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Loan Cost and the Pricing of Syndicated Loans by Nigeria

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Abstract

Syndicated loans play a vital role in financing Nigerian companies, especially those operating in capital-intensive industries like oil and gas, infrastructure, and manufacturing. Despite their importance, these loans often carry substantial costs such as interest charges, various fees, and regulatory compliance expenses, which can make borrowing less affordable for local firms. This paper examines the different cost elements tied to syndicated loans in Nigeria, the pricing strategies adopted by lending institutions, and the impact of regulatory frameworks on how these loans are priced. Additionally, it presents an advocacy viewpoint that calls for more equitable pricing models, stronger negotiation tactics by borrowers, and supportive regulatory measures. Drawing on real-life case studies from Nigeria's syndicated loan market, the paper outlines effective practices and suggests policies to enhance pricing transparency and promote borrower-friendly terms.

Keywords:

Business Financing. Cost of Loans. Syndicated Loans. Nigeria. Local Firms.

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1.0 Introduction

Syndicated loans are structured financing arrangements where several lenders jointly provide funds for large-scale projects that may be too extensive or risky for a single financial institution (Bae & Goyal, 2009). In Nigeria, these loans are commonly utilized in industries that demand heavy capital outlays, including oil and gas, power, infrastructure, and telecommunications (CBN, 2023). Despite their widespread use, borrowers often face steep costs and limited transparency in pricing, which can impose substantial financial strain. One of the key challenges within Nigeria's syndicated loan market is the complexity of pricing, which is shaped by elements such as benchmark interest rates, the creditworthiness of borrowers, foreign exchange volatility, and prevailing regulatory standards (FMDQ, 2023). A notable gap in competitive pricing frameworks frequently leads to elevated borrowing expenses that can stall business growth and broader economic development (Adegbite, 2021).

This paper offers a detailed examination of the pricing structure associated with syndicated loans in Nigeria, the methodologies used to determine loan pricing, and how regulatory policies affect overall affordability. It also incorporates an advocacy angle, calling for Nigerian borrowers to seek reductions in fees, improve negotiation tactics, and support reforms that promote more equitable and transparent loan pricing practices.

2.0 Cost Structure of Syndicated Loans in Nigeria

Syndicated loans in Nigeria comprises of multiple cost components, each of which significantly influences the borrower's financial obligations. The cost structure, often referred to as the total cost associated with syndicated loans, covers both explicit fees and implicit financial burdens. This structure is often more complex than that of conventional bank loans, and it requires detailed analysis, precise structuring, and careful negotiation by the borrower. These costs can vary widely depending on the size of the loan, the industry of the borrower, the risk profile of the country, and the prevailing macroeconomic and regulatory environment.

I. Interest Rate Components

The pivotal aspect of syndicated loan cost is the interest rate, which is typically floating and recalculated periodically over the life of the loan. This rate is composed of a benchmark rate and a risk premium (also referred to as a spread). In Nigeria, the benchmark rate is often based on the Nigerian Interbank Offered Rate (NIBOR) for loans denominated in Naira, or on the London Interbank Offered Rate (LIBOR)/Secured Overnight Financing Rate (SOFR) for loans in foreign currencies. The benchmark reflects overall market liquidity and central bank policy rates (CBN, 2022). The risk premium is determined by borrower-specific factors such as creditworthiness, industry sector, loan tenor, and the political and economic environment. Nigerian borrowers, particularly those in volatile sectors such as oil and gas, are often charged higher premiums; sometimes in the range of 8% to 10%, to compensate for the increased risk they pose to lenders (Olaniyi, 2019). This credit spread directly affects the effective cost of capital and the feasibility of projects financed through syndicated debt.

II. Arrangement and Commitment Fees

The lead bank or arranger, which structures and markets the syndicated loan, typically charges an arrangement fee. This fee ranges from 2% to 5% of the total loan amount and covers the cost of due diligence, credit analysis, syndicate formation, and documentation. It is usually payable upfront. In addition to arrangement fees, borrowers are also subject to commitment fees. These are charged on the undrawn portion of the facility; typically, at a fixed annual rate, ensuring that lenders are compensated for setting aside capital that the borrower may or may not use. This is especially relevant in large, multi-phase projects where disbursements are spread over time. Commitment fees represent a form of opportunity cost recovery for the lenders (McGowan & Stowe, 2012).

III. Legal and Advisory Costs

Syndicated loans require extensive legal and financial documentation, including term sheets, inter-creditor agreements, facility agreements, and covenants. Borrowers must engage experienced legal and financial advisors to assist with the drafting, review, and negotiation of these documents. These services are not only critical for compliance but also help ensure that the terms of the loan are commercially viable and legally enforceable. The magnitude of legal and advisory costs depends on the size of the syndicate, the nature of the security or collateral provided, and whether the transaction is cross-border. For example, complex international syndicated loans involving foreign currency, multiple tranches, and security-sharing arrangements are likely to incur significantly higher advisory costs (Adegbite, 2021).

IV. Regulatory Compliance Costs

Borrowers operating within Nigeria must comply with a host of regulatory requirements imposed by the Central Bank of Nigeria (CBN) and other financial regulators. These include prudential guidelines on capital adequacy, single obligor limits, foreign exchange exposure rules, and risk-weighting of syndicated exposures. For foreign-currency-denominated syndicated loans, borrowers may need to obtain relevant approvals and comply with FX monitoring protocols, which often attract additional administrative costs. These regulatory compliance requirements are not just legal formalities; they translate into real costs through documentation, licensing, monitoring, and periodic reporting (CBN, 2023).

V. Agency and Administration Fees

One often overlooked but critical cost is the agency fee, paid to the administrative or facility agent, usually the lead bank or a third party which acts as an intermediary between the borrower and the syndicate. The agent is responsible for distributing payments, monitoring compliance with loan covenants, maintaining records, and managing communication among the parties. Agency fees are typically fixed and payable annually for the duration of the loan. These costs ensure that the operational framework of the syndicate remains effective and that borrower-lender relations are properly coordinated.

VI. Prepayment and Amendment Fees

Borrowers may also incur costs if they decide to prepay the loan before maturity. Prepayment fees or penalties are often written into the loan agreement to compensate lenders for the

interest income they forgo. Additionally, any request to amend the loan agreement; whether to modify interest rates, extend the tenor, or adjust covenants, may attract amendment fees, especially when such changes require majority or unanimous consent from the syndicate members.

VII. Hedging and Currency Risk Management Costs

In the case of loans denominated in foreign currencies, borrowers frequently hedge against currency risk using derivatives such as forwards, swaps, or options. These hedging arrangements come with their own costs, including premium payments, margin requirements, and brokerage fees. Though not a direct loan cost, these are important to consider in the overall cost structure, especially in Nigeria where exchange rate volatility is a significant concern.

3.0 Pricing Techniques for Syndicated Loans in Nigeria

The pricing of syndicated loans in Nigeria is governed by a complex set of interrelated factors that reflect not only the creditworthiness of the borrower but also the dynamic conditions of the domestic and global financial markets. Pricing mechanisms are strategically employed by lenders to balance the expected return on capital with the risk exposures arising from loan tenor, borrower profile, sectoral volatility, and broader macroeconomic indicators. These techniques, which are both analytical and market-driven, help syndicate members establish a fair and competitive lending rate while safeguarding against potential defaults or currency mismatches. The following outlines the major pricing frameworks used in Nigeria's syndicated loan market.

Benchmark-Based Pricing

One of the most commonly used pricing techniques in Nigeria is benchmark-based pricing. This method involves linking the loan's interest rate to a benchmark index such as the Nigerian Interbank Offered Rate (NIBOR) for loans denominated in naira, or to international benchmarks such as LIBOR or the Secured Overnight Financing Rate (SOFR) for foreign currency loans. A spread or margin is then added to the benchmark to reflect the perceived credit risk of the borrower. This approach ensures that the loan pricing remains sensitive to short-term liquidity conditions and shifts in monetary policy (FMDQ, 2023). The spread component is highly variable and may range between 2% and 10%, depending on the borrower's credit profile, the economic sector involved, and the geopolitical or regulatory environment at the time of pricing (IMF, 2021). For example, a company operating in Nigeria's oil and gas sector may incur a wider spread due to historical earnings volatility, while a borrower with stable cash flows may negotiate narrower margins.

Credit Rating-Based Pricing

Another vital technique used in loan syndication pricing is credit rating-based pricing. This approach incorporates the internal or external credit rating of the borrower as a critical determinant of the interest rate. Banks and institutional lenders conduct detailed assessments of a borrower's financial standing; evaluating aspects such as historical profitability, leverage ratios, interest coverage, operational cash flows, and repayment track records. These

evaluations are often complemented by ratings from agencies such as Augusto & Co. or GCR Ratings. Borrowers with superior credit ratings or proven debt service histories typically enjoy more favorable lending terms, as their risk of default is lower (Bae & Goyal, 2009). For instance, a corporate entity like the Dangote Group, known for its financial robustness and market leadership, may secure lower pricing relative to a mid-sized manufacturing firm with inconsistent revenue streams. This technique effectively ties the cost of borrowing to the probability of default, making it a critical risk-mitigation tool for lenders.

Risk-Adjusted Pricing

Risk-adjusted pricing represents a more nuanced and dynamic method, where lenders incorporate multiple risk elements; including macroeconomic instability, sectoral risk, currency volatility, and loan duration, into the pricing framework. In Nigeria, factors such as inflation trends, exchange rate movements, policy uncertainty, and geopolitical events play significant roles in the adjustment of loan pricing. For example, a syndicated loan extended to a company in the agricultural sector during a period of climate-induced supply disruptions may carry a higher premium than one issued to a telecom operator in a relatively stable market (McGowan & Stowe, 2012). Furthermore, loans with longer tenors generally attract higher interest rates because they expose lenders to extended periods of uncertainty, particularly in markets characterized by weak legal enforcement and policy inconsistency. This technique enables lenders to calibrate the cost of capital with the inherent volatility of the borrower's operating environment, thereby optimizing risk-return dynamics.

Syndicate Composition-Based Pricing

The composition of the lending syndicate itself can significantly affect the pricing of a syndicated loan. Larger and more reputable syndicates, often comprising international banks, multilateral finance institutions, and well-capitalized domestic lenders, may offer more competitive pricing due to their greater capacity for risk absorption and superior market leverage. These syndicates are also better equipped to conduct due diligence, monitor credit exposures, and enforce loan covenants, all of which contribute to pricing efficiency. Conversely, when a syndicate comprises a more fragmented group of lenders, especially those with limited experience in cross-border financing or sector-specific lending, the pricing may be less favorable. These smaller or less experienced syndicates often impose higher spreads and stricter conditions to compensate for potential coordination risks and information asymmetries. In Nigeria, syndicates led by strong domestic banks like Zenith Bank or international institutions like the International Finance Corporation (IFC) typically achieve better pricing outcomes compared to loosely co-ordinated local lending groups (Adegbite, 2021).

Blended Rate Pricing

A unique characteristic of certain syndicated loans in Nigeria is the use of blended rate pricing, which arises when concessional finance is introduced into the syndication. This happens when development finance institutions (DFIs) such as the Bank of Industry (BOI), the African Finance Corporation (AFC), or the African Development Bank (AfDB) participate in the lending structure. These institutions often provide long-term funding at

below-market rates as part of their mandate to stimulate infrastructure and industrial development. When blended with commercial capital from private banks, these concessional rates reduce the overall cost of the syndicated loan, making financing more affordable for borrowers in critical sectors such as renewable energy, housing, transportation, or manufacturing. Blended finance structures not only lower borrowing costs but also catalyze participation from private investors who may otherwise perceive the project or borrower as too risky (AfDB, 2021).

4.0 Case Studies of Syndicated Loan Pricing in Nigeria

The evolution of syndicated loan pricing in Nigeria can be better understood by analyzing significant case studies across various periods and industries. These practical examples offer valuable insights into how borrower characteristics, sectoral priorities, policy interventions, and financial structuring influence syndicated loan pricing in the Nigerian context.

FCMB-LED SYNDICATED LOAN: The Foundation of Syndicated Loan Pricing in Nigeria

The foundation of syndicated loan pricing in Nigeria was laid in 1986 with the pioneering syndication coordinated by First City Monument Bank (formerly First City Merchant Bank). The bank successfully raised ₦70 million (approximately \$75 million at the time) for the National Fertilizer Company of Nigeria (NAFCON). This landmark deal was instrumental in financing fertilizer production infrastructure and set the precedent for structured syndicate lending in Nigeria. The pricing model incorporated a risk-based spread over the prevailing market rates, influenced by sovereign credit perceptions and the novelty of syndicated instruments in the local market. FCMB's leadership established it as a trailblazer in syndicated finance within the country. The syndicate included major Nigerian banks such as Union Bank of Nigeria, United Bank for Africa (UBA), and First Bank of Nigeria, reflecting a collaborative effort among leading financial institutions to support industrial development (Echekoba & Okonkwo, 2015).

DANGOTE INDUSTRIES SYNDICATED LOAN: Using Financial Reputation to Drive Pricing Power

One of the most notable recent examples is the \$3.3 billion syndicated loan secured by Dangote Industries in 2019 for the construction of the Dangote Refinery. The loan structure featured multiple tranches with varying interest spreads, each reflective of the risk tier associated with different portions of the refinery project. The pricing was significantly influenced by Dangote's solid credit profile, operational track record, and asset backing, allowing the group to negotiate favorable rates and flexible repayment schedules. The transaction highlighted the strategic pricing leverage available to highly rated borrowers and the importance of financial reputation in syndicated loan negotiations. The syndicate was led by Standard Chartered Bank and included other international and local banks such as Access Bank, Zenith Bank, and the African Export-Import Bank (Afreximbank), showcasing a blend of global and regional financial support (AfDB, 2021).

LAGOS-IBADAN EXPRESSWAY SYNDICATED FINANCING: How Government Policy Can Compress Loan Pricing

Another significant case was the syndicated financing for the Lagos-Ibadan Expressway expansion project in 2020. This government-backed loan was characterized by below-market interest rates due to sovereign guarantees and policy support from infrastructure-focused development initiatives. The pricing structure was influenced more by public interest and long-term developmental goals than by conventional risk-return assessments. It demonstrated that government involvement and policy alignment can significantly compress pricing spreads, even in sectors with historically high volatility. The syndicate comprised institutions like the African Development Bank (AfDB), the Islamic Development Bank (IsDB), and the Nigerian Sovereign Investment Authority (NSIA), reflecting a strong commitment from both international and domestic development finance institutions.

SEPLAT ENERGY LOAN: FX Risk Mitigation Through Multi-Currency Loan Structuring

Seplat Energy's \$650 million syndicated loan facility in 2021 presented another interesting dimension to pricing strategy—foreign exchange risk management. The loan was structured in multiple currency tranches, allowing Seplat to hedge against naira depreciation while taking advantage of favorable international rates. This multi-currency approach to syndication enabled a reduced effective cost of borrowing, especially in the face of Nigeria's recurring FX volatility. The pricing, in this case, was tailored to minimize currency mismatch risk, illustrating the sophistication that large corporate borrowers are increasingly applying to loan structuring. The syndicate included a mix of international banks such as Citibank and Standard Bank, as well as Nigerian banks like Stanbic IBTC and First Bank of Nigeria, demonstrating a collaborative approach to managing currency and credit risks (World Bank, 2022).

BOI-AFC INDUSTRIAL SYNDICATED LOAN: Blended Pricing as a Catalyst for Inclusive Economic Development

In 2024, the Bank of Industry (BOI) and the Africa Finance Corporation (AFC) collaborated to finance an expansive industrial initiative aimed at revamping Nigeria's production ecosystem. This syndicated loan facility targeted critical sectors such as agro-processing, renewable energy, and light manufacturing. The pricing model incorporated concessional elements, particularly through the involvement of development finance institutions, which offered below-market rates and longer grace periods. This case underscored how development-focused syndicated loans can be priced to include both social impact incentives and financial sustainability metrics. The BOI-AFC facility exemplified blended pricing as a strategic tool for achieving national economic priorities while attracting private sector participation. The syndicate also featured contributions from the African Development Bank (AfDB), the Nigerian Export-Import Bank (NEXIM), and commercial banks like Access Bank and Zenith Bank, highlighting a comprehensive financing approach (BOI, 2024; AFC, 2024).

ADDITIONAL STRATEGIC LOANS: Sector-Based Syndications Driving Growth in Key Nigerian Industries

Other major syndicated loan transactions further highlight the widespread use of this financing model in Nigeria. For instance, the ₦60 billion loan extended to the Dangote Group in 2005 was led by First Bank of Nigeria and involved a consortium of local financial institutions, including Guaranty Trust Bank and UBA. Similarly, the Nigerian National Petroleum Corporation (NNPC) and ExxonMobil secured a \$600 million syndicated loan for oil field development, involving a blend of eight domestic and twenty international banks, such as JPMorgan Chase and Standard Chartered Bank. These loans were priced to reflect both country and industry risk, particularly the cyclical nature of commodity-linked sectors. Likewise, VMobile's \$1.1 billion syndicated facility in 2005 included 16 Nigerian banks and international partners like HSBC and Barclays, demonstrating how loan syndication can accommodate large-scale funding needs in high-growth industries such as telecommunications (Echekoba & Okonkwo, 2015).

Collectively, these cases demonstrate that syndicated loan pricing in Nigeria is influenced by a variety of factors borrower credit quality, sector-specific risks, currency considerations, and policy alignment. They also reveal that effective pricing strategies can enhance borrower competitiveness, reduce capital costs, and support long-term investment in strategic national sectors.

5.0 The Strategic Value of Syndicated Loans for Nigerian Borrowers

In this segment; a question comes to mind, and it is, how does syndicated loans serve the borrower's interest, especially in the Nigerian context? Syndicated loans, though often perceived as complex and costly, offer strategic advantages that align with the financial and developmental interests of borrowers in Nigeria. These structured lending arrangements allow corporates and institutions to access large pools of capital that may be unattainable through individual bank financing. For Nigerian firms operating in capital-intensive sectors such as energy, infrastructure, and manufacturing, syndicated loans represent a vital mechanism for mobilizing long-term funds without overexposing any single lender to credit risk.

One of the most significant benefits is the access to larger capital pools. Through syndication, multiple lenders combine their financial resources to fund a single loan, enabling borrowers to raise substantial amounts that exceed the lending capacity of any individual bank. This is particularly beneficial in large-scale infrastructure and industrial projects, where financing needs often surpass the thresholds of local banks. In addition to capital access, syndicated loans offer customizable loan structures that can be tailored to the borrower's operational and cash flow realities. Borrowers can negotiate staggered disbursement schedules, flexible grace periods, and repayment tenures that align with their revenue generation cycles. Such flexibility enhances the borrower's financial planning and reduces the risk of default arising from rigid repayment demands.

Moreover, syndicated loans contribute to enhancing the financial credibility of the borrower. The involvement of multiple reputable domestic and international lenders often serves as a vote of confidence in the borrower's project and financial standing. This credibility boost can improve the borrower's reputation in both local and global capital markets, facilitating future access to credit under favorable terms. Contrary to the assumption that syndication increases costs, the structure can, in fact, reduce transaction costs. While upfront fees and legal expenses are involved, the single-document framework governing syndicated loans simplifies documentation and minimizes the legal redundancies typically associated with bilateral borrowing arrangements. This streamlining significantly reduces administrative burdens and enhances operational efficiency.

Creditworthy borrowers also tend to enjoy stronger negotiation positions in syndicated deals. Their strong financials and proven track records enable them to bargain for lower interest spreads, more lenient covenant terms, and overall improved lending conditions. For instance, large Nigerian corporates like Dangote Group have consistently leveraged their financial strength to secure syndicated facilities at competitive pricing (AfDB, 2021).

Finally, syndicated loans support strategic sectoral development by channeling funds into sectors that are critical to national economic transformation. These include energy, transportation, agribusiness, and technology; sectors often highlighted in Nigeria's medium-to-long-term development plans. By aligning with these national priorities, borrowers can also benefit from government support, development finance participation, and concessional elements embedded within the syndicate structure, as seen in recent partnerships with institutions like the Bank of Industry and the Africa Finance Corporation (BOI, 2024; AFC, 2024). In summary, syndicated loans, despite their structural sophistication, play a vital role in advancing corporate finance and economic development in Nigeria. Their capacity to provide scale, flexibility, and strategic alignment with national goals makes them an essential financing tool for eligible borrowers.

6.0 Conclusion and Recommendations

Syndicated loans remain a vital instrument for financing large-scale corporate projects in Nigeria, especially in sectors that demand significant capital outlay. However, the high cost of these loans, coupled with opaque pricing structures, has continued to limit their accessibility and affordability for many Nigerian firms. These financial barriers not only hinder business expansion but also impede broader economic development. To improve the efficiency and borrower-friendliness of syndicated loan arrangements in Nigeria, this paper recommends a multifaceted advocacy approach focused on the following:

1. Financial institutions should work toward reducing non-essential fees and adopting clear, well-communicated pricing frameworks. Transparency in fee structures will help borrowers make more informed financial decisions and promote a more competitive lending environment.
2. Rather than applying blanket risk premiums across entire sectors, lenders should embrace pricing models that reflect the specific credit risk profile of each borrower.

This would ensure that firms with strong financial standing are not penalized with unnecessarily high rates.

3. The Central Bank of Nigeria (CBN) should continue to formulate and enforce policies that promote lower lending rates, safeguard borrower interests, and encourage fair market practices among syndicate members.

Addressing these concerns will help reshape the syndicated loan market into a more inclusive and balanced financing system. Ultimately, enhancing affordability and fairness in loan pricing will expand access to long-term credit and contribute positively to Nigeria's economic growth trajectory

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