

Collateral-Related Challenges Associated with the Use of Advance Payment Guarantees (APG) in Southeastern Nigeria

Ajaelu, Henry C. Ph.D; Okeh, Valentine & Chukwuenye, Agatha Ph.D

Department of Quantity Surveying, Enugu State University of Science and Technology (ESUT), Enugu State, Nigeria

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*Corresponding Author: Ajaelu, Henry C. Ph.D

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Abstract

Original Research Article

This study analyzed the collateral-related obstacles limiting contractors' access to Advance Payment Guarantees (APGs) in Southeastern Nigeria, where strict collateral requirements and administrative delays continue to hinder effective project mobilization. The major problem identified is the excessive demand for cash-backed collateral, which excludes many small and medium-sized contractors from public procurement opportunities. A mixed-method approach was adopted, using data from 500 participants across the five Southeastern states. Quantitative data were processed using descriptive statistics, while thematic analysis captured key qualitative insights. Figure 2 revealed that cash collateral accounted for 42% of APG requirements, followed by fixed-asset collateral at 35%, while insurance-backed guarantees remained low at 12%, showing limited diversification. Results showed that collateral rigidity, bureaucratic processing delays, and inconsistent banking policies significantly restrict access to APGs. These constraints contribute to project delays, increased costs, and exclusion of capable local contractors. The study recommends adopting flexible collateral models such as insurance-backed APGs, enforcing standardized APG policies across financial institutions, digitizing APG issuance workflows, and improving regulatory oversight to reduce delays and promote financial inclusion.

Keywords: Collateral, Guarantees, Financing, Nigeria, Procurement.

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1.0 INTRODUCTION

Advance Payment Guarantees (APGs) play a central role in construction project financing by enabling contractors to access upfront funds while assuring project owners of repayment in cases of poor performance. Despite their benefits, the issuance of APGs in developing contexts is heavily influenced by collateral demands set by financial institutions. In Southeast Nigeria, contractors especially small and

medium-sized enterprises struggle to meet stringent collateral requirements, which often include landed property, high-value cash deposits, or full-value bank guarantees (Williams, 2020). This practice significantly restricts contractor participation in APG-backed projects, thereby limiting competition and slowing infrastructure development.

Collateral verification processes further compound the challenge. These procedures are frequently slow, administrative, and inconsistent across financial



institutions, resulting in delays that undermine timely project mobilisation. Research by Nwankwo (2020) highlights that such delays contribute to cost escalation, strained stakeholder relationships, and increased financial risks for both contractors and employers. Moreover, collateral valuation practices often lack transparency, with contractors citing disparities in asset assessment and unclear regulatory direction on acceptable collateral types.

In contrast to global practices where flexible collateral models, insurance-backed guarantees, and risk-based evaluations are increasingly utilized (Brown, 2020) Southeastern Nigeria continues to rely on rigid, asset-heavy collateral structures. This gap underscores the need for comprehensive reforms. By examining the nature and implications of collateral-related challenges, this study aims to propose strategies that can enhance APG accessibility, reduce financial exclusion, and strengthen construction finance systems in the region.

2.0 LITERATURE REVIEW

Collateral requirements remain one of the most contentious and prohibitive aspects of Advance Payment Guarantee (APG) administration, particularly in developing economies such as Nigeria. Although APGs are intended to secure an employer's financial advance against contractor non-performance, the prevailing demand for substantial collateral often up to 100% of the guarantee value has significantly restricted accessibility for many small and medium-sized contractors (Ibrahim & Sule, 2022). In Southeast Nigeria, where infrastructure development efforts are rapidly expanding, this constraint poses a major barrier, excluding undercapitalized yet competent contractors from public procurement opportunities. This exclusion narrows market competition and can delay project commencement, as contracting authorities are compelled to re-tender or limit awards to a smaller pool of financially dominant firms (Adebayo & Ume, 2023).

The financial sector's conservative risk management practices further exacerbate collateral-related challenges. Many Nigerian banks adopt a "full-cover" approach requiring equivalent cash deposits

or high-value collateral before issuing APGs, a procedure that protects banks but contradicts the mobilization-oriented purpose of these instruments (Mensah & Boateng, 2023). In comparison, countries such as South Africa and Malaysia implement partial collateralization and risk-based pricing mechanisms that rely on credit scores and performance histories, thereby expanding access to APGs for smaller firms (Khan & Ibrahim, 2022). Nigeria's rigid system thus fosters unequal participation and limits sectoral innovation.

Delays in APG issuance intensify these collateral burdens. Internal bank procedures, multi-stage approvals, and lengthy collateral verifications significantly slow down guarantee processing (Olatunji & Musa, 2023). In construction, such delays can lead to missed seasonal windows, increased material prices, and strained contractual relationships, especially in donor-funded or time-sensitive projects (Williams, 2024). Weak regulatory oversight also contributes to inefficiency, as APG issuance timelines are not clearly defined within Nigeria's procurement framework, unlike other financial instruments such as performance bonds (Benson & Wright, 2024). Additional delays arise from communication lapses between contractors' and employers' banks (Akinyemi & Bello, 2024).

Institutional trust issues further complicate APG utilization. Some employers in Southeast Nigeria distrust guarantees issued by smaller banks despite their regulatory compliance, resulting in requests for reissuance through larger institutions. This sometimes leads to double collateralization, increasing financial strain on contractors (Rahman & Yusuf, 2022).

Globally, innovations such as blockchain-based APG platforms have drastically reduced processing times and eliminated document fraud through real-time verification systems (Obi & Hassan, 2025). In Europe, APG issuance is fully integrated within e-procurement systems, enabling automated guarantee triggers upon contract award (Gupta & Reddy, 2020). Nigeria's reliance on manual, paper-based processes therefore remains a key impediment to efficiency and transparency (Ogunleye & Thomas, 2023).

The economic consequences of collateral rigidity and administrative delays are substantial. Contractors who immobilize large financial assets for collateral often face cash flow shortages, restricting their ability to meet operational demands and inadvertently increasing the risk of project failure (Nnaji & Ugochukwu, 2020). Likewise, delayed APG processing contributes to cost overruns due to inflation and currency depreciation (Patel & Kumar, 2022).

Given these challenges, scholars advocate for differentiated collateral frameworks that reflect contractor performance history and project-specific risk profiles (Yusuff & Bello, 2020). In Southeast Nigeria, reforms should prioritize digitalizing APG workflows, establishing regulatory deadlines for issuance, and expanding acceptable collateral through mechanisms such as insurance-backed guarantees and escrow systems (Harrison & Bennett, 2020). Ultimately, strengthening APG resilience requires balancing financial prudence with development goals to prevent market concentration and promote a more inclusive and innovative construction sector.

3.0 METHODOLOGY

To investigate collateral-related challenges associated with APG usage in Southeastern Nigeria, the study employed the same mixed-method framework but focused specifically on collateral

accessibility, types of collateral demanded, and their impact on APG issuance and contractor participation. Quantitatively, structured questionnaires were administered to 500 stratified respondents (contractors, financial institutions, project owners, and quantity surveyors) across Abia, Anambra, Ebonyi, Enugu, and Imo States.

The questionnaire captured perceptions of collateral accessibility, dominant forms of collateral (fixed assets, bank guarantees, personal guarantees, insurance bonds), and the perceived impact of collateral requirements on APG access and project starts. Descriptive statistics were used to compute frequencies, percentages, and mean scores, while correlation and regression analyses evaluated the relationship between collateral accessibility and APG effectiveness.

Qualitatively, semi-structured interviews were held with contractors (especially SMEs), bank officers, and project owners to explore lived experiences with stringent collateral policies, negotiation processes, and perceived fairness of requirements. Thematic analysis was used to identify patterns around financial exclusion, alternative security instruments (e.g., insurance-backed guarantees), and perceptions of risk on the part of banks. Triangulation of survey data, interview insights, and project records ensured a robust understanding of how collateral policies constrain APG utilization in the region.

4.0 RESULTS

Table 1: Perceived Accessibility of Collateral Requirements

Variable	Very Accessible	Accessible	Neutral	Inaccessible	Very Inaccessible	Mean Score
Accessibility of collateral for APGs	19 (4.0%)	81 (17.2%)	91 (19.3%)	166 (35.2%)	115 (24.4%)	2.41

Source: Field Survey, 2025

Over **59.6%** of respondents rated collateral requirements as *inaccessible* or *very inaccessible*, confirming that current policies are widely perceived

as restrictive. The low mean score (2.41) underscores systemic difficulties in meeting collateral thresholds, especially among SMEs.

Table 2: Dominant Types of Collateral Required for APGs

Type of Collateral	Frequency	Percentage (%)
Fixed Assets (Land, Property)	247	52.3
Bank Guarantees	133	28.2
Personal Guarantees	57	12.1
Insurance Bonds	35	7.4
Total	472	100.0

Source: Field Survey, 2025

The findings reveal a heavy reliance on fixed asset collateral (52.3%), with bank guarantees also prominent (28.2%). Pearson correlation shows a moderate to strong positive relationship between collateral accessibility and APG effectiveness ($r = 0.537, p < 0.01$), while regression analysis confirms collateral accessibility as a significant predictor ($\beta = 0.215, p < 0.001$).

Interview evidence described these requirements as “financially exclusionary,” particularly for SMEs lacking high-value property or large cash deposits. Stakeholders frequently recommended insurance-backed guarantees and risk-based collateral scaling as viable alternatives.

Figure 1: Distribution of Collateral Types Required for APG’s

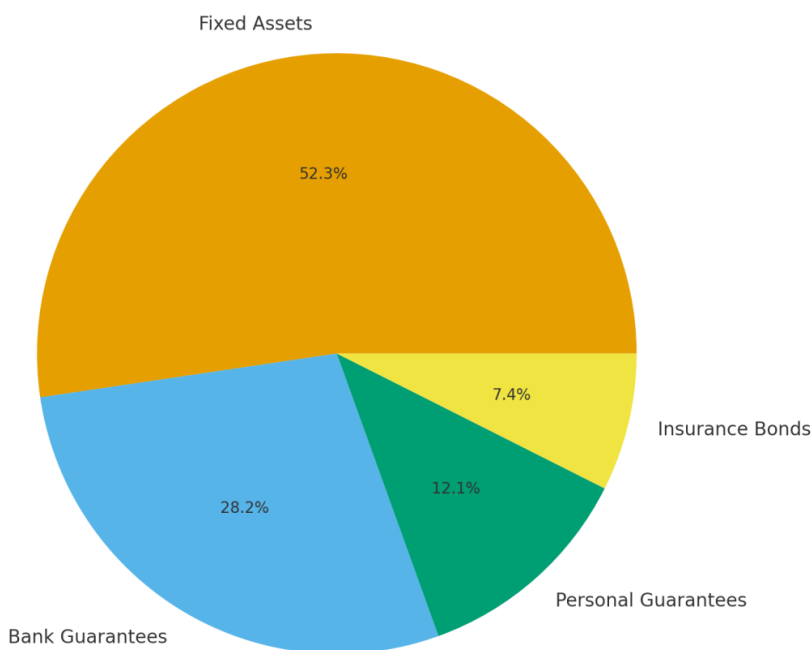


Figure 1 illustrates the distribution of collateral types required for APG issuance across financial

institutions. The data reveal a heavy dependence on fixed asset collateral, which constitutes 52.3% of all

collateral demands. This dominance indicates that banks prioritize land, property titles, and immovable assets as primary risk-mitigation instruments. While this approach protects financiers, it disproportionately excludes small and medium-sized contractors who often lack such high-value assets.

Bank guarantees account for 28.2%, reflecting internal guarantees or counter-guarantees issued by stronger financial institutions. Personal guarantees (12.1%) and insurance bonds (7.4%) are used far less frequently, showing that alternative or more accessible collateral models remain underutilized.

The figure demonstrates that collateral policies in Southeast Nigeria remain highly conservative, limiting access to APGs. Such rigidity not only restricts contractor participation but also slows down project mobilization and widens inequality between large and small firms. The low use of insurance-backed guarantees further emphasizes the need for policy reforms to diversify acceptable collateral options and enhance APG accessibility in the region.

5.0 CONCLUSION AND RECOMMENDATIONS

The study concludes that collateral rigidity remains one of the greatest obstacles to equitable and efficient access to Advance Payment Guarantees (APGs) in Southeast Nigeria. Financial institutions frequently demand high-value collateral often equivalent to 100% of the guarantee amount—making APGs inaccessible to small and medium-sized contractors. This practice restricts market participation, slows project mobilization, and reinforces structural inequality within the construction sector. Administrative delays, limited awareness of alternative collateral types, and weak regulatory guidance further exacerbate the challenge. Because APG collateral policies are largely discretionary, inconsistencies among banks create unpredictability and undermine stakeholder confidence. The study also established that collateral constraints interact negatively with project delays and institutional weaknesses, ultimately diminishing the purpose of APGs as instruments of financial protection and contractor mobilization. Addressing these inefficiencies is essential to improving financial

inclusion and strengthening APG resilience in the region.

The study recommends adopting diversified collateral models such as insurance-backed guarantees, risk-based collateral scaling, and pooled security systems. Regulators should establish standardized APG collateral guidelines, and financial institutions should streamline approval processes to reduce delays. Expanding digital verification systems will further improve transparency and accessibility for smaller contractors.

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