

Financial Reporting Quality, Credit Risk and Accountability in Ship Financing: A Conceptual Framework for Maritime Enterprises in the Niger Delta

Ogechi Clara Morakinyo

Department of Accounting,

Faculty of Arts, Management and Social Sciences,

Trinity University Lagos, Nigeria

Email: ogechi.morakinyo@trinityuniversity.edu.ng

<https://doi.org/10.56201/ijbfr.vol.12.no9.2026.pg155.161>

Abstract

Ship financing is a specialised form of asset-intensive finance in which lenders face borrower, liquidity, operational, market and collateral risks. These risks are particularly relevant to maritime enterprises in the Niger Delta, where vessel-dependent activities include offshore oil and gas services, marine logistics, coastal transportation and related operations. This conceptual paper developed a Ship Financing Financial Accountability Framework (SFFAF) to explain how financial reporting quality can be integrated with vessel, contractual, operational, cash-flow and regulatory information throughout the ship-financing lifecycle. Drawing on agency theory, financial intermediation theory and the information-asymmetry perspective, the framework positioned financial reporting as an information infrastructure supporting financeability assessment, credit-risk appraisal, financing decisions, post-disbursement monitoring and accountability. It recognised that accounting information alone may not fully capture ship-financing risk and therefore incorporated vessel condition and value, contractual revenue, operating cash flows, market conditions and regulatory requirements. The framework also recognised the institutional relevance of the Cabotage Vessel Financing Fund and primary lending institutions within Nigeria's maritime-financing environment. This paper integrated financial reporting, credit-risk assessment and accountability into a single lifecycle-oriented framework for maritime enterprises in the Niger Delta. SFFAF provided a conceptual foundation for future empirical investigation of financial reporting quality, credit risk and accountability in Nigerian ship financing.

Keywords: *Financial reporting quality; Ship financing; Credit risk; Accountability; Maritime finance; Niger Delta;*

1. Introduction

Ship financing maintains a particular place within corporate finance and financial intermediation since vessels are highly capital-intensive assets whose economic worth depends heavily on their productive usage and capacity to generate future cash flows. A funded vessel can simultaneously represent an accounting asset, a productive operating asset, security for a financing agreement and a source of future revenue from which debt obligations are expected to be serviced. This

combination provides information requirements that transcend beyond standard borrower evaluation. Financial reporting quality is particularly crucial because lenders generally hold less information about a borrowing firm than its management. High-quality financial reporting gives information regarding financial position, performance, liquidity, leverage, assets, liabilities and cash flows and can subsequently help to the assessment of financing capacity and information asymmetry. The accounting research demonstrates important links between financial reporting quality, information asymmetry and external debt financing (Dechow et al., 2010; Ding et al., 2016; Wittenberg-Moerman, 2008). More recent research also connects reporting quality with capital structure and access to debt funding (Synn & Williams, 2024; Tawiah & Gyapong, 2023). The relevance of reporting quality is much more difficult in ship financing because credit vulnerability is not only due to the financial position of the borrower. Lenders are also subject to vessel-specific, contractual, operational and market risks. The physical condition and worth of the vessel effect collateral concerns, while vessel utilisation and contractual employment influence revenue production. Operating costs, market conditions and regulatory requirements can subsequently affect cash-flow availability for loan servicing. Research on ship financing has underlined the susceptibility of marine finance to larger financial and economic conditions (Gong et al., 2013), while new research on ship-funding leasing focuses cash-flow management, risk identification and risk assessment (Wei, 2025). These factors are particularly pertinent to maritime firms operating in the Niger Delta. The region provides vessel-dependent sectors like offshore oil and gas services, marine logistics, coastal transportation, dredging, marine construction and allied maritime operations. The financing of vessels operating in these activities consequently links financial reporting with the economic conditions under which vessels make revenue. A maritime firm may own a large vessel asset but still suffer from financial problems if the vessel is under-utilized, contracted employment is unclear or operating cash flows are inadequate to service debt. The institutional environment of Nigeria is also an essential context. The Cabotage Vessel Financing Fund (CVFF) was established under the Coastal and Inland Shipping (Cabotage) Act, 2003 to enhance the indigenous ship-acquisition capability and provide credit facilities to eligible maritime companies. Information relating to feasibility, equity involvement, management and operational capacity, security, collateral, vessel characteristics and current maritime contracts are requirements provided by the Nigerian Maritime Administration and Safety Agency (NIMASA). These requirements show that maritime-financing assessment is necessarily more than standard financial statements. However, the literature tends to analyse financial reporting quality, credit risk, ship financing and accountability as separate concerns. Accounting studies focus on reporting quality and information asymmetry, banking studies on lending and credit-risk assessment, and maritime-finance studies on vessels, markets and financing structures. There is also a conceptual gap in terms of how various information dimensions might be incorporated into a unified framework covering the whole ship-financing lifecycle.

This article fills this need by proposing the Ship Financing Financial Accountability Framework (SFFAF) for marine firms in the Niger Delta. The approach conceptualises financial reporting as an information infrastructure for the support of financeability assessment, credit-risk appraisal, financing, monitoring and accountability rather than as an ex-post compliance tool.

2. Methodology

The study adopted a conceptual research design based on the synthesis of relevant scholarly literature, accounting standards and official Nigerian maritime regulatory sources. The study does

not use primary data, statistical analysis or empirical hypothesis testing. The conceptual analysis looks at three connected dimensions. The first relates to the quality of financial reporting and its contribution to alleviating information asymmetry in external finance. The second is about the multidimensional nature of credit risk in ship finance. The third is about accountability across the finance lifecycle. The literature was synthesised to discover correlations between financial information, vessel information, contractual information, operational information and market information. These correlations were then linked with agency theory, financial intermediation theory and information-asymmetry perspective to construct SFFAF. The objective of the process is therefore theory and framework creation, not empirical validation. The proposed approach lays a platform for future quantitative or qualitative research.

3. Conceptual and Theoretical Review

3.1 Information Asymmetry and the Quality of Financial Reporting

Financial reporting quality relates to the degree to which financial reports give meaningful and reliable representations of an enterprise's underlying economic operations. Dechow et al. (2010) state that reporting quality is complex and can be investigated using different proxies depending on the study purpose. The significance of the quality of financial reporting to debt finance is mostly due to knowledge asymmetry. Normally, borrowers have more knowledge about their financial status, operations and future prospects than lenders. Financial reporting gives lenders organised information on financial performance, assets, liabilities and cash flows. Evidence from privately held enterprises shows that financial reporting quality is significant to external debt-financing limitations (Ding et al., 2016). Similarly, Wittenberg-Moerman (2008) showed the relevance of information asymmetry and financial reporting quality in debt markets. Synn and Williams (2024) also investigated the association between financial reporting quality and capital structure. For ship financing, however, accounting information is only half of the information needed for financing decisions. The accounting carrying amount of a vessel may not be the same as its current market worth and past financial performance may not be indicative of future vessel employment or operating cash flows. The whole information available for decisions on ship finance can therefore be conceptualised as:

$$IT=IA+IV+IC+IO+IM+IRI$$

where IA is accounting information, IV is vessel information, IC is contractual information, IO is operational information, IM is market information and IR is regulatory information. In consequence, financial reporting quality provides an important accounting foundation, but should not be viewed as a complete representation of ship-financing risk.

3.2 Maritime Finance and Credit Risk

Credit risk is the risk that a borrower will not be able to pay its contractual financial commitments. In ship financing, credit risk has unique features since the funded asset is at the same time important to the financing structure and the revenue-generating capabilities of the borrower. The conceptual credit-risk function for maritime firms in Niger Delta might be stated as:

$$CR=f(BR, VR, CTR, OR, MR, RR)$$

where: BR = borrower risk; VR = danger of vessel; CTR = contract risk; OR = operational risk; MR = market risk; and RR = regulatory risk.

Borrower risk is comprised of liquidity, leverage, profitability and current debt commitments. Vessel risk is related to the age, technical condition, valuation, maintenance and potential recovery

value of the vessel. The risk inherent in contracts concerns the quality, duration and reliability of contracts that generate income. Operational risk is related to the ability to operate and maintain the vessel efficiently. Market risk includes changes in the maritime and sector conditions whereas regulatory risk deals with compliance with applicable maritime standards. These dimensions are related. Operational disruption may lower vessel utilisation, which in turn might diminish revenue and operating cash flows and so weaken debt-service capability. Similarly, if the value of the vessel deteriorates, the collateral exposure can increase even if the accounting performance of the borrower is relatively consistent.

3.3 Accountability in Ship Finance

Accountability in ship finance goes beyond periodic submission of financial statements. It involves responsibility for the proper use of borrowed funds, acquisition and deployment of the funded vessel, development of operating cash flows, upkeep of the financed asset and performance of contractual obligations. Agency theory offers a reasonable explanation of this link. According to Jensen and Meckling (1976), agency costs may arise from the split between ownership and control. In ship financing, the lender provides the funding, and the management controls the firm and the financed vessel. The resulting information gap gives rise to a requirement for monitoring. Thus, financial and operational reporting can act as a means through which lenders oversee the stewardship of management over borrowed resources. The basis for the proposed SFFAF is the lifespan perspective. Accountability can be viewed as a continuous process:

Financing Approval→Disbursement→Deployment→Monitoring→Repayment

3.4 Theoretical Framework

The framework is based on agency theory, financial intermediation theory and the information-asymmetry perspective. Agency theory outlines the monitoring relationship between the maritime industry and the financial institution. Because managers possess more knowledge of the enterprise's activities and funded assets, financial reporting and ongoing disclosure can diminish information asymmetry and aid lender supervision (Jensen & Meckling, 1976). Financial intermediation theory emphasises the information-processing function of the banks and other financial organisations. Financial intermediaries gather and assess information prior to allocating cash and continue to monitor borrowers after providing finance. The financing of ships heightens this function, since the lender has to evaluate both the borrower and a specialist capital asset. The information-asymmetry perspective explains the relevance of information before and after financing. Ex-ante information asymmetry affects financeability and credit assessment before to payout. Ex post information asymmetry relates to the monitoring of the borrower, vessel and cash flows after disbursement. The conceptual link is therefore: $IA_{\{Total\}} = IA_{\{Ex\ Ante\}} + IA_{\{Ex\ Post\}}$ Ex ante information quality helps financeability and credit assessment, and ex post information quality enables monitoring and accountability. The three theoretical viewpoints therefore converge on information as the key mechanism tying together financial reporting, credit-risk assessment and accountability.

4. Results

4.1 Development of the Ship Financing Financial Accountability Framework

Financial Accountability Framework for Ship Financing: This study makes a crucial conceptual contribution: the Ship Financing Financial Accountability Framework (SFFAF). It

combines financial reporting quality with vessel, contract, operational, market and regulatory information in a lifecycle approach to ship finance as presented in Fig.1.

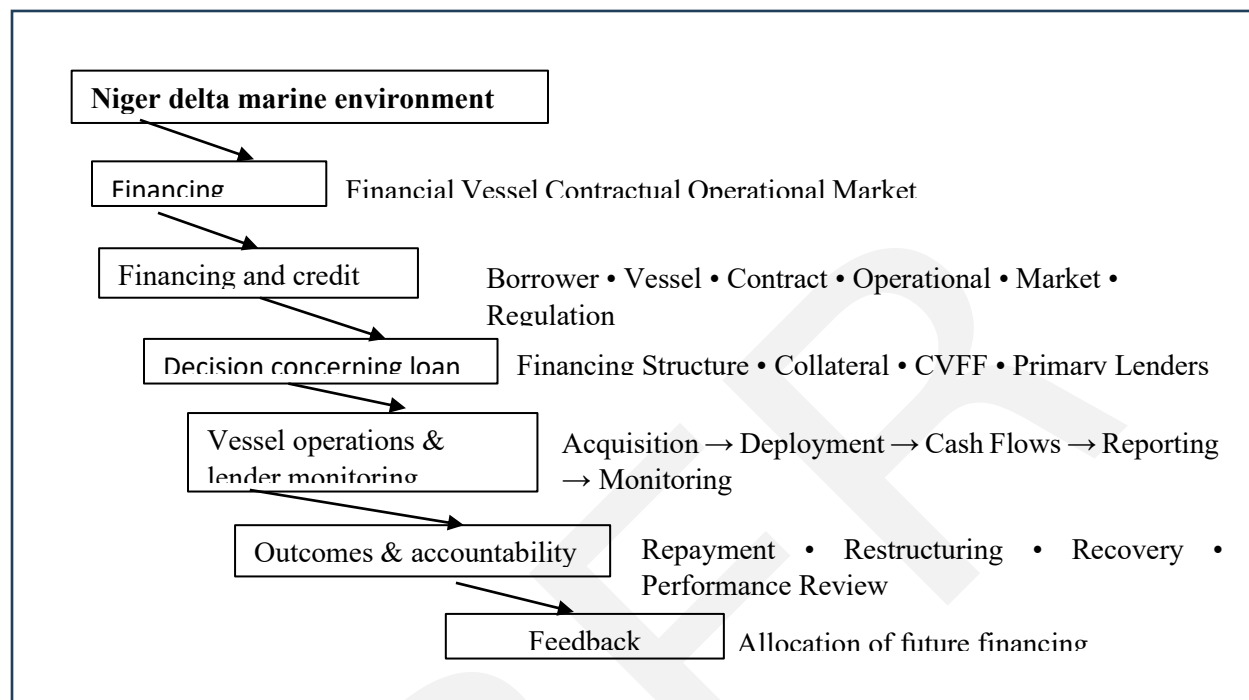


Fig 1. Ship Financing Financial Accountability Framework (SFFAF)

4.2 Financial Accountability Framework (SFFAF) for Marine Ventures in The Niger Delta

The system illustrated in Fig. 1 begins with the Niger Delta maritime context and the funding intelligence produced by the marine enterprise. The information consists of financial reporting, vessel characteristics, contractual arrangements, operating circumstances, market information and regulatory compliance. The second level is the financial and credit risk assessment. At this stage, information is analysed to examine the financial and economic qualities of the borrower and the loan offered. The model does not presume that any single type of information determines financing. The categories are rather complementary. The third stage is the ship-financing decision. The financing structure, conditions of the loan, equity involvement and collateral arrangements are defined within the wider credit evaluation. Nigeria's institutional environment includes the CVFF and the main lending institutions. The fourth step includes vessel procurement, deployment, operating cash flows, financial reporting and lender monitoring. This step is crucial because the risk profile of a ship finance arrangement may alter after disbursement. The fifth step relates to accountability and outcomes, which includes repayment, restructuring, recovery and performance review. Information collected through these processes' feeds into future financing and monitoring decisions. The framework, thus, is iterative, not strictly linear. Vessel operation and repayment create information that may impact future finance decisions and risk assessments.

5. Discussion

SFFAF is relevant for financial reporting, banking and maritime finance practice. First, the quality of financial reporting should be viewed as a significant component of credit information. Financial statements are a source of information about liquidity, leverage, profitability, asset structure and cash flows and can be a useful tool for lenders to judge the financial capability of the maritime enterprises. Secondly, ship finance requires an asset-based credit evaluation. A vessel should not be considered as just another item on the balance sheet since its economic value is partly determined by physical condition, market value, utilisation and employment prospects. Thus, vessel information should supplement accounting information for credit appraisal. Third, contractual information may provide additional insight into anticipated cash flows. In cases when a vessel is engaged under identified contracts, details on contract duration, counterparties, payment terms and performance requirements might offer insights into revenue visibility. But contractual revenue should not be immediately equated with cash flow generated, since operating costs, contractual risks and market conditions still remain significant.

Fourth, accountability is based on post-disbursement monitoring. Financial reporting can give ongoing information on liquidity, leverage, profitability and cash flows, while operational reporting can show vessel utilisation, maintenance, contract performance and other indicators of productive capacity. Fifth, the framework has consequences for the role of the principal lending institutions. The lender's information needs should go beyond standard financial statements to include vessel valuation, insurance, technical condition, contractual employment and operating performance. This incorporation is in line with the information-processing role of financial intermediaries. Finally, the framework provides a conceptual basis for the understanding of the CVFF within a broader financial-accountability architecture. The fund's institutional purpose of assisting indigenous ship acquisition does not absolve the need for sufficient financial, operational and collateral assessment. Effective financing, however, requires information that allows lending institutions to gauge risk and manage financed maritime assets over their economic life.

References

- Dechow, P. M., Ge, W., & Schrand, C. M. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, 50(2–3), 344–401. <https://doi.org/10.1016/j.jacceco.2010.09.001>
- Ding, S., Liu, M., & Wu, Z. (2016). Financial reporting quality and external debt financing constraints: The case of privately held firms. *Abacus*, 52(3), 351–373. <https://doi.org/10.1111/abac.12083>
- Federal Republic of Nigeria. (2003). *Coastal and Inland Shipping (Cabotage) Act, 2003*.
- Gong, S. X., Ye, H., & Zeng, Y. Y. (2013). Impacts of the recent financial crisis on ship financing in Hong Kong: A research note. *Maritime Policy & Management*, 40(1), 1–9. <https://doi.org/10.1080/03088839.2012.745202>
- International Accounting Standards Board. (2024a). *IAS 16: Property, plant and equipment*. IFRS Foundation.
- International Accounting Standards Board. (2024b). *IAS 23: Borrowing costs*. IFRS Foundation.
- International Accounting Standards Board. (2024c). *IAS 36: Impairment of assets*. IFRS Foundation.
- International Accounting Standards Board. (2024d). *IFRS 7: Financial instruments—Disclosures*. IFRS Foundation.
- International Accounting Standards Board. (2024e). *IFRS 9: Financial instruments*. IFRS Foundation.
- International Accounting Standards Board. (2024f). *IFRS 16: Leases*. IFRS Foundation.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Synn, C., & Williams, C. D. (2024). Financial reporting quality and optimal capital structure. *Journal of Business Finance & Accounting*, 51(5–6), 885–910. <https://doi.org/10.1111/jbfa.12697>
- Tawiah, V., & Gyapong, E. (2023). International financial reporting standards, domestic debt finance and institutional quality: Evidence from developing countries. *International Journal of Finance & Economics*, 28(3), 2915–2936. <https://doi.org/10.1002/ijfe.2575>
- Tran, L. T. H. (2022). Reporting quality and financial leverage: Are qualitative characteristics or earnings quality more important? Evidence from an emerging bank-based economy. *Research in International Business and Finance*, 60, 101578. <https://doi.org/10.1016/j.ribaf.2021.101578>
- Wei, L. (2025). Optimizing cash flow management for ship financing leasing: Risk identification, risk assessment, and management strategies. *Cogent Business & Management*, 12(1), 2464941. <https://doi.org/10.1080/23311975.2025.2464941>
- Wittenberg-Moerman, R. (2008). The role of information asymmetry and financial reporting quality in debt trading: Evidence from the secondary loan market. *Journal of Accounting and Economics*, 46(2–3), 240–260. <https://doi.org/10.1016/j.jacceco.2008.08.001>