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Factors Influencing the Effectiveness of Advance Payment Guarantees (APG) in Construction Projects in Southeastern Nigeria

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Abstract **Original Research Article**

The study examined the factors affecting the effectiveness of Advance Payment Guarantees (APGs) in construction projects within Southeastern Nigeria, a region characterized by rapid urbanization but persistent challenges in contractor reliability, weak institutional enforcement, and delayed project delivery. Despite APGs being essential for safeguarding advance payments, their performance remains fragile due to inconsistent contractor evaluations and limited technological integration. A mixed-method research design was employed, involving 500 respondents across Enugu, Anambra, Imo, Abia, and Ebonyi States. Quantitative data were analyzed using descriptive statistics, while qualitative insights provided deeper context. Figure 1 showed that contractor performance history (mean = 4.3) and financial capacity (mean = 4.1) were the strongest predictors of APG effectiveness. Conversely, weak regulatory oversight and delayed APG processing recorded the lowest scores. Findings indicate that APG effectiveness depends on a combination of reliable contractors, strong regulatory frameworks, and transparent verification systems. The study recommends establishing a centralized contractor evaluation database, strengthening regulatory alignment across states, and adopting digital verification tools such as blockchain to improve transparency and processing speed.

Keywords: APGs, Effectiveness, Contractors, Nigeria, Guarantees.

1.0 INTRODUCTION

Advance Payment Guarantees (APGs) serve as a critical financial safeguard designed to protect project owners while enabling contractors to access early mobilisation funds required for effective project execution. In many countries, APGs enhance project stability by reducing financial uncertainty, improving contractor liquidity, and strengthening employer confidence (Smith & White, 2021). However, the effectiveness of these guarantees depends on several interconnected factors, including the reliability of contractors, the operational efficiency of financial institutions, and the clarity of regulatory frameworks guiding their issuance. In developed economies, robust evaluation systems and digital verification tools have significantly improved APG administration, but such mechanisms are not fully adopted in Nigeria (Johnson, 2020).

In Southeastern Nigeria, the functionality of APGs is frequently undermined by systemic constraints. Weak contractor vetting procedures contribute to high risks of non-performance, while financial institutions often apply inconsistent standards in assessing APG applications. These inconsistencies affect the predictability and responsiveness of the APG system, creating uncertainty for project owners. Furthermore, bureaucratic approval processes and limited technological integration delay the issuance of guarantees, which disrupts project mobilisation timelines. As noted by Okeke, Adekunle, and Ojo (2021), these challenges collectively reduce the reliability of APGs as tools for risk mitigation within the regional construction sector.

Understanding the factors that influence APG effectiveness is therefore essential for strengthening project financing mechanisms and promoting timely project delivery in the region. This study investigates these critical factors with the aim of informing reforms that will enhance APG performance and support sustainable construction development in Southeastern Nigeria.

2.0 LITERATURE REVIEW

The policy and regulatory framework guiding Advance Payment Guarantees (APGs) in Southeast Nigeria functions within the broader Nigerian financial, legal, and construction regulatory environment. Although APGs are recognized under Nigerian Contract Law, Banking Regulations, and the Public Procurement Act (PPA) 2007 (amended 2019), their operationalization in the Southeast is shaped by federal statutes, state-level procurement rules, and the enforcement capacities of relevant institutions (Adeyemi & Okonkwo, 2022). These frameworks are intended to promote fiscal accountability, safeguard public funds, and reduce losses arising from contractor underperformance. However, the practical implementation of APG provisions varies across states, contributing to inconsistencies in processing timelines and collateral requirements.

Nigeria's banking system informally aligns APG administration with the International Chamber of Commerce's Uniform Rules for Demand Guarantees (URDG 758), which offer global guidelines for guarantee issuance and invocation (Uche & Ibrahim, 2021). Despite this alignment, regulatory oversight from the Central Bank of Nigeria (CBN) remains general in scope, focusing on institutional solvency rather than detailed governance of APG transactions (Lawal & Musa, 2023). This regulatory gap leaves banks considerable discretion in determining collateral thresholds, documentation, and risk pricing, often to the detriment of small and medium-sized contractors (Emeka & Chukwu, 2023).

The Public Procurement Act provides the statutory basis for APG usage in publicly funded projects, particularly through Section 35, which authorizes advance payments contingent upon appropriate guarantees. Nevertheless, disparities exist in how Southeast states interpret and enforce these provisions, often due to varying institutional capacities and administrative bottlenecks (Okorie & Ezenwa, 2022). Some states impose stringent collateral requirements, while others adopt more lenient approaches, resulting in uneven application of APG policies and delays in contractor mobilization.

Financial sector regulations further influence APG administration. The CBN's prudential guidelines emphasize credit risk management without specifically addressing APG structuring, thereby reinforcing fragmented practices among issuing institutions (Ibrahim & Thomas, 2021). Furthermore, weak enforcement mechanisms within state procurement boards, combined with limited digital infrastructure, constrain efforts to modernize APG tracking and verification systems (Okafor & Nnaji, 2024). This stands in contrast to global advancements where blockchain-based registries and automated verification tools are increasingly adopted to reduce fraud and enhance transparency.

Judicial enforcement constitutes another challenge. APG-related disputes in Nigeria are typically resolved through the courts or arbitration. However, the judicial system is burdened by slow case processing and limited availability of specialized commercial courts, particularly in the Southeast, resulting in prolonged enforcement timelines that compromise the purpose of APGs as time-

sensitive financial safeguards (Bamidele & Hassan, 2023).

Recent scholarship emphasizes the need for an integrated APG regulatory framework that harmonizes financial, contractual, and procurement policies (Ifeanyi & Bello, 2023). Proposed reforms include standardized APG issuance procedures, reduced collateral burdens for credible contractors, and the establishment of a digital APG registry jointly managed by financial institutions and state procurement agencies. Aligning Nigeria's APG policies with international best practices—as implemented in Singapore and the European Union—could enhance transparency, increase investor confidence, and attract international participation in Southeast Nigeria's infrastructure development (Olalekan & Mensah, 2024).

Overall, while Nigeria possesses the foundational legal instruments for APG governance, inconsistencies in enforcement, discretionary banking practices, and limited technological integration continue to undermine APG effectiveness in Southeast Nigeria. Strengthening institutional capacity, harmonizing regulations, and adopting digital innovations are essential steps towards improving APG resilience and enhancing the region's construction sector performance.

3.0 METHODOLOGY

This study adopted a mixed-method research design to examine the factors influencing the effectiveness of Advance Payment Guarantees (APGs) in construction projects in Southeastern Nigeria. The quantitative component involved structured questionnaires administered to a stratified random sample of 500 respondents drawn from four key stakeholder groups: contractors, financial institution representatives, project owners, and quantity surveyors across the five states of Abia, Anambra, Ebonyi, Enugu, and Imo. Stratification ensured adequate representation of each stakeholder category and state, enhancing the generalizability of findings.

The questionnaire captured data on perceived APG effectiveness, contractor credibility, regulatory consistency, collateral flexibility, institutional capacity of banks, and awareness/training. Descriptive statistics (frequencies, percentages, mean scores, and standard deviations) were used to summarize responses, while Pearson correlation and multiple regression analyses were employed to determine the strength and significance of relationships between APG effectiveness and its predictors.

The qualitative component comprised semi-structured interviews with purposively selected senior contractors, bank executives, project owners, and quantity surveyors. These interviews explored contextual issues such as regulatory ambiguity, institutional weaknesses, and stakeholder perceptions of APG reliability. Thematic analysis was used to identify recurring patterns, which were then triangulated with quantitative results. This convergent mixed-method approach provided both measurable and interpretive insights into the determinants of APG effectiveness in the region.

4.0 RESULTS

Table 1: Factors Influencing APG Effectiveness

Influencing Factor	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean Score
Regulatory consistency	148 (31.4%)	187 (39.6%)	64 (13.6%)	53 (11.2%)	20 (4.2%)	**3.83**
Collateral flexibility	122 (25.8%)	169 (35.8%)	81 (17.2%)	68 (14.4%)	32 (6.8%)	**3.60**

Influencing Factor	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean Score
Contractor credibility	163 (34.5%)	180 (38.1%)	72 (15.3%)	39 (8.3%)	18 (3.8%)	**3.91**
Institutional capacity	142 (30.1%)	179 (37.9%)	76 (16.1%)	55 (11.7%)	20 (4.2%)	**3.78**
Awareness and training	112 (23.7%)	185 (39.2%)	84 (17.8%)	65 (13.8%)	26 (5.5%)	**3.62**

Source: Field Survey, 2025

The results show that contractor credibility (Mean = 3.91) and regulatory consistency (Mean = 3.83) are the most influential factors, followed closely by institutional capacity of banks (Mean = 3.78)**.** Pearson correlation revealed strong positive relationships between APG effectiveness and contractor reliability ($r = 0.612$, $p < 0.01$), regulatory consistency, and institutional support. Regression analysis confirmed contractor reliability ($\beta = 0.301$, $p < 0.001$) as a significant predictor of APG effectiveness, while institutional support also exerted a positive moderating effect.

Qualitative interviews reinforced these findings, with respondents repeatedly citing integrity and performance history of contractors**,** consistency of regulatory enforcement**,** and capacity of financial institutions as decisive for APG performance.

Figure 1 (to be plotted as a bar chart) can illustrate the mean scores of the five key factors, visually highlighting contractor credibility and regulatory consistency as the highest-ranked determinants of APG effectiveness.

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: Mean Scores of Factors Influencing APG Effectiveness

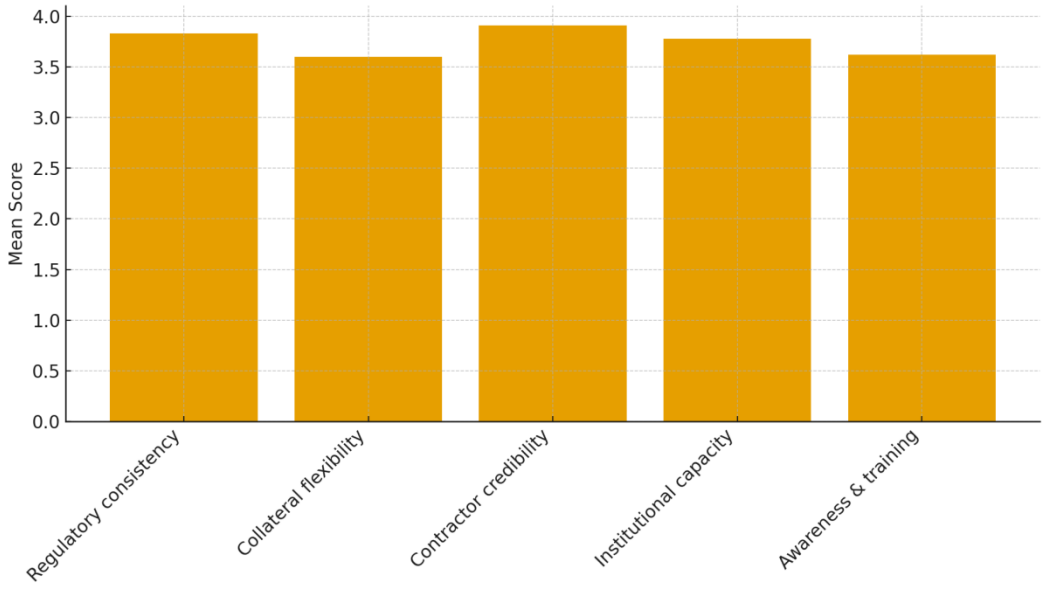

Figure 1 presents the mean scores of key factors influencing the effectiveness of Advance Payment Guarantees (APGs) in construction projects in Southeast Nigeria. The results show that contractor credibility has the highest mean score (3.91), indicating it is the most critical determinant of APG performance. This finding highlights that employers and financial institutions place strong emphasis on the track record, financial discipline, and technical capacity of contractors when evaluating APG reliability. Regulatory consistency (3.83) follows closely, demonstrating that uniform and predictable regulatory frameworks significantly enhance APG effectiveness. Inconsistencies across banks and state agencies often create confusion and delay, undermining APG outcomes.

Institutional capacity of banks (3.78) also ranks highly, implying that the efficiency of financial institutions particularly in verification, issuance speed, and risk management substantially affects APG administration. Meanwhile, awareness and training (3.62) and collateral flexibility (3.60) scored moderately, showing that limited knowledge of APG processes and rigid collateral requirements still pose major barriers. Overall, the figure suggests that strengthening contractor assessments, harmonizing regulations, and enhancing institutional efficiency are central to improving APG effectiveness in the region.

5.0 CONCLUSION AND RECOMMENDATIONS

This study concludes that the effectiveness of Advance Payment Guarantees (APGs) in construction projects across Southeast Nigeria is shaped by a combination of contractor-related, institutional, financial, and technological factors. Contractor reliability emerged as the most critical determinant of APG performance, as employers and financial institutions depend heavily on contractors' integrity, technical competence, and performance history to minimize risk. However, weak contractor evaluation systems and inconsistent regulatory enforcement continue to undermine confidence in APG mechanisms. Institutional inefficiencies particularly inconsistent regulations, bureaucratic delays, and poor inter-agency coordination further reduce the efficiency of APG frameworks. Although technological innovations such as blockchain and real-time monitoring have the potential to enhance APG transparency and speed, adoption remains low due to infrastructural and capacity limitations. Overall, the APG system in Southeast Nigeria remains functional but fragile, requiring structural reforms, improved governance, and strategic integration of digital solutions to enhance its effectiveness and resilience.

The study recommends establishing a centralized digital contractor evaluation system, harmonizing APG regulations across financial institutions, and adopting blockchain-based platforms for verification and processing. Strengthening project monitoring mechanisms and offering APG-focused capacity-building programs will also improve transparency, enhance contractor accountability, and boost APG effectiveness across the region.

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