

Project Financing: Causes and Effects of Financing Abandoned Building Projects in Nigeria

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Abstract: The pervasiveness of abandoned projects has assumed an alarming proportion in Nigeria. Abandoned projects range from road project, real estate; water project and housing project are the basic amenities a government/leader should provide for its citizens. The menace of abandoned project has been an issue of concern in Nigeria's infrastructural growth and this can hamper the achievement of vision 2020. This study examines the causes and effects of abandonment of projects in Nigeria. A hundred and forty-five structured questionnaires were distributed to Quantity Surveyors, Builders and Contractors in Lagos States and the completed questionnaires were analyzed using the Relative Importance Index (R.I.I.) method. The result showed the causes of project abandonment as Lack of adequate fund allocation and payment delay, Improper project budgeting, land or legal disputes, death of the owner, improper project estimates, planning and design, project manager incompetence, lack of proper assessment, lack of project risk assessment, inconsistency in government policies, change of investment purpose, leadership instability, bureaucratic bottleneck, community interference and climatic conditions. From the study, project abandonment has negative effect on the total income receivable from real property. The study also shows that abandonment of project negatively de-motivate investment in real properties, employment opportunities in real properties and it deprive government the expected revenue from property tax. The study thus recommends amongst other things that there should be timely release of project funds to project developers/contractors and also adequate policies to tackle this menace should be made.

Key words: Project, abandonment, relative importance index, project planning

INTRODUCTION

The word "abandon" means "to forsake or give up with the intent of never claiming again". Also, Spelman cited in Olusegun and Michael (2011) defined the abandonment of a development project as the act of discontinuing any activities or maintenance works on such project within a time frame of the contract agreement and with no intention of returning back to such project. Furthermore, Ayodele and Alabi defined abandonment as when an owner or developer ceases to provide the required maintenance management to a developed property. Hence, project abandonment can therefore be described as resultant effect of any development projects that have started at an earlier date but which the construction work for one reason or the other has stopped.

Abandoned projects which include buildings, houses, churches, schools, roads, bridges, dams, tunnels, air port and sea port litter the whole Nigeria and it is alarming. The causes of these development projects

abandonments are not just peculiar to a particular reason but rather cut across several reasons while it affect the economy negatively (Olusegun and Michael, 2011). According to Franks (2006), lack of planning is the major reason since it is the foremost thing to be done if projects are to be completely executed. Planning entails all areas of construction including financial planning, construction planning, timeframe for completion planning, etc. Nigeria has become the haven of abandoned projects which are worth billions of naira due to lack of planning.

According to a report by Kotangora (1993) there are about 4000 uncompleted or abandoned project belonging to the Federal Government of Nigeria with an estimated cost of above N 300 billion which will take 30 year to complete at the present execution capacity of government. Also, according to the same report, this issue of abandonment has been left without adequate attention for too long which is now having a multiplier effect on the construction industry in particular and the national economy as a whole. This research study investigates the causes and effect of abandoned building projects in Nigeria and also the way forward in reducing this menace.

The objective of this study is to: Investigate and determine the causes of development projects abandonment and assess the effects of abandoned development project in Nigeria. Availability and easy accessibility of project finance in sufficient quantity will definitely accelerate all forms of project development. Project financing is concerned with the production of finance for building houses and office complexes etc which are basic necessities in a growing economy like Nigeria. The benefits to be derived from a rise in project financing in Nigeria are many and include; increased rural and urban houses for the teeming Nigerian population; the construction of industrial estate for the localization of industries and commerce; an increase in employment for those in the construction industry. The sourcing of funds for investment in project development poses a great deal of problem for the developer. This is largely due to economic instability and stringent measures imposed by most financial institutions. This is compounded by the fact that the interest rate structure has had an unfavorable impact on funding the development of project financing.

For instance, while the interest rate on saving is between the band of 3-5% bank lending rate is as high as 25%. Since the financing of project development is a long term project, it has necessitated the high interest rate that is being charged on the funds provided for such development purposes. Hines cited in Ezimuo *et al.* (2014) posited that six major project financing methods are used across the world namely; joint venture, equity and debt financing, sale-lease back financing, advance payment of key money and sale of securities. Traditional funding of real estate is either by equity funding (equity funds), loan capital (debt funds) or a combination of both. The well established and tested methods of funding project financing are equity capital, loan capital, mortgage funding, debenture, contractor financing. These sources of funding have cost implication on project financing.

Traditionally, real estate development is usually based on equity funds. The chief source of equity funds is savings and these savings arise out of that part of income of individual or corporate organization. Individuals and corporate organization can also subscribe for shares and provide pool of funds to finance projects. This paper is divided into five sections to be able to treat this topic exhaustively.

Literature review: Project is a common concept used in daily conversation by individuals and groups but defining it is not an easy task. One eclectic definition sees project as a “planned undertaking of a set of integrated and coordinated activities designed to achieve some declared objectives within a given budget and period of time”. For Gardiner, they defined a project as an interrelated set of non-repetitive activities that has definite starting and

ending points which result in a unique product.” Some elements of a project can be drawn from the above definitions. These include: goal orientation, a time frame for commencement and conclusion; a coordinated approach to dealing with it, a particular set of challenges and output that are measurable.

A set of constraints attend the execution of project. This could come from the very intricate process of project initiation, financing, execution, time constraints, need to keep cost low, political and government instability, among others. All these, make it necessary for there to be proper management of projects. Project management therefore, may refer to the network of managerial activities needed for translating and transforming project plans or proposal into action. It could also involve the subordination of group activities within the management with constraints, time cost and performance of the end product.

Tunji posited that bank lending in Nigeria is usually short term either because banks lack incentives, means and skills to advance long-term credits or they are prevented from doing so because of the high cost of fund, lack of trust and the general custom in Nigeria. He identified three problems in financing options as follows:

- Procurement of raw materials
- Maintenance culture, which is inherently absent in most of our day-to-day life in Nigeria
- Professionalism and general attitude towards finance

Ikpefan (2010) alluded that corruption is one of scourge of that as derailed abandoned projects in Nigeria. Corruption is now a systemic problem in Nigeria. For example, corruption is an issue that should be addressed if the huge resources involved in infrastructure financing are to be administered effectively. This is another area where ethical values such as accountability, code of good governance, transparency and openness come to play. This becomes crucial if private/public sector partnership programmes are to be evolved. Establishment of infrastructure finance company wholly owned by government and funding provided or guaranteed by government, creation of dedicated infrastructure funds will assist Private Public Partnership (PPP) to perform better than expected. The process of managing a project requires monitoring and evaluation. These exercises are integral parts of a project cycle and are important for ensuring that due process, standardization and adherence to project specification are followed. Monitoring is a periodic oversight function in the implementation of a project that needs to be followed closely for a project to be fully realized. In order to establish the extent to which output, work schedule and other required actions and targeted output are progressing, action and laid down

Table 1: Causes of building project abandonment

| Causes of abandoned project | 1 | 2 | 3 | 4 | 5 | R.I.I |
|--|---|---|----|----|------|--------|
| Lack of adequate fund allocation and payment delay | 0 | 0 | 0 | 35 | 1100 | 0.9520 |
| Inadequate project budgeting | 0 | 0 | 0 | 40 | 105 | 0.9500 |
| Land or legal disputes | 0 | 0 | 5 | 30 | 110 | 0.9450 |
| Death of the owner | 0 | 0 | 0 | 45 | 100 | 0.9400 |
| Improper project estimates, planning and design | 0 | 0 | 0 | 46 | 99 | 0.9370 |
| Project Manager Incompetence | 0 | 0 | 5 | 50 | 90 | 0.9172 |
| Lack of proper assessment | 0 | 0 | 15 | 40 | 90 | 0.9100 |
| Lack of project risk assessment | 0 | 0 | 18 | 40 | 87 | 0.8952 |
| Inconsistency in government policies | 0 | 0 | 12 | 55 | 78 | 0.8910 |
| Change of investment purpose | 0 | 0 | 15 | 55 | 75 | 0.8830 |
| Leadership instability | 0 | 0 | 10 | 70 | 65 | 0.8800 |
| Bureaucratic bottleneck | 0 | 0 | 20 | 63 | 60 | 0.8441 |
| Community interference | 0 | 0 | 40 | 34 | 70 | 0.8414 |
| Climatic conditions | 0 | 0 | 65 | 55 | 25 | 0.7500 |

plan have to be followed. This is necessary to enable timely actions to be taken to correct mistakes or deviation observed. Project monitoring means the assessment of the performance of a project to ascertain its conformity with stated objectives or goals. Project evaluation therefore is a policy analysis undertaken on a project/program that is already in effect. That is the systematic examination of any activity or group of activities undertaken by government to make a determination about their effects, both short and long range.

Evolution of project management: Modern day project management is associated with Henry Gantt's development of the Bar Chart in the early 1900's and the techniques developed during the military and aerospace projects of the 1850's and 1960's in America and Britain. The special project management techniques used today was developed during the 1950's and 1960's by the US defense aerospace industry. In the 1970's, project management continued to grow and developed into a multi-disciplined profession with distinctive tools and techniques. Subsequently, high technology companies outside the defense and construction industries began to use project management systems effectively. During this period, public sector projects management experienced a high failure rate. In the 1980's however, there was a significant increase in the influence of external stakeholders in some of these companies thus putting pressure on designers to find acceptable solution for the benefit of all stakeholders. As project management tools and techniques proliferated in the 1960's, it was refined in the 1970's and integrated into accepted practices in the 1980s. The integration of time, cost and quality (known as project parameters) was initially presented as a triangle of balanced requirements where a change in one parameter could affect the others.

Criteria for project evaluation: The common criteria used in classifying project evaluation are time and

responsibility (Schram, 2012). On the basis of time, we may have interim evaluation which takes place at one point in the life of a project and terminal evaluation that occurs at the end of a project and ex-post evaluation that occurs after project completion. On the basis of responsibility: Self evaluation may be carried out by person(s) directly involved in the project, independent evaluation which is carried out by executing agency and external evaluation which is done by outside consultant.

Causes of development projects abandonment in Nigeria: Many development projects as earlier mentioned in the study are by their completion and provisions predicted would provide the needed products and services and that should sustainably enhanced real properties and its values in any economy. But, for these development projects, certain issues have remained the bane of abandoned projects in the Nigeria economy (Olusegun and Michael, 2011; Efenudu, 2010). These issues/causes subjectively are numerous such that they include: the inconsistency in government policies; persistent community eruption and interference; lack of proper project development timing; and inappropriate allocation of project finance. Others of these causes to development projects abandonment are identified and enumerated in Table 1 and some of these has also been acknowledged and evidenced in the works of Ayodele and Alabi and Aluko (2008). As such, much more explanations are limited in this literature sub-section but are recognized by this present study while few earlier stated causes are discussed.

The inconsistencies in government policies as a factor that causes the development projects abandonment is mostly connected to where government leaderships changes (Efenudu, 2010). The new governments in most observed scenarios abandon pervious government policies or programs with the hidden understanding of embracing self-conceptualized projects. Although, this

situation manifestation is made worse during the era of frequent military intervention (1983-1996) in Nigeria but even the present and past democratic dispensation had demonstrated this un-developmental character better by adopting the inconsistency concepts and syndromes in policy formulation and implementation in Nigeria system. This invariably should affect any other development project that expects to utilize the products and services ought to be provided by these projects such as real properties. Therefore, a policy that supports infrastructural projects development continuity is imperative as this would add to improve real properties and its values in an economy.

Another, serious cause of development projects abandonment is the continuous community eruption and interference in project developments. The community leaders, youths and today includes the women groups are usually on illegal premises demanding an incurable sum of money as compensation before any development project could be carried out successfully in their area (Efenudu, 2010). They undermine that the benefits of these development projects are to improve the properties, its values, life and the built environment as a whole. But, difficulties are sustained to the contractors such that the projects are abandoned unless such contractor complies with the illegal demand. This must be eradicated if non-development projects abandonment is to be achieved and maintained in the economy such as in the Nigerian economy. Additionally, finance and timing constitute another factor causing project development abandonment. Here, three types of timing problems usually interfere with effective implementation of development project such that they include but not limited to the following: delays between project identification and start-up, delays during project implementation and inappropriate time phasing of project activities (Aibinu and Jagboro, 2002).

Effects of development projects abandonment on real property and its values: Development projects abandonment as earlier theorized involve the complete absconding from accomplishing a project objective and when this happen, all the social, environmental and economic activities that expects to be supported by the new products and services provision are detracted. The general effects are assumed to include: waste of resources; declining in property value; loss of community and neighborhoods aesthetics values. In the case of the declining real properties and its value, Efenudu suggested that project abandonment affects properties within a neighborhood by lowering property values.

This value loss or reduction is related to the property total value such as the market value, which is the value at which a property would bring when determined by the open market. Others are the property value in use, the property investment value, the property liquidation value, the assessed value of the property, the insurable property value and the property going concern value. Also, there is a loss on community and neighborhood aesthetics characteristics which the anticipated development projects on completion ought to provide to enhancing the built environment. But, the unattractive nature of the property as a result of a lack of the needed facilities has remained incessant in the Nigeria economy.

For example, when a building property has been raised and later abandoned, it makes no positive aesthetic values, pleasures and contributions to a neighborhood instead become eyesores to the vicinity. Further, development projects abandonment contributes to the effect of wasted resources and loss of tax revenue (Olusegun and Michael, 2011) to the governments and other groups in the economy. A Projects development particularly infrastructural projects are intended to provide new product and service to the community and at the same time promote the beauty of the built environment but this benefits are undermined and unattained because of its incessant abandonment (Olusegun and Michael, 2011).

MATERIALS AND METHODS

The data used for this study was derived from the distribution of 145 well-structured questionnaires and this was supplemented with oral interview (in local dialects) granted by the immediate community of such abandonment. The questionnaires were directly distributed with the intention of eliciting a response(s) from contracting firms, clients and prospective beneficiary of projects on completion, towards determining the principal reasons for abandonment of developmental project and they were developed using the five point Likert scale method (5 = Strongly Agreed (SA); 4 Agreed (A); 3 = Unsure (US); 2 = Disagreed (DA) and 1 Strongly Disagreed (DSA)). The questionnaires were administered to the selected respondents who were identified using purposive random sampling approach. The questions were simple and straightforward and language employed was at a level commensurate with the survey population in order to increase the response level.

The data collated were presented in tabular form and simple statistical tools were used in order to avail the researcher opportunities to identify the impact of

abandoned development projects on the Nigerian economy. The data were analyzed using the Relative Importance Index (R.I.I) approach that was advocated for and used by Lim and Alum in their study. This is given as adjusted in this study as:

$$R.I.I = (5n_5 + 4n_4 + 3n_3 + 2n_2 + n_1) / 5N$$

Where:

- n_5 = Strongly Agree (SA)
- n_4 = Agree (A)
- n_3 = Unsure (US)
- n_2 = Disagree (DA)
- n_1 = Strongly Disagree (SDA)
- N = Number of respondents

RESULTS AND DISCUSSION

This study provides the results/findings of the analyzed data as well as providing discussions on each objective. These are on the causes of project abandonment (Table 1) and the effect of the abandonment on real properties and its values (Table 2).

Table 1 the findings identified at least 14 factors that were the cause for most building projects abandonment in Nigeria and these identified factors are: Lack of adequate fund allocation and ayment delay (R.I.I 0.9520); Improper Project Budgeting (R.I.I 0.9500); Land or Legal Disputes (R.I.I 0.9450); Death of the owner (R.I.I 0.9400); Improper Project Estimates, planning and design (R.I.I 0.9370); Project Manager Incompetence (R.I.I 0.9172); Lack of Proper Assessment (R.I.I 0.9100); Lack of Project Risk Assessment (R.I.I 0.8952); Inconsistence in government policies (R.I.I 0.8910); Change of Investment Purpose (R.I.I 0.8830); and Leadership Instability (R.I.I 0.8800); Bureaucratic Bottleneck (R.I.I 0.8441), Community Interference (R.I.I 0.8414) and Climatic Conditions (R.I.I 0.7500). The first cause of project abandonment is in agreement with the findings of Olusegun and Michael (2011) that lack of adequate funding and delays in remittance of payment due for a project to the contractor is a bane and a cause to project abandonment. This delay

situation might last more than one year and in that case, the contractor will eventually abandon the project as there would be no money to continue the project implementation. Therefore, sufficient and effective efforts should be made in eliminating this cause so that projects cannot longer be abandoned rather completed within the specified delivery time and date. Also, factors such as causing factors such as improper project budgeting, death of the owner, project manager incompetency, lack of proper assessment, lack of project risk assessment, change of investment purpose and inconsistencies in government policies are in agreement with the findings of Olusegun and Michael (2011) study on causes of construction project abandonment in Nigeria. The inconsistencies in government policies is such that any incoming government do not encourage project continuity instead devises a selfish motivational project to start up and this in effect renders the already comenced project to be abandoned.

Furthermore, Land or legal disputes is so much pronounced that even most of the disputes take ages to be attended to in the court before providing judgment on such disputes and because legal dispute exist, no project implementation shall continue or even commence unless such dispute is/are completely resolved. Moreover, the factor of Improper Project Estimates, planning and design must be ruled out through providing the project implementation with a competent personnel that should be able to provide adequate planning and designing of the project as well as ensure proper implementation. This circumstance should completely be removed since the development projects is/are expected not to be abandoned.

Finally, The remaining causes of project abandonment such as: leadership instability, bureaucratic bottleneck, community interference and climatic condition are also confirmed in this study as the causes of project abandonment. These were supported by the researches of Ihuah and Fortune (2013), Olusegun and Michael (2011), Aluko (2008) and Kadir *et al.* (2005) who in their study stressed that the abandonment of projects are associated with all of or any of these factors/causes.

Table 2: Effects of abandoned building project on real market

| Effects on real property | 1 | 2 | 3 | 4 | 5 | R.I.I |
|---|---|---|---|----|-----|--------|
| It affects the total income receivable from real property | 0 | 0 | 0 | 5 | 140 | 0.9931 |
| It reduces the motivation to attracting investment in real properties | 0 | 0 | 0 | 10 | 135 | 0.9862 |
| It becomes a waste of financial and material resources | 0 | 0 | 0 | 20 | 125 | 0.9724 |
| Employment opportunity in real property and other sectors are impacted negatively | 0 | 0 | 0 | 40 | 105 | 0.9450 |
| It deprive government the expected revenue from property tax | 0 | 0 | 0 | 55 | 90 | 0.9241 |

The findings in Table 2 that assessed and established the effects of abandoned building project on real properties confirm that five effects were significance. These effects on real properties however are suggested to be negative and these are: It affects the total income receivable from real property (R.I.I 0.9931 and ranked 1st); It negatively reduces the motivation to attracting investment in real properties (R.I.I 0.9862 and ranked 2nd); It becomes a waste of financial and material resources (R.I.I. 0.9724, ranked 3rd); Employment opportunity in real property and other sectors are impacted negatively (R.I.I. 0.9450, ranked 4th); and lastly It deprive government the expected revenue from property tax (R.I.I. 0.9241, ranked 5th).

The first effect of abandoned building project that it will affect the total income receivable from real properties agrees with the study of Efenudu (2010) that project abandonment would affect income from the property in a locality. Most times, this income is the rental income which is the rent paid to the landlord by a leaseholder for using the property in agreed manner or purpose. However, if the property lacks the essential services, the rent that the landlord expects of the property would be reduced. Also, that project abandonment will negatively reduce the motivation to attracting investment in real properties is not out of place since most developer are profit oriented and would not appreciate investing in areas that required further capital outlay in the project development. Furthermore, the effects of waste of financial and material resources, unemployment opportunity in real property firms and other sectors and the deprivation of government of the expected revenue from property tax has also been acknowledged by Olusegun and Michael (2011) and Aluko (2008) as the effects of project abandonment.

CONCLUSION

The study has shown that there are at least fourteen causes of projects abandonment and that these causes have at least five far-reaching effects on real properties.

RECOMMENDATIONS

This study thus makes the following recommendations : First, the causes listed in section four above should be meticulously tackled through implementing various measures opined to each cause, it is expected that projects abandonment will be a thing of past in the country. This should be promoting the total values of real properties as well as enhancing the real properties immovability and sustainability in an economy whether it is in developing or developed countries.

Secondly, governments should sustainably promote the convention of providing adequate policies and the continuity of those policies by any incoming government. Thirdly, there should be timely release of project funds to project developers/contractors which should significantly facilitate the effective and efficient completion of development projects as at the time expected.

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