle abolished



Niger Delta movements and renegotiation of Derivation

Feeling of deprivation and disregard (economically and environmentally) even though the region is the economic mainstay. The military government clamped down on these movements violently.

BACKGROUND

Conflicts

The return to civilian rule in 1999, and the reintroduction of the Derivation Principle (13%) in the Constitution did not fully assuage the Niger Delta.

In the early 2000s, the country experienced extended periods of armed militancy in the Niger Delta, leading to destruction of oil and gas facilities, kidnappings, and disruption of production. The financial impact to oil and gas companies and the country was immense.



CSR AS RISK AND CONFLICT MANAGEMENT TOOL

It is in this context that CSR, which was still an emerging practice in Nigeria evolved as a risk-management tool in the Niger-Delta.

- It became an avenue for oil and gas companies to negotiate the terms of co-existence with the communities
- Filled developmental gaps in the Niger Delta
- Assuage some of the complaints that the Niger Delta, as the resource “owner” has been neglected by direct negotiations with the communities.
- Demonstrate concern for the environment of the Niger Delta



CSR became a form of social contract that whilst the oil and gas companies fulfilled their commitments to the communities, the communities would allow the companies to operate peaceably.

CSR AS RISK AND CONFLICT MANAGEMENT TOOL

The MOUs

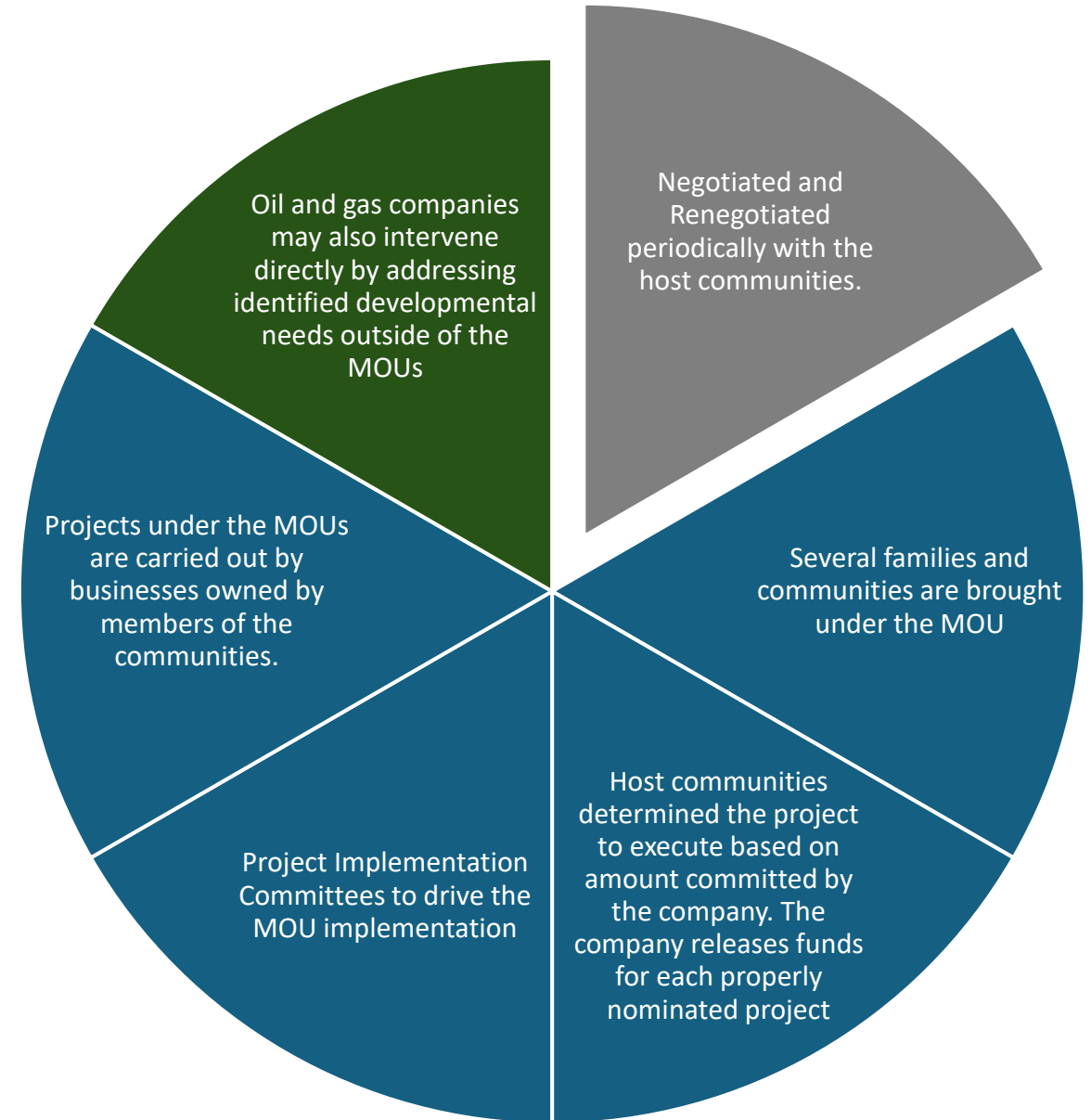
Prior to the PIA, the relationship between the oil and gas companies and host communities was governed by Memorandum of Understanding or Global Memorandum of Understanding.

Although still considered as voluntary, the MOUs were the social licence to operate in the host communities.

Whilst usually couched as MOUs (and not as agreements) the MOUs have sometimes been enforced in court depending on the aspect being litigated.

There was no clearly defined regulation for the MOUs. The quality of the MOUs varied from community to community

- A lot depended on the communities' negotiating strength
- The unity among the communities and families (infighting was a major issue)
- The communities often chose projects that had low impact if it would yield immediate benefits
- Abandoned projects and absence of mechanisms to enforce completion
- Embezzlement, corruption.



PIVOTING TO LEGALLY MANDATED CSR – THE HCDT MODEL

Overarching Government Objective for Pivoting to Legally Mandated CSR

The 'voluntary' CSR model had its limitations and draw-backs.



Accusations by communities that the oil and gas companies were renegeing on the MOUs



The sustained feeling in the Niger Delta that only an insignificant fraction of their resources are invested in the communities



Sabotage of oil facilities with attendant loss of revenue for the country and contribution to environmental devastation. Oil and gas companies blamed the communities



Hovering threats of re-emergence of militancy. *E.g., after an amnesty program in 2009 to end militancy, another group emerged in 2016.*

THE HCDT MODEL

The Host Communities Development Trust

Despite pushbacks the PIA was enacted on 16 August 2021 instituting the HCDT model and requiring oil and gas companies to contribute 3% of their preceding year's OPEX

Oil and gas companies argued that (1) the HCDT model would be an immense financial obligation on an already overtaxed industry (2) CSR ought to be voluntary, and the companies already committed to CSR under the MOU model (3) Oil and gas companies already contribute part of their budget to Niger Delta Development Commission, which was set up specifically for the development of the Niger Delta.

On their part, the host communities argued that the contribution in the bill (2.5% or 10% depending on the version of the bill) was insufficient.

Objectives of HCDT – Section 234(1) PIA



THE HCDT MODEL

Licensees' obligation to set up HCDTs



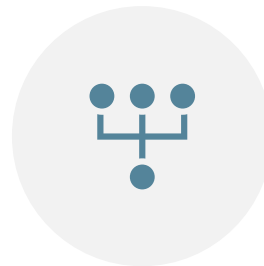
Incorporate host communities' development trust for the benefit of host communities where the licensee (called settlor for the purpose of the trust) operates.



In the case of collective settlors under JOA, the Operator shall be responsible for compliance with the HCDT provisions of the PIA.



Settlors operating in shallow water and deep offshore, the littoral communities and any other community determined by the Settlers shall be host communities for the purposes of HCDT.



Settlors shall consult with the host communities to appoint and authorise a board of trustees to apply for the registration of HCDT.

THE HCDT MODEL

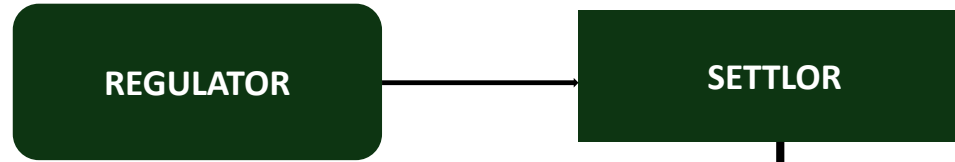
Timeline for Incorporation



THE HCDT MODEL

Governance Structure

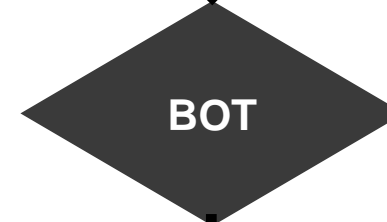
- Ensures compliance with the PIA provisions by Settlor
- Oversight of HCDT



- Incorporate the Trust
- Fund the HCDT – 3% preceding year’s OPEX
- Determine Host Communities (HC) for each HCDT, littoral for deep water
- Develop needs assessment
- Determine the BOT members from HC, remuneration, removal, discipline, financial and administrative regulations of the BOT
- Appoint Secretary to keep the books of the trust
- Utilize a portion of the 5% of the Fund for Admin & special projects
- Transfer obligations under existing MOUs to the Trust

Board of Trustees

- Persons of integrity from HC selected by the Settlor
- General management of the fund,
- Allocate and disburse funds to projects
- General oversight
- Appoint fund managers
- Set up MACOM



- Appointed by BOT
- Professional fund managers to invest and manage HCDT wealth.

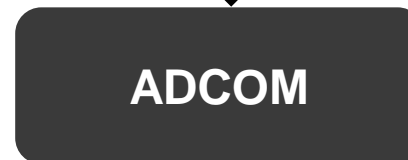
Management Committee

- One member from each community covered under the HCDT
- Non-Executive members nominated by HC and appointed by BOT
- Executive members appointed by BOT and who do not necessarily have to be from HC
- Responsible for day-to-day administration of the HCDT, C&P process & supervision of projects etc.
- No involvement of the Settlor



Advisory Committee

- One member of each HC
- Monitor & report progress, advise MACOM on peace and security initiatives etc
- No involvement of the Settlor



THE HCDT MODEL

Financial Management

In line with S23 (3a-d) of the HCDT regulation issued pursuant to the PIA:

The Settlor shall maintain a designated account in a commercial bank duly licensed by the Central Bank

The Board of Trustees shall maintain in the same commercial bank, the following accounts:

- Collection Account into which the settlor shall pay its annual contribution
- Capital Fund Account
- The Reserved Fund Account and
- An Administrative Fund Account

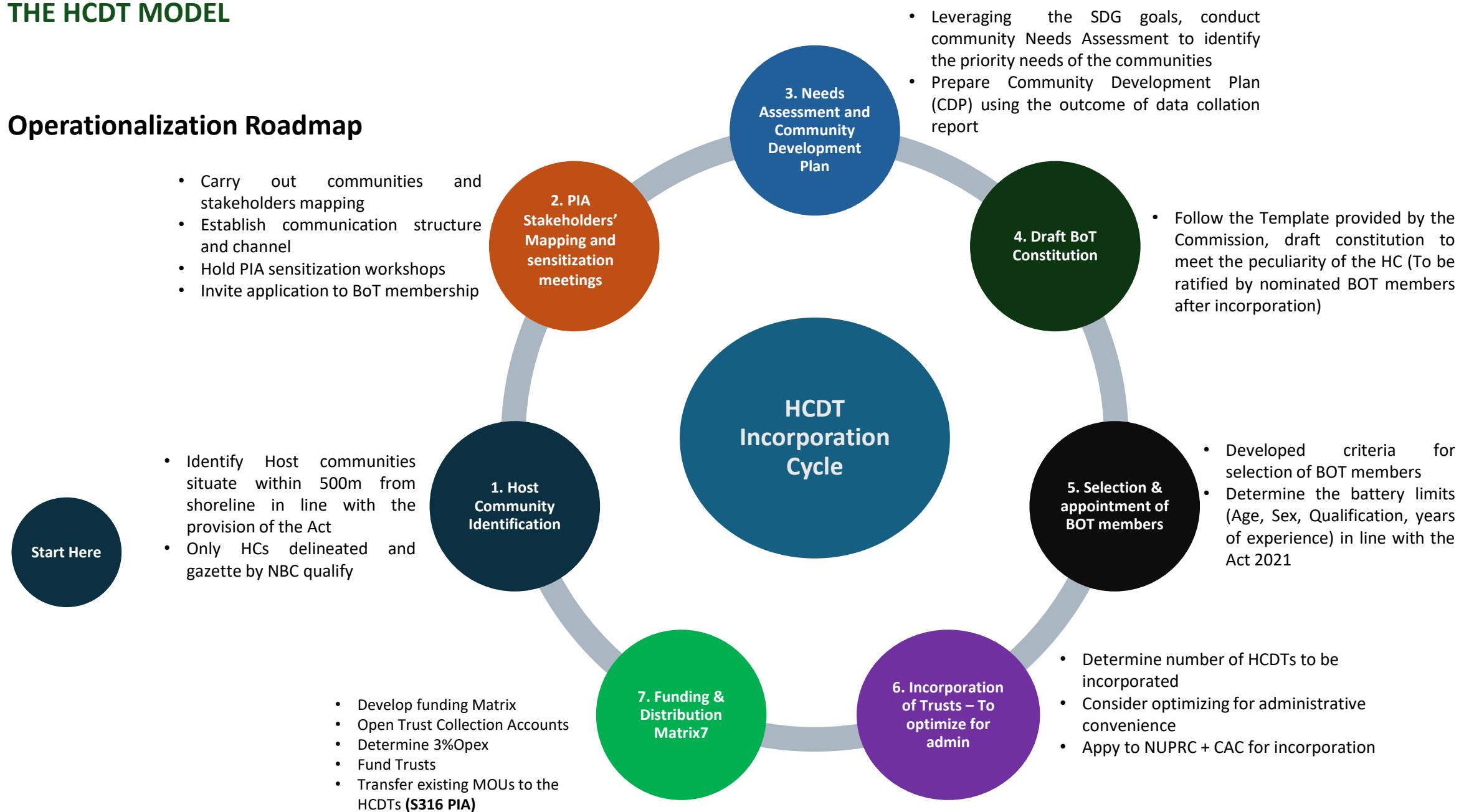
In line with S244 of the PIA:

The Board of Trustees shall in each year allocate from the Host Community Development Fund, a sum equivalent to:

- 75% to the Capital fund for project in each of the host communities
- 20% to the Reserved Fund to be invested for future use
- 5% to the Administrative Fund (to settle administrative costs including remuneration (for BOT, MACOM, and ADCOM), office rental & consumables, facility maintenance & logistics, and special projects/interventions.

THE HCDT MODEL

Operationalization Roadmap



THE HCDT MODEL

Some Challenges with Operationalization

- Objections to the registration process of the Trust. Litigation challenging appointments
- Clamour by communities for inclusion in HCDT, often involving litigation
- Unclear provisions of the law with respect to 3% OPEX (global or asset specific)
- Lack of clear description and identification of host community for deep water operations/leases
- Political interference by politicians with vested interest
- Dearth of community representatives who meet Settlor's ABC requirements
- Settlers still regarded as responsible for HCDTs

THE HCDT MODEL

Early Observations

- **Reduction in number of CSR initiatives** – licensees tend to collapse most of their CSR activities into the HCDTs to the detriment of non-Niger Delta communities.
- **Easier community engagements** – the HCDTs create clear entry points for engaging with the communities.
- **HCDTs are well resourced** – According to 2025 figures by NUPRC, the national HCDT fund reached approximately N373 billion (US\$263 million), overseeing more than 536 community projects, ranging from schools and health facilities to roads and water systems
- **Noticeable reduction in sabotage and disruption of operations** - Section 257 of the PIA

(2) Where in any year, an act of vandalism, sabotage or other civil unrest occurs that causes damage to petroleum and designated facilities or disrupts production activities within the host communities, the community shall forfeit its entitlement to the extent of the costs of repairs of the damage that resulted from the activity with respect to the provisions of this Act within that financial year :

Provided the interruption is not caused by technical or natural cause.

(3) The basis for computation of the trust fund in any year shall always exclude the cost of repairs of damaged facilities attributable to any act of vandalism, sabotage or other civil unrest.

THE HCDDT MODEL

Outlook

One pertinent concern is – why should we expect the HCDDT model to succeed in view of the fact that other special funds for the Niger Delta had not yielded the intended outcomes -

- **Derivation under the 1999 Constitution** – Niger Delta states receive 13% of income derived from oil and gas activities in their state. These monies are supposed to be used for the benefit of the communities
- **The Niger Delta Development Commission (NDDC)** – NDDC is a government institution created to drive the development of the Niger Delta. NDDC is well resourced through
 - 3% of the annual budget of oil and gas companies.
 - Contributions from the government
- **The Ministry of Niger Delta Affairs** – This was set up specifically to address the special needs of the Niger Delta. As a ministry, it received appropriation from the government solely for projects benefiting the Niger Delta. The Ministry is currently known as the Ministry of Niger Delta Development
- **Hydrocarbon Pollution Restoration Project (HYPREP)** – Set up following UNEP Report regarding the devastation in Ogoni, Niger Delta. The Nigerian Government committed US\$1 billion for projects in Ogoniland, to be funded by oil and gas companies?

However, the HCDDT differs largely because of the detailed attention paid to the governance of the trust. It puts the responsibility for the success or failure of a HCDDT in the hands of the communities.

THANK YOU

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