



# **Loan Syndication as a Strategic Lever for Optimizing Project Financing in Nigeria**

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# Introduction

With a rapidly growing population and an urgent need to bridge its infrastructure deficit, the demand for large-scale project financing has never been more critical. From enhancing power generation to improving transportation networks and driving industrial growth, the scale of capital required is staggering, far beyond the capacity of one financial institution.

Traditional financing models, constrained by liquidity shortages and high credit risks, have repeatedly failed to meet these demands. As a

result, critical projects often face funding gaps, delays, or outright abandonment, stalling the nation's progress. The challenge transcends mere capital acquisition; it necessitates a meticulously structured financial framework that ensures resilience, sustainability, and enduring success.

Loan syndication is a game changer in this terrain, offering a strategic and collaborative approach to financing large-scale projects. By bringing multiple financial institutions together to

pool resources, share risks, and leverage collective expertise, syndicated loans provide a lifeline for transformative developments that would otherwise be impossible. More than just a funding mechanism, loan syndication is a catalyst for national progress, unlocking investment, stimulating economic activity, and accelerating Nigeria's journey toward sustainable development.

# Understanding Loan Syndication and Project Financing

Loan Syndication is a practice where a pool of lenders, including financial institutions and investors, collectively provide a borrower with funds under a unified agreement, ensuring shared risk and a common purpose. The entities cooperate for the duration of the project, as individual finance companies may lack the capacity to commit the substantial funds required.

Overall, loan syndication is a strategic tool for mobilizing capital, distributing risk, and ensuring the successful execution of complex high-value projects. By pooling resources from multiple financial institutions, syndicated loans provide project sponsors with diversified funding sources, optimized debt structuring, and enhanced investor confidence.

## Parties in a Syndicated Loan Arrangement

- **The Borrower:** The entity seeking financing.
- **The Lead Arranger:** The financial institution responsible for structuring and coordinating the syndicate loan.
- **Syndicate Lenders:** These are usually banks, financial institutions, development finance institutions, pension funds, and other investors that jointly provide portions of the total loan, reducing individual risk while ensuring adequate funding for the project.
- **Facility Agent:** Oversees the administration of the loan, including fund disbursement and repayment processing.
- **Security Trustee:** Holds and manages any security on behalf of the lenders.

## Types of Loan Syndication

### 1. Underwritten Deal

- In an underwritten deal, the lead arranger guarantees the entire loan amount, assuring the borrower of full funding. The arranger then syndicates portions of the loan to other lenders. If the syndication is

undersubscribed, the lead arranger absorbs the shortfall, assuming greater risk. This structure is often employed in markets where the lead arranger has strong confidence in the project's success and expects high interest from other lenders.

## 2. Best-Efforts Syndication

Under this structure of syndication, the lead arranger commits to using their best efforts to secure the desired loan amount but does not guarantee full subscription. The borrower may receive less funding than initially sought if the lender's interest is insufficient. This approach is common in markets with higher uncertainty or where the borrower's credit profile may not attract full commitment from lenders.

## 3. Club Deal

A club deal involves a small group of banks or financial institutions agreeing to collectively fund a loan, typically sharing equal portions. This arrangement is usually

for medium-sized loans and involves lenders with established relationships with the borrower. Club deals are characterized by simpler documentation and faster execution, given the limited number of participants.

## 4. Sub-Participation Syndication

In sub-participation, the lead bank retains the original loan agreement with the borrower and sells portions of the loan to other lenders. The borrower interacts solely with the lead bank, while sub-participants have a contractual relationship with the lead bank rather than the borrower. This structure allows for risk distribution among lenders without complicating the borrower's administrative processes.

# Stages of Loan Syndication

**Stage 1: Pre-Mandate Stage** – project sponsors seeking substantial funding engage a lead arranger, typically a commercial or investment bank to structure the loan and coordinate syndication. The lead arranger assesses project feasibility, borrower creditworthiness, and associated risks. A proposal outlining key terms, including loan amount, tenure, interest rates, and collateral, is then presented to the borrower. Approval at this stage moves the process forward.

**Stage 2: Mandate and Structuring Stage** – with the borrower's approval, the lead arranger is formally appointed through a mandate letter, authorizing them to structure and oversee the syndication process. This stage is pivotal as it involves extensive due diligence to evaluate the project's feasibility and ensure the loan is structured effectively for successful execution.

**Stage 3: Syndication and Documentation Stage** – once the loan structure is defined,

the lead arranger initiates the syndication process by inviting other banks and financial institutions to participate. This stage ensures that lenders with aligned risk appetites and financial strategies are onboarded. Each potential lender conducts an independent review before committing. Legal documentation, including the loan agreement, security terms, and inter-creditor arrangements, are then negotiated and executed, making the syndication legally binding.

**Stage 4: Loan Disbursement and Management** – with the syndication finalized, funds are disbursed in line with project milestones and financial needs. The lead arranger takes a supervisory role by implementing monitoring measures, including periodic financial reporting and audits, site visits and project progress assessments, and risk evaluations to identify emerging financial or operational challenges.

### Stage 5: Loan Repayment and Exit Strategy

– as the project generates revenue, the borrower commences repayments according to the agreed schedule, covering both principal and interest. In cases where the borrower encounters financial difficulties, restructuring options—such as tenure extensions or interest rate

adjustments—may be explored. Once the loan is fully repaid, the syndicate is dissolved, and any collateral provided is returned to the borrower, marking the successful conclusion of the financing arrangement.

## Loan Syndication vs. Other Project Financing Options

Project sponsors navigating complex financial landscapes must weigh the benefits and limitations of various financing options, including single lender financing, bond issuance, and equity financing. While each approach serves a purpose, loan syndication offers a more holistic and strategic advantage in the context of large-scale project financing.

**Single-lender financing** – while this is a simple and straightforward approach, it often imposes limitations on project sponsors. Large infrastructure or project initiatives require significant capital, which a single lender may be reluctant to provide due to risk concentration. This approach also leads to stricter lending terms, higher interest rates, and reduced financial flexibility. Loan syndication alleviates these constraints by distributing risk across multiple institutions, fostering greater lending confidence, and offering competitive borrowing costs.

**Bond issuance** – this is another capital raising tool that allows sponsors to access funds from institutional investors. However, this method introduces complexities, including exposure to market fluctuations, lengthy regulatory approval processes, and

higher transaction costs. Loan syndication, on the other hand, offers a more predictable and structured financing model, ensuring faster execution and tailored loan conditions that align with project specific needs.

**Equity financing** – this is another capital raising tool that proves valuable in certain contexts. It gives the investor/financier the opportunity to own equity in the company or project of the sponsor, securing a projected or more long term benefit for the investor/financier. However, for the project sponsors, it introduces new ownership in their business, often leading to diluted control and reduced future earnings potential for project sponsors. However, Loan syndication enables sponsors to retain full project control while benefiting from structured repayment plans and more favourable financing terms, striking the right balance between leverage and ownership.





# Loan Syndication as a Strategic Lever for Project Financing

Financing large-scale projects requires significant capital and careful risk management. Relying on a single lender often proves inefficient, limiting financial flexibility and increasing exposure. Loan syndication addresses these challenges. Beyond capital access, it strengthens financial structuring and investor confidence, making it a vital tool for executing complex projects.

## For Lenders/ Project Financiers

Loan syndication offers an effective way for financiers to participate in large-scale projects while managing risk and optimizing capital allocation. By sharing financial exposure among multiple lenders, investment banks and financial institutions can support major infrastructure and energy developments without overextending their balance sheets. Additionally, syndicated lending enhances portfolio diversification, facilitates entry into new markets, and strengthens long-term banking relationships with governments and private sector developers.

It is also worth noting that the enforcement of a syndicated loan agreement comes with ease to the lender/financier, as the security for the loan is already identified and held in

trust for the benefit of the financiers. The arrangement between financiers is also such that guarantees the interest of each financier, vis-a-vis their risk intake. Additionally, the Inter-creditor Agreement is not just a contractual formality but acts as a mechanism for risk allocation and control through priority and subordination and is instrumental in maintaining the delicate equilibrium among syndicate members.

## For Project Sponsors

For project sponsors, syndicated loans provide access to large-scale capital that may not be available from a single lender. This approach ensures competitive loan terms, structured repayments aligned with project cash flows, and increased credibility in the eyes of investors and stakeholders. Companies like Dangote Group have leveraged loan syndication to secure the necessary funding for capital-intensive projects on the financial backing of multiple institutions. By opting for loan syndication, project sponsors can mitigate financial constraints and enhance project bankability, ensuring successful execution and long-term sustainability.



# The Strategic Advantage of Loan Syndication in Project Financing

**Access to Large-Scale Capital:** Nigeria has a growing need for infrastructure, energy, and industrial projects, but many of these projects are high risk and require massive funding that no investor is willing to take. Loan syndication allows multiple banks to pool their resources, making it possible to finance projects like highways, power plants, and refineries that would otherwise struggle to secure funding.

Over the years, several landmark syndicated loan transactions have reinforced the role of this financing mechanism in driving large-scale development. Recent examples include the Bank of Industry's €1.43 billion syndicated loan in September 2024, which was oversubscribed by 42.5 per cent, and the Africa Finance Corporation's \$1.16 billion syndicated facility in March 2024 towards the development of critical infrastructure projects across Africa. These deals stand as testament to the ability of syndicated loans to bridge critical funding gaps in key sectors such as industrial growth, energy, and infrastructure development.

**Risk Mitigation Through Shared Exposure:** By distributing financial exposure among multiple lenders, loan syndication minimizes the risk associated with financing these projects. This makes large-scale project financing more attractive and feasible for lenders. The effectiveness of this approach is evident in Mozambique's Coral South FLNG Project, an \$8 billion offshore gas development that secured a syndicated loan from international banks, mitigating individual lender risk while ensuring financial stability. A similar structure was applied to Ghana's Sankofa Gas Project, a \$7.7 billion energy initiative, where syndicated financing helped reduce exposure for individual lenders while ensuring steady capital flow throughout the

project lifecycle.

**Enhancing Financial Structuring and Flexibility:** Loan syndication enables structured financing tailored to project revenue streams, ensuring a well-defined repayment plan that aligns with the project's cash flow generation

**Strengthening Creditworthiness and Investor Confidence:** A syndicated loan backed by reputable financial institutions boosts a project's credibility, making it more attractive to additional investors and stakeholders. A notable example is the US\$ 1 billion syndicated term loan secured by the Bank of Industry (BOI) in October 2024 to fund Micro, Small and Medium Enterprises. This transaction marked BOI's third major international debt syndication deal in three consecutive years, highlighting the Bank's strong credibility and impressive credit rating.

**Enabling Cross-Border and Multilateral Financing:** Loan syndication facilitates access to funding from multilateral lenders and international financial institutions, allowing projects to attract diverse pools of capital beyond local banking systems. This is especially useful for emerging markets where domestic financial institutions may lack the capacity to fund large-scale projects.

**Facilitating Large-Scale Infrastructure Development:** Loan syndication is a key enabler for executing large-scale infrastructure projects that require substantial financial backing. By pooling resources from multiple lenders, project developers can access the necessary capital to fund roads, bridges, rail networks, and power plants without excessive reliance on government funding.

# Risks and Challenges in Loan Syndication for Project Financing

Despite the transformative potential of loan syndication in financing large-scale infrastructure, energy, and industrial projects, its execution is fraught with complexities. By enabling a consortium of lenders to pool resources and distribute risks, syndication provides a mechanism for financing projects that exceed the capacity of a single financial institution. However, mismanagement in structuring, credit assessment, market positioning, or lender coordination can lead to financial distress and disputes. Examining failed syndications offers critical insights into how these challenges materialize and how they can be mitigated to ensure more effective financing outcomes.

## • Credit and Default Risk

In project finance, borrowers predominantly rely on projected future cash flows to service their debts. When these projections are overly optimistic or unexpected financial pressures arise, the likelihood of default increases, exposing lenders to significant financial risks.

For instance, the Seaport Residences project at 161 Maiden Lane, developed by Fortis Property Group in New York, USA encountered major difficulties in 2019 due to construction delays, cost overruns, and legal disputes. Structural defects, including a leaning tower, led to prolonged litigation between the developer and contractors, exacerbating financial strain. As a result, the project stalled indefinitely, deterring potential investors and pushing lenders into a distressed financial position.

This crisis could have been mitigated through a more rigorous risk assessment at the project's inception. A phased loan disbursement structure, linked to construction milestones and verified project progress, would have reduced exposure to cost overruns. Additionally, allocating contingency reserves to absorb

unexpected expenses and incorporating robust contractual provisions for resolving disputes swiftly would have prevented prolonged financial instability.

## • Market and Pipeline Risks

Loan syndications are highly sensitive to market fluctuations. Arranging banks anticipate that portions of the syndicated loan will be absorbed by other lenders. However, shifts in economic conditions, rising interest rates, or investor risk aversion can hinder the ability to attract sufficient participants, leaving lead banks overexposed.

The Camden Yard project, acquired by Westridge Real Estate for €145 million in Dublin, Ireland, in 2019, was envisioned as a major mixed-use development in Dublin. However, adverse market shifts in 2019, including rising interest rates and a tightening liquidity environment, derailed financing efforts. The project encountered severe funding shortages, leading to construction halts and substantial investor losses. Attempts to refinance or attract new lenders proved unsuccessful, resulting in receivership and an indefinite stall.

A phased financing approach, whereby capital is raised progressively in alignment with project milestones, would have mitigated the risk of a funding shortfall. Additionally, active market monitoring and adaptive financial structuring such as securing commitments from a broader range of investors or negotiating flexible credit terms—could have enhanced resilience against market downturns. Requiring pre-sales or rental agreements before full-scale development could have provided lenders with greater assurance of revenue generation, improving overall financial stability.





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- **Coordination and Governance Challenges**

Effective coordination among multiple lenders with varying priorities is essential in syndicated loans. Poor governance can lead to delayed decision-making and increased financial losses. In 2009, Taylor, Bean & Whitaker (TBW), once the largest privately held mortgage lender in the U.S., collapsed due to fraudulent activities and mismanagement. Based in Florida, TBW had established a subsidiary, Ocala Funding, which sold approximately \$1.75 billion in asset-backed commercial paper to major banks like Deutsche Bank and BNP Paribas. The misrepresentation of collateral and subsequent legal disputes highlighted severe coordination failures among involved financial institutions, emphasizing the need for robust governance structures

in syndicated lending.

- **Legal and Compliance Risks**

Syndicated loans must navigate complex legal and regulatory landscapes. Non-compliance or legal disputes can result in significant financial and reputational damage. In 2014, Millennium Laboratories, a healthcare diagnostics company based in California, secured a \$1.775 billion syndicated loan arranged by several banks. Subsequently, Millennium faced legal challenges, including allegations of fraudulent practices, leading to substantial financial penalties. Investors who purchased the syndicated loans experienced significant losses, highlighting the critical importance of comprehensive legal due diligence and ongoing compliance monitoring in syndicated lending.

- **Operational and Fraud Risks**

Operational failures or fraudulent activities within the borrowing entity can undermine the integrity of syndicated loans, leading to substantial losses for lenders. In 2020, Wirecard AG, a German payment processing company, collapsed after it was revealed that €1.9 billion in cash balances were missing from its accounts. Prior to its insolvency, Wirecard had secured a €1.75 billion syndicated loan from a consortium of 15 banks. The discovery of extensive financial fraud led to significant losses for these lenders and highlighted severe deficiencies in operational oversight and due diligence within the syndicated loan arrangement. This case underscores the critical importance of transparency, accurate financial reporting, and rigorous monitoring in syndicated lending to detect and prevent fraudulent activities.

# Recommendations for Investors and Project Financiers in Nigeria's Loan Syndication Market

To fully harness the potential of loan syndication for project financing in Nigeria, investors and financial institutions must adopt a strategic, localized approach tailored to the country's economic realities, regulatory environment, and risk landscape. Below are key, actionable recommendations designed to enhance deal structuring, optimize returns, and ensure long-term project success.

**Engage an experienced Lead Arranger with local expertise:** Selecting the right lead arranger is critical for a successful syndicated loan. In Nigeria's complex financial landscape, experienced banks or institutions with a strong local presence and global reach can ensure proper risk allocation, secure favourable terms, and facilitate negotiations. Lead arrangers with cross-border financing capabilities are especially valuable when co-financing with international lenders like Development Finance Institutions (DFIs) and export credit agencies.

**Conduct comprehensive due diligence beyond financials:** Syndicated lenders must assess more than financial viability. Political and regulatory risks, macroeconomic factors like inflation and currency volatility, and environmental and social impact considerations are crucial for project feasibility. Conducting independent feasibility studies, stress-testing financial models, and ensuring clear risk-sharing mechanisms help mitigate uncertainties before committing capital.

**Implement targeted risk mitigation strategies:** Risk management in Nigeria's lending environment requires tailored strategies. Diversifying loan portfolios across sectors like fintech, agribusiness, and healthcare reduces over-reliance on traditional industries. Credit enhancement tools such as partial risk guarantees, political risk insurance, and credit default swaps strengthen lender confidence and protect against borrower defaults and government-related risks.

## Conclusion

Loan syndication is vital for financing large-scale projects in Nigeria, enabling access to substantial capital while distributing risk. Project owners of large-scale projects should adopt this capital raising method to attract investors and manage the risks involved in the development of such projects.

# Endnote

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1. “Scope of Permissible Services “Central Bank of Nigeria Revised Guidelines for Finance Companies in Nigeria, April 2014.
2. Bank of Industry's €1.43 billion syndicated loan in September 2024 was oversubscribed by 42.5 percent. <https://www.boi.ng/boi-raises-e1-43-billion-in-global-loan-syndication-drive/#:~:text=The%20Bank%20of%20Industry%20has,recorded%20a%2042.5%20per%25%20oversubscription.>
3. Africa Finance Corporation's \$1.16 billion syndicated loan in March 2024 attracted new lenders from the Middle East, Europe, and Asia. <https://www.africafc.org/news-and-insights/news/afc-raises-us-1-16-billion-syndicated-loan-its-largest-ever-in-mission-to-close-africas-infrastructure-gap#:~:text=Dubai%2C%2026%20March%202024%3A%20Africa,Middle%20East%2C%20Europe%20and%20Asia.>
4. Chinese Banks join syndicate financing Mozambique's Coral South LNG project. [https://forumchinaplp.org.mo/en/economic\\_trade/view/4739](https://forumchinaplp.org.mo/en/economic_trade/view/4739)

# About Stren & Blan Partners

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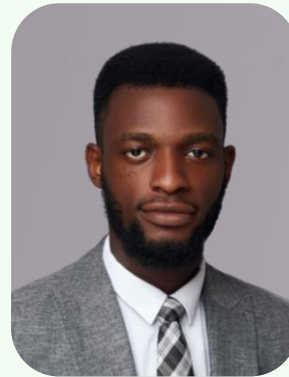
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