



# **Financial Instruments Used in the Financing Construction Project in Nigeria**

**I. C. Osuizugbo<sup>1\*</sup>**

<sup>1</sup>*Department of Building Technology, College of Environmental Sciences, Bells University of Technology, Ota, Ogun State, Nigeria.*

## **Author's contribution**

*The sole author designed, analysed, interpreted and prepared the manuscript.*

## **Article Information**

DOI: 10.9734/JERR/2020/v18i317210

### Editor(s):

(1) Dr. Tian- Quan Yun, South China University of Technology, China.

### Reviewers:

(1) J. Raju, CSIR-National Aerospace Laboratories, India.

(2) Alcinia Zita Sampaio, University of Lisbon, Portugal.

Complete Peer review History: <http://www.sdiarticle4.com/review-history/61074>

**Original Research Article**

**Received 10 July 2020**  
**Accepted 17 September 2020**  
**Published 12 November 2020**

## **ABSTRACT**

Financial instruments are one of the tools for increasing financing to fund construction projects. Stakeholders in the Nigerian construction industry face challenges such as profitability, delays, funding problems and contractor's insolvency. A thorough knowledge of the financial instruments is required while framing the project cash flows, and access to finance from any financial institutions requires the terms and conditions of a particular financial instrument. This study seeks to identify the financial instruments used in financing construction project in Nigeria with the view to creating awareness and as well provide in-depth understanding of the financial instruments that will aid ease the funding problem of construction projects. A qualitative research approach was adopted. A purposive sampling method was used to identify 10 commercial banks in Nigeria. Ten interviews were conducted to identify and gain understanding of the current financial instruments used in financing construction project in Nigeria. The content analysis of the interview transcripts revealed that "advance payment guarantee", "bid bond", "performance bond", "retention bond", "bank guarantee" and "syndication loan" were the current financial instruments used in financing construction project in Nigeria. The findings provide in-depth understanding of the identified financial instruments for financing construction project through a literature review. These financial instruments are essential for fund security in the construction industry.

**Keywords:** *Construction project; financial instrument; financing; Nigeria.*

*\*Corresponding author: Email: icosuizugbo@yahoo.com;*

## **1. INTRODUCTION**

Construction projects are generally complex human ventures that need adequate planning and controlling for the successful completion of projects. These projects require substantial initial financing and spending at the commencement of the construction. Various players such as, building owners, developers, contractors, subcontractors and government may require finance in a construction project. Finance for construction project can be simply defined as the capital needed for project implementation, execution and mostly the way of obtaining this capital is generally by borrowing from banks or other financial institutions. This fund borrowing is achieved through the means of some financial instruments with an agreement to pay back together with an interest for the service rendered. The principal reasons for seeking finance for financing a construction project could be competitive cost of external finance, insufficient internal finance or committed internal finance.

Financial instruments are the tools for increasing financing to fund construction projects. According to [1], financial instrument is an agreement that produces a financial asset for a firm and an equity instrument or a financial liability for another firm. Financial instruments have also been referred to as documents which represent a legal agreement that involved any kind of monetary value [2]. According to [2], a thorough knowledge of the financial instruments is required while packaging the project cash flows. The financial instruments also define the amount and the priority of claims on the future cash flows and possession of the projects [2]. It creates good coordination among the stakeholders involved in the system from the onset of the project. Once harmonization within the parties is achieved, it will lead to understanding of the market, motivations of different key personnel in the field and the arrangement of the interests and incentives needs will be ensured. Secondly, the beneficiaries of financial instruments need to be effectively communicated the policy that supports the use of the financial instrument.

The need for financial instruments arises as a result of the need for development which includes housing projects and other investment types. Construction projects are capital intensive that often-required external funding from the third party and the access to this finance can only be achieved through the use of financial instruments. According to [3], the term financial

instrument has become an “umbrella term” for a range of different financial programmes primarily aimed to aid ease a disparate range of funding difficulties. Effective application of financial instruments is not only about expending funds. According to [4], the main issue in the approval of financial instruments is the availability of a pipeline of ‘investor-ready’ projects.

Most stakeholders in the construction industry are risk takers, and failure to identify and effectively manage the risk in construction project can cause financial catastrophe for the project participants. In the Nigerian construction industry, project teams and stakeholders often faced challenges, like delays in project delivery as a result of funding problems, profitability, quality control, contractor’s insolvency and non-availability of finance [5,6,7,8]. Resource allocation is also another problem faced by the industry. This could be as a result of wrong channel in securing funds or insufficient knowledge on financial instruments used in financing construction projects in Nigeria. Therefore, this study aims to identify the financial instruments used in financing construction project in Nigeria with the view to creating awareness and as well provide in-depth understanding of the financial instruments that will aid ease the funding problem of construction projects.

## **2. LITERATURE REVIEW**

### **2.1 Overview of Nigerian Financial System**

Financial system plays a catalytic role in the process of economic development [9] and it is utmost important in development of assets. The Nigerian financial system refers to a set of rules and regulations and the aggregation of financial arrangements, institutions, agents, that interact with each other and the rest of the world to foster economic growth and development of a nation [10]. The financial system of any nation is a function of the size of its economy [9]. The financial system consists of various financial institutions, operators and instruments that give the system its character and uniqueness. The financial sector is the hub of every productive activity in any economy and it comprises of an impressive network of banks and other financial institutions and a wide range of financial instruments [11]. There are microfinance banks, microfinance institutions and primary mortgage institutions, which are very small. The other

major holders of financial assets are Pension Fund Administrators. The Nigerian financial system includes financial markets (money and capital markets), financial institutions including the regulatory and supervisory authorities, development finance institutions (Urban Development Bank, Nigerian Agricultural and Rural Cooperatives bank) and other finance institutions (insurance companies, pension funds, finance companies, Bureau de change, and Primary Mortgage Institutions), among others. These institutions can be broadly categorized into money and capital markets while money market is a market in which short term financial instrument are traded, the capital market on the other hand deals with long term transactions [9]. According to [9], the Nigerian financial system offers financial instruments (e.g. treasury bills, treasury certificates, central bank certificates) and also consists of interrelationships among the persons and the bodies that make up the economy.

Through the process of growth, financial system offers a wide range of portfolio options for savers and issuable instruments for investors, a function often referred to as financial intermediation [9]. The financial system is a prime mover of economic development and it achieves this through the intermediation process, which entails providing a medium of exchange necessary for specialization and the mobilization of savings from surplus units to deficit units [10]. According to [9], the financial system is formed to move funds from surplus economic units to deficit economic units so as to produce goods and services and to make investment in new equipment and facilities in order to facilitate the growth of the economy and improve the standard of living of its citizens. Commercial banks are the most relevant financial institutions in Nigeria to encourage and mobilize savings and also channel savings into productive investment units. According to [12], the financial system is dominated by retail deposit banks, which account for over 90 percent of the assets of financial institutions.

According to [9], growing economy places more responsibilities on the financial sector to mobilize the needed capital to facilitate production, generate employment and income and that any economy that does not experience growth on sustained basis is likely to have a very passive financial sector as there are no incentives for investment. The structure of the Nigerian financial system has been through remarkable

changes, ranging from their ownership structure, the length and breadth of financial instruments used to the number of institutions established, regulatory and supervisory frameworks as well as the overall macroeconomic environment within which they operate [13]. The minimum capital requirement for banks has recently been raised substantially, as a result of which there has been a restructuring of the banking industry [12]. The Nigerian financial system has undergone several evolutionary stages ever since the independence of the country; Foundation phase, Expansion phase, Consolidation and Reform phase and the phases marked different eras in the evolution of the financial system [11]. The Nigerian financial system is not well developed given the state of the economy generally. According to [11], "Nigerian financial system is vulnerable to a number of risks, and there are serious concerns about the soundness and stability of the banking system; the Nigerian anti-money-laundering (AML) legal framework and enforcement is also considered inadequate, making the system vulnerable to financial abuse, and inefficiencies, such as delays and backlogs, in administration of justice by courts are also major impediments to the smooth functioning of the financial system".

It is worth noting that the financial system also provides structures for the management of liquidity for financial assets and instruments. To assist liquidity management and expand the financial system, the Central Bank of Nigeria (CBN) introduced two new financial instruments known as Funding for Liquidity Facility (FLLF) and Intra-day Facility (IDF), at its window, for access by non-interest financial institutions (NIFIs) under its regulation [14].

## **2.2 Financial Instruments Used for Financing Construction Project**

Financial instruments are the tools for increasing financing to fund construction projects. Financial instrument has been defined as an agreement that produces a financial asset for a firm and an equity instrument or a financial liability for another firm [1]. According to [2], financial instruments are documents which represent a legal agreement that involved any kind of monetary value. The term financial instrument has become an "umbrella term" for a range of different financial programmes primarily aimed to aid ease a disparate range of funding difficulties [3].

In every economy, the centre of productive activity is the financial sector and it encompasses remarkable network of financial institutions and extensive range of financial instruments [11]. According to [9], an economy that is growing, places additional responsibilities on the financial sector to mobilize the needed funds to ease production, generate income and employment. Basically, financing private or public projects or to have access to finance from any financial institutions requires the terms and conditions of a particular financial instrument.

According to [2], a thorough knowledge of the financial instruments is required while packaging the project cash flows. Banks and other financial institutions give support to most construction contractors to satisfy typical cash flow management [15]. According to [16], keeping payments flowing in a construction project is essential, and the performance of payment of such obligations among the parties that are involved, needs to be secured and the risks of non-payment reduced. Such securities usually attract fees and charges which is likely to add to the overall cost of the project [17]. Banks offers different types of financial instruments in compliance with the legal requirements for financial support to the construction contractors.

In developing country such as Nigeria, there are limited number of investors, since investment in the construction industry is a cost in short term but return benefits are only over a long period of usage, and a limited number of 'investible' opportunities. But experience with financial instrument have shown that it applies more often in equity investment and many policy makers have stressed the importance of providing mentoring, training and business advice as a precursor to the provision of finance through financial instrument [4]. According to [4], financial instruments are being designed differently regarding the locality, type of project and current position of market in that area. In other words, there is no particular financial instrument designed to serve for every project across different counties. Many countries have extensive internal experience in operating financial instrument.

Financial instrument creates sound coordination among the stakeholders in construction projects [4]. There is always a close coordination of various players involved in the system from the

onset. With that in place a clear understanding of the market is achieved, motivations of different key personnel in the field and the need to ensure that interests and incentives are arranged. Reference [4] further stated that the strategy underpinning the use of the financial instrument (and associated support) needs to be communicated effectively to potential beneficiaries.

The flexibility of the financial instrument to adapt to changing market conditions is also very important. The use of holding funds is widely accepted to be useful since it facilitates swapping deals between different instruments according to needs [4]. The arrangement and process of financial instruments is administratively very complex, and requires detailed knowledge of structural funds regulations, state aid compliance and investment principles [13]. Financial instruments like bond when open to international participation can attract foreign savings; bonds are important for private sector housing development; estate developers can issue well-structured bonds for the construction of houses with funds from the sale of the houses directed at meeting debt obligations; also companies in the same manner can issue debentures to finance factories and other fixed assets which are key in the production process and ultimately aids economic development [13]. According to [9], a growing economy places additional responsibilities on the financial sector to mobilize the needed principal to ease production, generate employment and income.

Studies have reported that, financial instruments such as advance payment guarantee, retention bond, bank guarantee, payment bond, bid bond, performance bond, syndication loan, supply bond, completion bond, maintenance bond, lien bond, labour and materials bond as financial instruments for financing construction project [18, 19,20,21,22,23,24,25,26,27,28,29,30,31].

Table 1 shows the financial instruments for financing construction project from reviewed literature in this paper.

The review of literature as shown in Table 1 demonstrates that, out of 11 identified financial instruments used in the financing of construction project, the most used financial instruments are advance payment guarantee and bid bond, followed by performance bond and retention bond.

**Table 1. Financial instruments for financing construction projects**

Author(s)	Financial Instruments										
	Advance Payment Guarantee	Bank Guarantee	Bid Bond	Performance Bond	Payment Bond	Retention Bond	Maintenance Bond	Supply Bond (Labour and material bond)	Completion Bond	Syndication Loan	Lien Bond
[22]						√					
[29]										√	
[21]	√		√	√		√					
[12]		√									
[31]		√									
[15]	√		√	√		√					
[19]			√	√				√			
[20]	√										√
[23]	√										
[24]	√										
[25]						√					
[26]		√	√								
[27]			√	√	√		√	√	√		
[28]	√		√	√		√					
Total	6	3	6	5	1	5	1	2	1	1	1

**3. METHODOLOGY**

This study seeks to identify the financial instruments used in financing construction project in Nigeria with the view to creating awareness and as well provide in-depth understanding of the financial instruments that will aid ease the funding problem of construction projects. To achieve the research aim, a qualitative method was adopted. To gain knowledge of the subject matter, a comprehensive literature review was conducted. Interview questions were designed based on the literature review conducted. This was followed by a one-on-one interview so as to obtain the required data for the study. The data provided accurate words of the participants regarding financial instruments for financing construction project.

The participants selected for the study were officials in financial institutions (Commercial Banks) domicile in Nigeria. The purpose for the interview was explained to the participants, and was informed that their responses would be confidential. Survey participants were notified of the interview date by the research team before the interview. A purposive sampling method was used to identify 10 top best licensed commercial banks out of 21 licensed commercial banks in Nigeria. According to [32], the top best licensed commercial banks in Nigeria were Zenith bank,

First Bank of Nigeria, United Bank for Africa, Access Bank, Guarantee Trust Bank, Polaris Bank, Ecobank Nigeria, Union Bank of Nigeria, Fidelity Bank and Keystone Bank Limited. The basic criteria to include respondent for the research was that the respondents must be experienced active official in any functional commercial banks in Nigeria, licensed by the Central Bank of Nigeria (i.e. the national banking regulator). The data was collected from a semi-structured interview guide between July and August 2019. A set of 5 interview questions were designed to achieve the aim of the study. The questions were to reflect the views and identify financial instruments used for financing construction project in Nigeria. To start with, participants were asked to talk about their work, position and years of experience in financial sector. This early questions informed the background of the participants. The duration of interview for each respondent varied in length between 20 and 30 minutes. Each interview was recorded with permission, transcribed, and analysed. A total of 10 (B1-B10) interviews were conducted for this study.

**4. RESULTS AND DISCUSSION OF FINDINGS**

This section presents the analysis of collected data from the survey respondents and findings.

#### 4.1 Characteristics of Interviewees

The interviews included ten bank officials from ten different commercial banks in Nigeria. Results of the analysis revealed that position held by most of the respondents were branch manager of five commercial banks, followed by loan officer – four commercial banks as shown in Table 2. Secondly, Table 2 indicates that Ogun state were the highest state where the research was conducted (4 numbers); this was followed by Lagos state (3 numbers). Most of the respondents had experience between 6years and 11years in financial sector; that is a total 8 out of the 10 respondents.

#### 4.2 Discussion of Findings

The financial instruments for financing construction project that emerged from the interview transcripts were classified into six financial instruments. The identified financial instruments for financing construction project in Nigeria were advance payment guarantee, bid bond, performance bond, retention bond, bank guarantee and syndication loan.

##### 4.2.1 Advance payment guarantee

Advance payment guarantee is a written statement handed over by the main contractor of a building project that he will refund the advanced money paid by the client which is in connection with the contract. According to respondent [B1], this is requested by a contract employer from the commercial bank through the contractor. That the contractor will use the mobilization funds for the purpose contained in

the contract award letter or agreement [B1]. Failure to deliver or perform will lead to risk crystallization on the part of the bank, that is, they will be liable to pay the amount so guaranteed [B7]. Advance payment guarantee is also called advance payment bond. An APG is naturally used to guarantee the performance of a commercial contract [33]. According to [34], APG is a written statement handed over by the main contractor that he will refund the advanced money paid by the client which is in connection with the contract. An APG may be requested in a situation where the client accepts to pay a developer or contractor upfront before the commencement of work. For instance, where a developer has to experience huge expenses before construction commence on site by acquiring materials, equipment and plant. APG protects the client's investment by safeguarding the payment in case the developer default and also bind the developer to make use of the advance payment for the purpose stated in the contract. The amount is usually between 10-30% of the total contract sum and gradually subtracted from the interim payment made to the developer before the project is completed [34]. If developer fails to perform with the advance payment, the surety company will pay for the loss, but in case where the developer fails to perform due to terrorism, war or natural disaster, the insurance company will not pay for the loss. APG guarantees that the principal accomplishes contract within the contract duration and its main purpose include the following; to resolve the financial issues relating to delay of work and payment, to guarantee the quality of work and to hasten the progress of work [34].

**Table 2. Interviewees' profile**

S/No	Respondent	State/City	Commercial Bank	Position	Years of Experience
1	B1	Abuja	Zenith Bank Plc	Branch Manager	11
2	B2	Ogun	First Bank of Nigeria Limited	Loan Officer	4
3	B3	Lagos	United Bank for Africa Plc	Branch Manager	7
4	B4	Ogun	Access Bank Plc	Loan Officer	7
5	B5	Lagos	Guaranty Trust Bank Plc	Branch Manager	8
6	B6	Lagos	Polaris Bank Nigeria	Relationship Manager	7
7	B7	Oyo	Ecobank Nigeria Plc	Loan Officer	5
8	B8	Abuja	Union Bank of Nigeria Plc	Branch Manager	9
9	B9	Ogun	Fidelity Bank Plc	Loan Officer	6
10	B10	Ogun	Keystone Bank Limited	Branch Manager	8

#### **4.2.2 Bid bond**

Bid bond is also referred to as construction bonds or contract bonds which signify a kind of security bond that offer a financial assurance that the bills on a construction project will be paid. According to respondent [B9], bid bond is also referred to as Contract Finance Facility. Here the contractor gets award letter from a contract employer (government or private company), presents it to his bank; the bank appraises his request based on his past records with them [B9]. According to respondent [B3], at least he must have done similar contracts in the past. He should have evidence of payments on previous jobs done [B3; B4; B8]. He must have team of professionals [B2]. He must have collateral worth 150% of the total loan amount [B6]. He must demonstrate and seen to have capacity and ability [B6]. Bid bond also called construction bonds or contract bonds, signify a kind of security bond that offer a financial assurance that the bills on a construction project will be paid [35]. These bonds usually comprise of a three actor, or three-way, namely; agreement between a surety, a principal, and an entity that will benefit from the issuance of the bond [19]. Construction bonding is a risk management instrument which constitutes a legal guarantee that a construction project will be completed as expected [22]. According to [36], for a construction bond to be enforceable and effective, it must be signed by all the project parties, including the surety, and then handed over to the project owner (obligee); and if the project owner (obligee) does not obtain the signed bond for any cause, the project owner (obligee) has no right to claim on the bond.

Bid bonds, also known as tender bonds, are a means of protection against the non-performance of contractor. In construction project, experience has shown that invitation for an offer requires that the bid be accompanied by a bid bond, usually 10% of the amount of the bid. This provides the client with the assurance that the tenderer has the financial competences of accepting the contract for the price quoted in their bid. According to [19], a bid bond is an arrangement in form of security to guarantee that the contractor selected by a tendering expert witness, will enter into the construction contract with the owner. It is an assurance by a bank or surety, for the project owner's benefit, that if the client accepts a bid by the contractor, and the contractor fails to perform as stated in the contract documents, the surety will pay the price as specified in the bond. If good practice is

observed, it could be argued that bonds and guarantees may not be necessary to obtain in the selection and appointment of contractors and sub-contractors, and the requirement to provide such protection in most cases add to the cost of a project [18]. Experience has shown that, building contractors prefer bid bonds because they are not expensive choice during the bidding process.

#### **4.2.3 Performance bond**

A performance bond also known as a performance guarantee, is a security bond issued by a bank or other financial institutions to assure acceptable completion of a project by a contractor. The contract employer collects a performance guarantee from his bank in favour of a contract employer, who in turn pays out some money to the contractor through his bank for the said contract execution [B10]. According to [19], a performance bond is a security bond issued by a bank or other financial institutions to assure acceptable completion of a project by a contractor. A performance bond is a three-party agreement between a surety, a contractor and the project owner [19]. Performance bonds also known as performance guarantee are obtained to guarantee the contractor's (principal) true performance of its contract with the client (obligee) or to guarantee the subcontractor's (principal) true performance of its subcontract with the contractor (obligee). It protects bank or the employer against likely losses due to contractor's non-performance or fails to deliver the project as specified in the contract [37]. This means, in the event of default by the principal, the project owner can raise a claim on the surety or bank. For instance, a contractor wins a tender to finish a 1km drainage for a client with a sum of NGN500,000.00. A performance bond was submitted by the contractor. Thereafter the contractor backs out simply because he feels that he cannot deliver on the agreed sum and will suffer a loss. In this case, the client will claim against the performance bond due to the non-performance of the contract.

#### **4.2.4 Retention bond**

As reported by respondents, retention bond is a kind of performance bond that safeguards an individual after a project or job is finished and this is achieved by assuring that the contractor would carry out all needed work to fix structural or other faults revealed immediately after completion of the contract, even if full payment has been made

to the contractor. Retention bond is a kind of performance bond that safeguards an individual after a project or job is finished, and this is achieved by assuring that the contractor would carry out all needed work to fix structural or other faults revealed immediately after completion of the contract, even if full payment has been made to the contractor [38]. Retention bond is the agreement which states that, in favour for the project owner accepting not to hold cash retention, the bank will pay the project owner equal amount that project owner would have had by way of retention in case the contractor fail to carry out the remedy defects. Cash retention according to [22] is the most predominant method of protection against shoddy works or the use of sub-standard materials on a construction project, and that, it has dual purpose including (i) it offers the project owner with a financial protection in case the contractor fail to remedy defects and (ii) it offers a device by which to inspire the contractor in completing both defects and outstanding works during the defects liability period. As stated by [38], retentions are the main argument for contractors by clients holding back payments, and that retention bond can eliminate this problem and increase cash flow.

#### **4.2.5 Bank guarantee**

Bank guarantee is a security that is provided by a bank or financial institution that the debts and liabilities of an individual will be met in the event that they fail to fulfill the contractual obligations. In other words, it is an instrument by which construction firms can use to get and secure financing in order to complete projects. Here bank guarantees that the contractor is capable and able to perform on the job awarded; anyone or bank can finance him on the strength of that guarantee [B1]. Bank guarantee according to [39] is a security that is provided by a bank or financial institution that the debts and liabilities of an individual will be met in the event that they fail to fulfill the contractual obligations. BG is a pledge on the part of a bank to pay a certain amount upon the non-payment or non-performance by its client. It is an instrument by which construction firms can use to get and secure financing in order to complete projects. The principles which specifically describe BG according to [30] are as follows: (i) the principle of independence, (ii) the principle of formality, (iii) the principle of immediacy and (iv) the principle by which the BG is issued regarding personal properties of guarantor's bank. These guarantees are not given for free by financial

institutions and before a BG will be issued, a thorough investigation by bank would be conducted. Bank uses this warranty to offer individuals loan, services or payment to start up a specific business, thereby empowering the business to grow by deferring the payment of goods and services they are utilizing now to a later date [40]. According to [30], understanding the utilization of BG offers a better negotiating positions in business decisions, increase the demand for collecting proposals by public and securing own rights. [30] also asserted that, the function of BG is not satisfying the debtor's responsibility from the bank's side, but covering various types of risks, when there is default in work operations.

#### **4.2.6 Syndication loan**

According to respondent [B5], syndication is where the said contract is so large that one bank cannot embark on it. It warrants a pool of banks that will bring fund (loan) towards the contract. (e.g. construction of Dam, Airport, ultramodern market etc). According to [40], syndication is a temporary association of actors or parties for funding and execution of specific project or business. A syndicated loan is loan that is delivered or provided by a certain group of moneylenders and is arranged, structured, and managed by one or some investment banks or commercial banks known as lead arrangers [41]. Syndicated loans are quite different from bilateral loans in the sense that, syndicated loan is issued to a single borrower jointly by a group of moneylenders, usually banks and other financial institutions [42]. According to [41], a syndication loan usually arises when multiple banks loan money to a borrower and controlled by a managing bank that is approached by the borrower to arrange credit. The negotiation of the conditions and arrangement of the syndicate is generally the responsibility of the managing bank. The issuer usually pays the arranger a fee for raising investor funding service, and this fee increases with the complexity and risk factors of the loan [41]. The syndication loan is required because; banks are restricted to take funded exposure on a single borrower up to 15% of their capital, and non-funded exposure up to 20% of their capital [40].

## **5. CONCLUSION**

Construction projects are generally complex human ventures that need adequate planning and controlling for successful completion of



projects. Financial instruments are the tools for increasing financing to fund construction projects. The purpose of the study was to identify the financial instruments for financing construction project in Nigeria with the view to creating awareness and as well provide in-depth understanding of the financial instruments that will aid ease the funding problem of construction projects. The study identified six financial instruments used in financing construction project in Nigeria to include “advance payment guarantee”, “bid bond”, “performance bond”, “retention bond”, “bank guarantee” and “syndication loan”. The findings of the study provide detailed understanding of the financial instruments for financing construction project. The application of these financial instruments could ease the funding problems associated with construction projects. An understanding of the financial instruments for financing construction project is important, because, it creates good coordination among the stakeholders involved in the system from the onset of the project. This information can be used as a guide for entering a particular fund security in a construction project. For instance, construction contractors should propose retention bond to their employers in order to make them reduce the retention amount.

For future research, having identified the financial instruments for financing construction projects, there is a need to investigate the strengths, limitations and performances of these financial instruments. This will help establish the best financial instrument or the best combination of financial instruments to finance construction projects that can help building owners, developers, government officials and financial institutions achieve their various project completion goals.

## DISCLAIMER

The products used for this research are commonly and predominantly use products in our area of research and country. There is absolutely no conflict of interest between the authors and producers of the products because we do not intend to use these products as an avenue for any litigation but for the advancement of knowledge. Also, the research was not funded by the producing company rather it was funded by personal efforts of the author.

## CONSENT

As per international standard or university standard, participant’s written consent has been collected and preserved by the author(s).

## COMPETING INTERESTS

Author has declared that no competing interests exist.

## REFERENCES

1. Gruiescu M, Ioană C, Popa AF. Models that Evaluate the Value of the Financial Instruments: Recognition and Measurement under International Rules. *Romanian Economic and Business Review*. 2010;5(1):106–113.
2. Kenton W. *Financial Instrument*; 2018. Available:<https://www.investopedia.com/terms/f/financialinstrument.asp> [Accessed 13 March 2019]
3. Brown R, Lee N. *The Theory and Practice of Financial Instruments for Small and Medium-sized Enterprises*. EC-OECD Seminar Series on Designing better economic development policies for regions and cities. A background document to the OECD-European Commission Seminar on ‘When to use financial instruments’ held on 28 June 2017 at the OECD Headquarters in Paris, France. 2018;1–42.
4. Fiona W, Rona M. *Financial instruments in 2014-20: Learning from 2007-13 and Adapting to the New Environment*. European Policies Research Centre, University of Strathclyde, ‘Challenges for the New Cohesion Policy 2014-20: An Academic and Policy Debate’, 2nd joint EU Cohesion Policy conference, Riga. 2014; 1–21.
5. Osuizugbo IC. Improving the Performance of Building Construction Firms through Addressing the Gap of Building Production Management: A New Production Model Approach. *Journal of Engineering, Project and Production Management*. 2020;10(1): 50-63.
6. Owolabi JD, Amusan LM, Oloke CO, Olusanya O, Tunji-Olayeni P, Owolabi D, Peter J, Omuh I. Causes and Effect of Delay on Project Construction Delivery Time. *International Journal of Education and Research*. 2014;2(4):197-208.

7. Obodoh DA, Obodoh C. Causes and Effects of Construction Project Delays in Nigerian Construction Industry. *International Journal of Innovative Science, Engineering & Technology*, 2016;3(5):65-84.
8. Anyanwu CI, Fidelis IE, Okorochoa AK. Causes and Effects of Cost Overruns in Public Building Construction Projects Delivery in Imo State, Nigeria. *Journal of Business and Management (IOSR-JBM)*, 2017;9(7):13-20.
9. Onwe UB. The Nigerian Financial Market and the Challenges of Information Technology-Based Operational Services. *Kuwait Chapter of Arabian Journal of Business and Management Review*, 2013; 2(6):58–65.
10. Macaus. The Nigerian Financial System (Composition, Structure And Reforms); 2015.  
Available:<https://jozeeproper.wordpress.com/2015/02/23/the-nigerian-financial-system-composition-structure-and-reforms/> [Accessed March 13, 2019].
11. Ogujiuba K, Obiechina ME. Financial Sector Reforms in Nigeria: Issues and Challenges. *International Journal of Business and Management*. 2011;6(6): 222–233.
12. Boléat M, Walley S. Nigeria Financial System Strategy 2020 - Housing Finance; 2008.  
Available:[https://www.boleat.com/materials/nigerian\\_financial\\_system\\_strategy\\_2020.pdf](https://www.boleat.com/materials/nigerian_financial_system_strategy_2020.pdf) [Accessed 13 March 2019].
13. Oteh A. Capital Market as A Long-Term Option for Financing Infrastructure Development. Director General, Securities and Exchange Commission, A Paper Delivered at the “Central Bank of Nigeria Infrastructure Finance Conference” Held at the Sheraton Hotel and Towers, Abuja, December 6 & 7 2010. 2010;1-14.
14. Obinna C. Two New Non-interest Banking Instruments. *This day Newspaper*, August 25, 2017 1:54 am; 2018. Viewed on Wednesday, July 25, 2018  
Available:<https://www.thisdaylive.com/index.php/2017/08/25/cbn-introduces-two-new-non-interest-banking-instruments/>
15. Booth L. *Securing the Deal*; 2014.  
Available:[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEwib5K-2tevhAhXHVN8KHczWA5IQFjAAegQIBBAC&url=https%3A%2F%2Fwww.jltspecialty.com%2F~%2Fmedia%2Ffiles%2Fsites%2Fspecialty%2Finsights-risk-specialist%2Frisk\\_specialist\\_issue17\\_securingthedeal.pdf%3Fla%3Den-gb&usg=AOvVaw1NwcpZzMAK7gb2JaV32Wne](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEwib5K-2tevhAhXHVN8KHczWA5IQFjAAegQIBBAC&url=https%3A%2F%2Fwww.jltspecialty.com%2F~%2Fmedia%2Ffiles%2Fsites%2Fspecialty%2Finsights-risk-specialist%2Frisk_specialist_issue17_securingthedeal.pdf%3Fla%3Den-gb&usg=AOvVaw1NwcpZzMAK7gb2JaV32Wne)  
[Accessed 13 March 2019]
16. RICS. *Construction Security and Performance Documents: RICS Guidance Note*. 1st edition (GN 101/2013), Published by the Royal Institution of Chartered Surveyors (RICS), Surveyor Court, Westwood Business Park, Coventry CV4 8JE, UK; 2013.  
Available:[https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/construction/black-book/construction-security-and-performance-documents-1st\\_edition-rics.pdf](https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/construction/black-book/construction-security-and-performance-documents-1st_edition-rics.pdf)  
[Accessed 13 March 2019]
17. Guy A, Papailiou K. *Performance Security: Bonds, Guarantees and Letters of Credit*. DLA Piper; 2013.  
Available:[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEwifMKIsuvhAhWohOAKHRxiAkoQFjAAegQIARAC&url=https%3A%2F%2Fwww.dlapiper.com%2F~%2Fmedia%2Ffiles%2Finsights%2Fpublications%2F2013%2F07%2Faustralia-performance-security-bonds-guarantees-\\_\\_%2Ffiles%2F4-june%2Ffileattachment%2F4-june.pdf&usg=AOvVaw2zCGm0bmNTyZbo1T\\_UKJQx](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEwifMKIsuvhAhWohOAKHRxiAkoQFjAAegQIARAC&url=https%3A%2F%2Fwww.dlapiper.com%2F~%2Fmedia%2Ffiles%2Finsights%2Fpublications%2F2013%2F07%2Faustralia-performance-security-bonds-guarantees-__%2Ffiles%2F4-june%2Ffileattachment%2F4-june.pdf&usg=AOvVaw2zCGm0bmNTyZbo1T_UKJQx)  
[Accessed 13 March 2019]
18. Oke A, Ogunsemi D, Ogunlana S, Aje O. An Overview of Usage and Management of Construction Bonds in Nigeria. The proceedings of environmental design and management international conference, 9-12 March, 2015, Faculty of Environmental Designs and management, Obafemi Awolowo University, Ile-Ife 22005, Osun State, Nigeria. 2015;183 – 192.
19. Jenkins R, Wallace A. *Construction Bonds: What Every Contractor and Owner Should Know*; 2019.  
Available:<http://www.jml.ca/wpcontent/uploads/publications/ConstructionBondsWhatEveryContractor.pdf>  
[Accessed 13 March 2019]
20. Olojede S. *Understanding Advance Payment Guarantee (APG) As A Contractor*; 2017.

- Available:<https://www.lawstrive.com/spotlight/understanding-advanced-payment-guarantee>  
[Accessed 13 March 2019]
21. Oke AE. Effect of Bond Administration on Construction Project Delivery. Organization, Technology and Management in Construction. 2016;8: 1390–1396.  
DOI: 10.1515/otmcj-2016-0001.
  22. Oke A, Ogunmola P. Retention Bond and Performance of Construction Projects in Nigeria. Journal of Construction Project Management and Innovation. 2014;4(1): 782–790.
  23. Donkor DK, Hananu B, Aninyie P. Financing Small Scale Contractors through Mobilization Advance Payments for Improved Performance: The Case of the Tamale Metropolis. International Journal of Engineering Research and Applications. 2014;4(11):97-103.
  24. Rameezdeen R, Palliyaguru RS, Amaratunga D. Financing Contractors in Developing Countries: Impact of Mobilization Advance Payment. 2006;153-165.  
Available:[http://www.irbnet.de/daten/iconda/CIB\\_DC10179.pdf](http://www.irbnet.de/daten/iconda/CIB_DC10179.pdf)  
[Accessed 12 March 2019]
  25. Wedlake B. Retention: Striking out Cash Retentions. National Specialist Contractor Council Journal. 2007;20(6):1–20.
  26. Hosie J. Security for Payment: Bonds and Guarantees - Five Pitfalls and Protection Against them. Construction & Engineering London Legal Update. 2010; 60:21–26.
  27. Mehmet EB, Qingbin C, Makarand H, Issam M. Warranty Bonds from the Perspective of Surety Companies. Journal of Construction Engineering and Management. 2006;34:333-337.
  28. Ojo AE. Why do Clients Require Construction Bonds. Construction Connects, OJ Connects Resources. 2011; 1:1-4.
  29. Kleimeier S, Megginson WL. Are Project Finance Loans Different From Other Syndicated Credits? Journal of applied corporate finance. 2000;13(1):75-87.
  30. Knezević M, Lukić A. Bank Guarantees and their Representation in Bank Business Activities (Parallel Legal Presentation). Economic Insights – Trends and Challenges. 2012;64(1):42–50.
  31. Nedasová A. Bank Guarantees For Financial Loans Reformed. Economics Focus, BIATEC. 2004;22(4):12-15.
  32. Ikenwa C. Top 10 Best Banks in Nigeria (2020); 2019.  
Available:<https://nigerianinfopedia.com.ng/best-banks-in-nigeria/>  
[Accessed 13 September 2020]
  33. Practical Law UK Glossary Advance Payment Guarantee. Thomson Reuters; 2019.  
Available:[https://uk.practicallaw.thomsonreuters.com/3-505-2290?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&comp=pluk&bhcp=1](https://uk.practicallaw.thomsonreuters.com/3-505-2290?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1)  
[Accessed 13 March 2019].
  34. Oke AE, Ogunsemi DR, Aje IO, Morakinyo GA. Performance of Advance Payment Bond in Construction Projects. Proceedings of the 1st Annual Research Conference (AnReCon) of the Nigerian Institute of Quantity Surveyors, 3rd to 5th September, 2013, The Nigerian Institute of Quantity Surveyors. 2013;478–486.
  35. Crawford C. Types of Construction Bonds; 2019.
    - a. Available:<http://smallbusiness.chron.com/types-construction-bonds-40935.html>.  
[Accessed 13 March 2019].
  36. Boswall RG. Construction Bonds Guide. Clark Wilson LLP. 2010;1–17.  
Available:<https://www.cwilson.com/app/uploads/2010/09/construction-bonding-guide.pdf>  
[Accessed 23 April 2019].
  37. Berns Brett Ireland Ltd. Performance Bonds: A Contractor's Guide. 2017;1 – 5.  
Available:<https://www.bbiireland.ie/uploads/eBooks/BBi-IRELAND-PERFORMANCE-BONDS-GUIDE.pdf>  
[Accessed 13 March 2019]
  38. Oke AE. Benefits and Level of Using Retention Bond for Construction Projects in Nigeria. International Journal of Architecture, Engineering and Construction. 2013;2(2):98-105.
  39. Anastasia. Bank Guarantee; 2015.  
Available:<https://www.cleverism.com/lexicon/bank-guarantee/>  
[Accessed 13 March 2019]
  40. Prime Bank Limited. Project Finance & Loan Syndications: Theories, Procedures & Techniques; 2019.  
Available:<https://www.primebank.com.bd/downloads/Project%20Finance%20and%20>

- Loan%20Syndication%20Procedures.pdf  
[Accessed 13 March 2019].
41. Majaski C. Loan Syndication vs. a Consortium: What's the Difference? 2019. Available:<https://www.investopedia.com/ask/answers/112814/what-difference-between-loan-syndication-and-consortium.asp>
42. Altunbaş Y, Kara A, Marqués-Ibáñez D. Large Debt Financing Syndicated Loans Versus Corporate Bonds. Working Paper Series, No 1028 / March 2009; 2009. Available:<https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1028.pdf> [Accessed 13 March 2019].

---

© 2020 Osuizugbo; This is an Open Access article distributed under the terms of the Creative Commons Attribution License (<http://creativecommons.org/licenses/by/4.0>), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

*Peer-review history:*  
*The peer review history for this paper can be accessed here:*  
<http://www.sdiarticle4.com/review-history/61074>