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ELIGIBILITY FOR NIGERIA'S CABOTAGE VESSEL FINANCING FUND: THE DUE DILIGENCE IMPERATIVE

INTRODUCTION

Maritime and inland water trade have the ownership and use of vessels as a central theme. All coastal nations and those with significant inland waterways depend on vessels including ships for transportation. With most of the ships that trade with Nigeria being foreign owned, the gap in indigenous ship ownership in Nigeria remains a major concern. This is the gap that the Cabotage Vessel Financing Fund (CVFF or the **Fund**) was created to fill.

Nigeria's Minister of Marine and Blue Economy has recently re-activated the operationality of the Fund. Established under Section 42 of the Coastal and Inland Shipping (Cabotage) Act 2003 and administered by the provisions of the CVFF Guidelines 2006, the Fund is designed to promote indigenous vessels ownership. This brief explores the question of the readiness of intended beneficiaries of the Fund as its regulatory framework requires more than equity contributions, bank guarantees and other forms of security. Building on the efforts of the Nigerian Maritime Administration and Safety Agency (NIMASA), we echo the requirement of comprehensive due diligence on corporate, operational, financial, technical, and regulatory considerations, and underscore the bankability question.

THE LIABILITY OF AN IDLE VESSEL: COMMERCIAL REALITIES VERSUS ACQUISITION PLANS

The risk is straightforward. A vessel acquired without confirmed commercial deployment generates costs without revenue. An idle vessel quickly becomes a liability as financing costs continue to accrue regardless of its idleness. The CVFF is a facility designed to be repaid, not a grant; its sustainability depends entirely on beneficiaries generating sufficient cashflow to service their obligations.

This concern is not theoretical. NIMASA, in its relevant circular has outlined the requirements to access the Fund. Designated Primary Lending Institutions (PLIs) are obligated to ensure applicant's compliance. The funding structure reads: 15% equity contribution by the applicant, 15% from the PLI, with the balance 70% (up to a maximum \$25 million) to be drawn from the CVFF. Facility tenor is 8 years at a 6.5% interest rate. Applicants without a reliable business plan should not expect to qualify. What this means is that no vessel will be financed without a bankable feasibility report attached to it.

DUE DILIGENCE REQUIREMENTS UNDER THE CVFF

The CVFF Guidelines establish a multi-layered due diligence framework. Eligibility is not determined solely by the applicant's desire to acquire a vessel; it requires proof of capacity to operate that vessel profitably and repay the facility. A bankable feasibility report that demonstrates sustainable cargo and trade activity must be presented. A successful application is beyond the applicant's business interest; it is of significant national concern.

Current principal due diligence requirements include:

Ownership and Nationality Verification: The Guidelines restrict eligibility to Nigerian citizens and shipping companies wholly owned by Nigerian citizens as defined under the Cabotage Act. Beneficial ownership is placed under scrutiny, and complex corporate structures or nominee arrangements designed to conceal foreign participation are likely to attract heightened regulatory examination.

Operational Competence: Applicants must demonstrate managerial and operational ability. NIMASA is mandated to determine whether the applicant or proposed operator possesses the necessary experience, expertise, and qualifications to operate and maintain the vessel that will serve as security for the loan. This certification may be reviewed annually, meaning operational competence is not a one-time hurdle but an ongoing condition of eligibility.

Financial Viability and Repayment Capacity: Every applicant must submit bankable feasibility studies that are independently verified by NIMASA and the participating PLLs. These studies must demonstrate not only technical viability but also economic sustainability and the capacity to generate sufficient cash flow for loan repayment. The Guidelines expressly provide that financial viability and repayment ability shall be the primary basis upon which funding approval is granted.

Equity Contribution: Applicants must contribute a minimum of 15% of the total project cost as equity, demonstrating commitment and ensuring they have sufficient "skin in the game". The source of this equity contribution is also subject to verification.

These requirements collectively mean that eligibility under the CVFF is not a function of vessel acquisition plans alone. It is a function of demonstrating that the proposed vessel has a commercially viable deployment, that the applicant has the operational capacity to run it, and that the resulting cash flow can service the loan. In the absence of these measures, a financed vessel could turn from a productive asset into a stranded liability, burdening the beneficiary with accruing interest and jeopardizing the Fund's revolving nature.

SUSTAINABLE FEASIBILITY REPORT AS A CONDITION PRECEDENT TO ELIGIBILITY

Ship acquisition should be driven by commercial opportunities, and the key consideration in fund disbursement should be what trade the vessel would be deployed to serve. It is anticipated that NIMASA will identify available or possible cargo volumes for specific commodities and match them with appropriate vessels before Funds disbursement. Financing vessel acquisition without first establishing commercial demand inverts the proper order of analysis. Industry

reports suggest that support vessels for oil exploration and drilling activities such as FPSO, FSO, barges and other associated vessels for crude oil transportation are in high demand. This is directly connected to the fact that petroleum products constitute the bulk of Nigeria's export commodities. Data of this ilk is significant in considering business feasibility.

PLIs finance 15% of the project but undertake the credit risk assessment. Their risk assessment criteria should naturally prioritize applications with clear commercial purpose and contract backing. NIMASA, which provides 70% (up to a maximum \$25million) bears a parallel interest in ensuring that the Fund remains revolving, that is, that loans are repaid so that future generations of shipowners can access it. A portfolio of vessels without sustainable cargo would deplete the Fund, not replenish it.

CONCLUSION

The CVFF is a highly regulated financing pool built upon principles of risk management, accountability, and commercial viability. A financed vessel without a bankable feasibility report or sustainable cargo is not an asset but a liability; a liability that accrues interest daily, erodes the borrower's creditworthiness, and threatens the viability of the Fund itself. Thorough due diligence in determining eligibility is therefore not merely a procedural formality; it is the principal safeguard against the Fund repeating the failures of past lending schemes that burdened beneficiaries with liabilities while adding no value to the sector.

Eligibility under the CVFF should be conditioned on demonstrated, verifiable commercial deployment. Applicants must present not only a plan to acquire a vessel but also evidence of the trade that vessel will serve, the contracts that will generate revenue, and the operational capacity to execute that trade. Only then can a financed vessel become a productive asset rather than a stranded liability, and only then can the CVFF fulfill its statutory objective of developing Nigeria's indigenous shipping capacity.

ABOUT AO2LAW:

At AO2LAW, we maintain a Maritime and Inland Waters Trade Practice situated within our Commercial and Criminal Law Practice Group (CCLP). The Practice focuses on maritime and inland waters trade and related advisory, representation and management.

For further information on the foregoing none of which constitutes legal advice, please contact us at info@ao2law.com; +234 807 776 5149, or any of the key contacts