Mapping Nigeria's Debt Landscape

A Burden on Youth, Climate Change & National Development

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A policy brief on Nigeria's debt accumulation, repayment and real cost to human capital development, women, youth and climate change.

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About Centre for Inclusive Social Development

The Centre for Inclusive Social Development (CISD) is a non-profit and non-governmental organisation committed to building a society where everyone, regardless of gender, background, or circumstance, can access quality healthcare, education, and opportunities for meaningful participation.

Our foundation is rooted in a vision of creating inclusive systems driven by rigorous evidence, co-created through genuine community partnerships, and firmly grounded in the principles of social justice.

CISD collaborates with local communities, volunteers, and donors to achieve its goal of making a meaningful and positive impact on people's lives. CISD is committed to transparency and accountability, and its work is evidence-based, consistently striving to improve its impact through innovative solutions.

Director: Folahan Johnson

Research Team: Bright Utibe Akpabot, Tobechukwu Daniel Ezeuko, Job Omotayo Olaniran

Data Visualisation / Creative Development: Bright Utibe Akpabot, Job Omotayo Olaniran

Editor: Abayomi Akinbo

Contact: cisdnigeria.org, +234 704 764 7745
Address: 3rd Floor, Coscharis Motors, Central Business District, Abuja

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Executive Summary

Nigeria's public finances are in a severe, self-inflicted crisis, primarily due to a growing debt burden that limits the government's ability to fund essential services, critical infrastructure, and development projects.

Two key metrics highlight the severity of this situation. First, total public debt reached N144.67 trillion in the fourth quarter of 2024. Second, and even more concerning, the Federal Government's Debt Service-to-Revenue ratio jumped to 73.5% in 2023, far surpassing the established sustainability threshold of 50%. This means that nearly three-quarters of the Federal Government's revenue is used for debt servicing, effectively placing the nation in a fiscal chokehold. The burden worsened following the securitisation of N22.7 trillion in Ways & Means advances by the Central Bank, which sharply increased the official debt stock. Currently, external debt accounts for 48.6% of total debt, and the depreciation of the Naira significantly increases the costs of servicing this external debt.

This results in a pronounced Fiscal Crowding-Out Effect, with public resources redirected from critical, long-term investments in infrastructure, health, and climate action, undermining future growth and human capital development.

Nigeria's fiscal trajectory is unsustainable, with expenditure growth persistently outpacing revenue mobilisation. Borrowing increasingly covers recurrent deficits instead of funding productive capital projects, creating a negative cycle. Deficits drive borrowing, which raises servicing costs and crowds out essential social sector investments needed for long-term development.

The Structural Risks and Human Cost

Two significant structural risks compound this challenge across the federal and state governments:

Domestic Risk: The persistent need for the Federal Government to borrow domestically drives high interest rates on government instruments. This crowds out private investment and lending by making it more expensive for the private sector to access credit, thereby stalling job creation and economic diversification, especially for women and young entrepreneurs.

External Risk: Heavy reliance on foreign-currency debt exposes federal and state governments to extreme exchange rate volatility. This is particularly critical at the state level,

48.6%

Currently, external debt accounts for 48.6% of total debt, and the depreciation of the Naira significantly increases the costs of servicing this external debt.

where approximately 65% of sub-national debt is foreign-denominated. Any sudden depreciation of the Naira instantly inflates the debt burden and servicing costs for states, placing local budgets and local service delivery under immediate threat.

Critically, the debt burden acts as a 'deferred tax' on the youth, women, and girls of Nigeria. Chronic underfunding of education limits opportunities for children, particularly girls, who face higher dropout rates due to rising costs or a lack of basic facilities. This underinvestment directly undermines critical human capital development. For instance, research confirms that a woman who can read is 50% more likely to have a child survive past age five. By diverting resources away from education to debt servicing, the fiscal crisis directly impedes achieving essential development outcomes, contributing to higher infant and child mortality rates and locking youth and their future into cycles of poverty.

Furthermore, the debt limits the government's ability to create an enabling environment for private-sector growth, denying the youth access to quality jobs and restricting their long-term economic futures.

In addition, the fiscal chokehold prevents the nation from making necessary long-term investments in resilience and sustainability. Resources urgently needed for climate adaptation, renewable energy transitions, and mitigating the effects of environmental degradation (such as flooding and desertification) are redirected to debt servicing. This compromises Nigeria's ability to meet its Nationally Determined Contributions (NDCs) and exposes communities to greater climate vulnerability, especially in the agricultural sector and oil production, which employs a large portion of the population.

Way Forward

Addressing the crisis requires immediate, decisive action in three parts:

- **Enforcing strict fiscal discipline** by implementing hard caps on non-essential recurrent expenditure (wasteful spending) and significantly limiting future non-concessional borrowing.
- **Implementing aggressive and efficient revenue mobilisation** strategies that broaden the tax base and improve collection efficiency while not burdening citizens further in the current economically troubled situation.
- **Ensuring transparent, accountable borrowing practices** focused exclusively on financing revenue-generating, self-liquidating and critical infrastructural projects with clearly defined economic returns.

This policy brief shifts the discussion from headline debt numbers to the real costs and structural implications of borrowing for the future of Nigerian youth, women, and girls. It analyses the public debt structure and utilisation at both federal and state levels, presents evidence of the crisis, and outlines actionable policy options to restore fiscal sustainability, fund human development, and meet climate goals. This report will proceed to provide the structural evidence behind this crisis and propose prescriptive policy options to secure sustainable fiscal resilience. The aim is to guide a disciplined, comprehensive response to the debt crisis.


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Introduction

Manufactured Crisis: An Anatomy of Nigeria's Accelerating Public Debt

Nigeria's public finance situation has reached a critical juncture, defined by a functional fiscal chokehold; the rapidly increasing cost of debt servicing is actively stifling the government's ability to fund essential public services and development initiatives. This crisis is not theoretical; it is quantified by the staggering surge in the total public debt stock from N97.34 trillion (US$108.23 billion) in Q4 2023[1] to N144.67 trillion (US$94.23 billion) in Q4 2024[2] (year-on-year). While the debt size is alarming, the most critical indicator of fiscal distress is the crippling debt service-to-government revenue ratio. **The Federal Government of Nigeria's (FGN) Debt Service-to-Revenue ratio reached 73.5% in 2023, according to the Debt Management Office's (DMO) internal analysis. This figure significantly surpasses the recommended sustainability threshold of 50%[3].** The 2025 - 2027 Medium-term Expenditure Framework (MTEF) & Fiscal Strategy Paper confirms that debt service consumed 69% of actual 2023 revenues[4]. This extreme fiscal burden points to a fundamental policy failure; the primary challenge is a chronic inability to generate adequate domestic revenue. Consequently, it necessitates diverting public funds away from critical, productive sectors such as infrastructure and education.

The acceleration of the fiscal burden is directly traceable to two distinct instances of institutional failure:

Formalizing Hidden Liabilities and Budgetary Failure

The debt crisis was substantially manufactured through the formal transition of previously hidden liabilities into official public debt. This occurred specifically via the securitisation of N22.7 trillion in Ways & Means (W&M) advances from the Central Bank of Nigeria (CBN)[5] . The DMO stated in its report[6] that the Ways & Means were included in

1.Total Public Debt Stock December 31, 2023 https://www.dmo.gov.ng/debt-profile/total-public-debt/4591-nigeria-s-total-public-debt-stock-as-at-december-31-2023
2.Total Public Debt Stock December 31, 2024 https://www.dmo.gov.ng/debt-profile/total-public-debt/5215-total-public-debt-as-at-december-31-2024
3. Debt Sustainability Analysis
https://dmo.gov.ng/publications/reports/debt-sustainability-analysis/4313-2022-debt-sustainability-analysis-dsa-report/file
4. 2025-2027 MTEF & FSP https://budgetoffice.gov.ng/index.php/2025-2027-medium-term-expenditure-framework-fiscal-strategy-paper
5.National Public Debt Q2 2023 Bulletin https://www.dmo.gov.ng/publications/other-publications/nigeria-s-public-debt-statistical-bulletin/4600-nigeria-public-debt-statistical-bulletin-q2-2023/
6.National Public Debt Q2 2023 Bulletin
https://www.dmo.gov.ng/publications/other-publications/nigeria-s-public-debt-statistical-bulletin/4600-nigeria-public-debt-statistical-bulletin-q2-2023/

domestic debt. This action explicitly placed the actual accumulated cost of years of unchecked government spending and a systemic lapse in budgetary discipline onto the public ledger. While this conversion was necessary to introduce transparency into the public accounts, it instantaneously ballooned the official debt stock. The N22.7 trillion was the most significant initial tranche securitised. Since then, the Federal Government has acknowledged and addressed a subsequent balance of N7.3 trillion[7], a portion of which has also been securitised.

Currency Instability and External Debt Vulnerability

Concurrently, Nigeria's economic vulnerability was severely exacerbated by currency instability. The external component of the debt portfolio has risen sharply to 48.59% of the total as of December 2024[8]. This composition ensures that the dramatic weakening of the Naira directly and automatically inflates the cost of servicing foreign currency debts as a critical valuation effect. This dynamic not only increases the domestic burden but also simultaneously drains scarce foreign exchange reserves, severely limiting the nation's import capacity and dampening growth prospects across the entire economy.

The macroeconomic toll of the debt now actively undermines developmental objectives, manifesting through three critical constraints. The first is the Fiscal Crowding-Out Effect, which is unavoidable: mandated debt payments commandeer public resources, effectively starving essential investments in vital areas such as infrastructure, health, and human capital. **Secondly, the market perception of unsustainable national debt creates a Debt Overhang that actively discourages private investment, stimulates capital flight, and fundamentally erodes the nation's tax base.** Finally, the government's heavy reliance on domestic borrowing necessitates high-interest-rate offerings. This practice not only increases costs for businesses but also reinforces the crowding-out effect by directly suppressing broader private-sector expansion.

Methodology

This policy brief adopts a structural and prescriptive analytical approach to examine Nigeria's public debt dynamics, servicing trends, and their implications for fiscal sustainability and sectoral spending.

Data Sources and Scope

The analysis relies exclusively on official data from the Debt Management Office (DMO), the Budget Office of the Federation (BOF), the Central Bank of Nigeria (CBN), the National Bureau of Statistics (NBS), and international institutions such as the International Monetary Fund (IMF), UNICEF, UNESCO and the World Bank.

The study spans the period from 2020 to 2024, providing a dual focus on both federal and sub-national debt. The analytical framework is

7. DMO Press Release Total Public Debt Stock as at March 31, 2024 https://www.dmo.gov.ng/news-and-events/circulars-releases/4946-press-release-nigeria-s-total-public-debt-as-at-march-31-2024/
8. Nigeria's Total Public Debt Stock as of December 31, 2024 https://www.dmo.gov.ng/debt-profile/total-public-debt/5215-total-public-debt-as-at-december-31-2024

structured to deliver a comprehensive assessment by first rigorously examining the composition and structure of the public debt portfolio, including the precise balance between the domestic and external borrowing, the tenure of debt instruments, and the resultant interest rate profile.

Beyond structural composition, the analysis extends to the sustainability and transparency of public debt management practices, specifically highlighting potential regulatory lapses and the degree of fiscal discipline governing both debt accumulation and utilisation. Furthermore, it explores and details the crowding-out effect of rising debt service on critical sectors such as education, health, and infrastructure. This is linked directly to the implications of low revenue generation, persistent fiscal deficits, and low productive output, all of which collectively weaken GDP growth and significantly heighten the Debt-to-GDP ratio.

Concepts

For clarity and consistency, key concepts used in this report are:

Public Debt: The total outstanding financial obligations of a government encompassing all liabilities owed to domestic and external creditors. It includes direct borrowings (bonds, treasury bills) and guaranteed obligations.

Debt Servicing: The mandatory and non-discretionary cost incurred by the government to meet its financial obligations, consisting of interest payments (statutory charges on the loan) and principal repayments (amortisation) due within a specific fiscal period.

Fiscal Deficit: The shortfall in public finance that arises when the government's total expenditure (recurrent and capital) exceeds its total revenue (tax and non-tax), excluding any income derived from borrowing, within a given fiscal year.

Debt Sustainability: Government's capacity to manage its current and projected debt obligations without requiring disruptive fiscal adjustments (e.g., steep tax hikes or sudden spending cuts) or compromising long-term economic growth, social welfare, or its ability to meet future obligations.

Crowding-Out Effect: A fiscal phenomenon where a high volume of mandatory debt servicing consumes an increasingly large share of the national budget, reducing the resources available for discretionary, developmental, and productive sectors such as education, health, and infrastructure, thereby hindering long-term human capital formation and economic growth.

Tenure: The fixed duration of a loan or debt instrument, measured from the date of issuance to the date on which the full repayment of the principal (the face value of the debt) is legally due to the creditor.

Exchange Rate Adjustment: The variation between the projected (benchmark) exchange rate used in budget planning and the actual rate applied in debt settlement, which influences the real cost of external debt.

Fiscal Space: The budgetary room available to the government to raise, reallocate, or spend resources on priority policy objectives (e.g., poverty reduction, climate adaptation) without jeopardising the government's long-term fiscal sustainability or triggering excessive debt vulnerability.

Analytical Framework

The report applies a mixed analytical approach to estimate Nigeria's real cost of borrowing and assesses the fiscal implications of debt servicing.

Fiscal Deficit Estimation: The fiscal deficit for each year was computed as the difference between total government expenditure and total revenue to measure the degree of budgetary imbalance driving debt accumulation.

Sub-national Debt Exposure: The debt stock of each state was calculated as a percentage of total public debt to identify states with the highest borrowing exposure.

Computation of Implied Interest Burden: For domestic debt, the interest-to-principal repayment ratio was determined to assess the effective cost of borrowing.

Debt Service Composition: The proportions of interest payments and principal repayments in total debt service were analysed to determine whether the debt portfolio reflects a rollover trend or a genuine reduction in outstanding obligations.

Adjustment for Exchange Rate Movements: External debt payments were recalculated using the difference between the Medium-Term Expenditure Framework (MTEF) benchmark exchange rate and the actual Central Bank of Nigeria (CBN) settlement rate to estimate the foreign-exchange-induced extra cost

Limitations

The analysis is constrained by variations in data classification across agencies and exchange rate fluctuations that affect the valuation of external debt. These challenges were mitigated through data harmonisation, cross-verification across official sources, and the application of average annual exchange rates to ensure comparability.

Chapter 01

Nigeria's Growing Debt: Composition And Fiscal Risks.

Nigeria's continued reliance on borrowing stems from a structural imbalance between revenue generation and expenditure growth. As evident in Table 1.1 (covering the period between 2020 and 2024), while total revenue rose substantially from N4.04 trillion to N20.98 trillion, total expenditure grew even faster, increasing from N10.02 trillion to N34.49 trillion. This disparity has resulted in a significant widening of the fiscal deficit, which grew from N5.98 trillion to N13.51 trillion over the same period[9].

Table 1.1 Overview of Fiscal Balance From 2020 — 2024

	2020 (N'b)	2021 (N'b)	2022 (N'b)	2023 (N'b)	2024 (N'b)
Total Revenue	4,039.10	4,643.51	7,756.07	12,484.97	20,980.07
Recurrent Expenditure	7,987.47	8,679.62	11,773.08	15,635.87	11,589.17
Capital Expenditure	1,601.76	1,903.55	2,203.08	6,365.86	21,162.29
Statutory Transfers	428.03	496.52	810.12	1,034.67	1,742.79
Total Expenditure	10,017.26	11,079.69	14,786.74	23,036.40	34,494.25
Fiscal Deficit	(-5,978.16)	(-6,436.49)	(-7,030.22)	(-10,551.42)	(-13,514.19)

Source: FGN Budget Implementation Reports (2020 - 2024).

Fiscal Deficit (N'bn)

9. Quarterly Budget Implementation

The current fiscal pressure is compounded by the dominance of recurrent expenditure, which accounts for the bulk of spending. Recurrent expenditure has surged due to rising administrative costs. While capital expenditure is increasing, it is primarily financed through borrowing. This pattern highlights a policy challenge. Borrowing has been used not merely to fund growth-oriented projects but also to cover structural, recurrent shortfalls, significantly raising long-term debt sustainability concerns. While borrowing is justifiable for counter-cyclical strategic investments such as infrastructure development or public goods provision, the current composition indicates a risk of unproductive debt. In this scenario, borrowed funds may not generate sufficient future economic returns to service the liabilities incurred. In other cases, borrowings or credits have been obtained to support state governments in meeting expenditure demands, mainly for salaries and wages.

The fiscal trajectory suggests that without strategic revenue mobilisation, disciplined expenditure prioritisation, and strict borrowing limits, Nigeria faces a high risk of entering a cycle of increasing debt-to-GDP ratios, rising debt service costs, and severely constrained fiscal space, which limits the government's capacity to invest in critical sectors like health, education, and climate action.

How Deficit Reshaped Nigeria Debt Composition.

The persistent widening of Nigeria's fiscal deficit between 2020 and 2024 has pushed the government to increasingly rely on borrowing to bridge the gap between insufficient revenue and growing expenditure obligations. There is no doubt that this move is a government decision to focus on meeting the fiscal deficit through borrowing rather than on increasing revenue. Nonetheless, the structure of the borrowing, a blend of external and domestic debt, determines Nigeria's exposure to refinancing risks, interest-rate pressures, and foreign-exchange (FX) vulnerabilities.

As shown in Table 1.2, Nigeria's total public debt stock increased significantly from N32.9 trillion in 2020 to N144.7 trillion in 2024, reflecting both severe financing needs and specific policy decisions regarding the selection of debt instruments. In this period, domestic debt rose from N20.2 trillion to N74.4 trillion, driven mainly by increased issuance of FGN bonds and Treasury Bills, and by securitisation of Ways & Means. Meanwhile, external obligations grew from N12.7 trillion (US$33.3 billion) to N70.3 trillion (US$45.8 billion)[10] . **This external growth was partly driven by new multilateral funding but was critically amplified by the sharp depreciation of the Naira. This shifted the portfolio's balance, with the domestic debt share dropping from 61.4% in 2020 to 51.4% in 2024, and the external share climbing from 38.6% to 48.6%11 in the same year.** This increasing reliance on foreign-currency-denominated debt significantly heightens the country's exposure to exchange rate risk.

10. Nigeria's Total Public Debt Stock https://www.dmo.gBelowmost significant ov.ng/debt-profile/total-public-debinvestmentst
11. Total Public Debt https://www.dmo.gBelowmost significant ov.ng/debt-profile/total-public-debinvestmentst

Table 1.2 Nigeria's Total Public Debt Portfolio From 2020 — 2024.

Year	Domestic Debt (US$'M)	External Debt (US$'M)	Domestic Debt (N'M)	External Debt (N'M)	Total Public Debt (N'M)	External Debt % of Total	Domestic Debt % of Total
2020	53,044.46	33,348.08	20,209,896.37	1,270,561,848	32,915,514.85	38.6%	61.4%
2021	57,388.32	38,391.32	23,700,801.25	15,855,231.25	39,556,032.50	40.1%	59.9%
2022	61,415.93	41,694.91	27,548,116.06	18,702,251.88	46,250,367.94	40.4%	59.6%
2023	65,734.18	42,495.16	59,120,858.81	38,219,849.44	97,340,708.25	39.3%	60.7%
2024	48,444.65	45,780.45	74,377,920.32	70,287,530.62	144,665,450.94	48.6%	51.4%

Source: Debt Management office (DMO).

This debt composition carries significant policy implications: a rising external component amplifies Nigeria's vulnerability to foreign exchange fluctuations, effectively raising the Naira cost of debt servicing and tightening fiscal space during periods of currency instability. The sharp depreciation events recorded during this period further inflated the Naira value of external debt stock, thereby deepening the fiscal stress associated with these obligations.

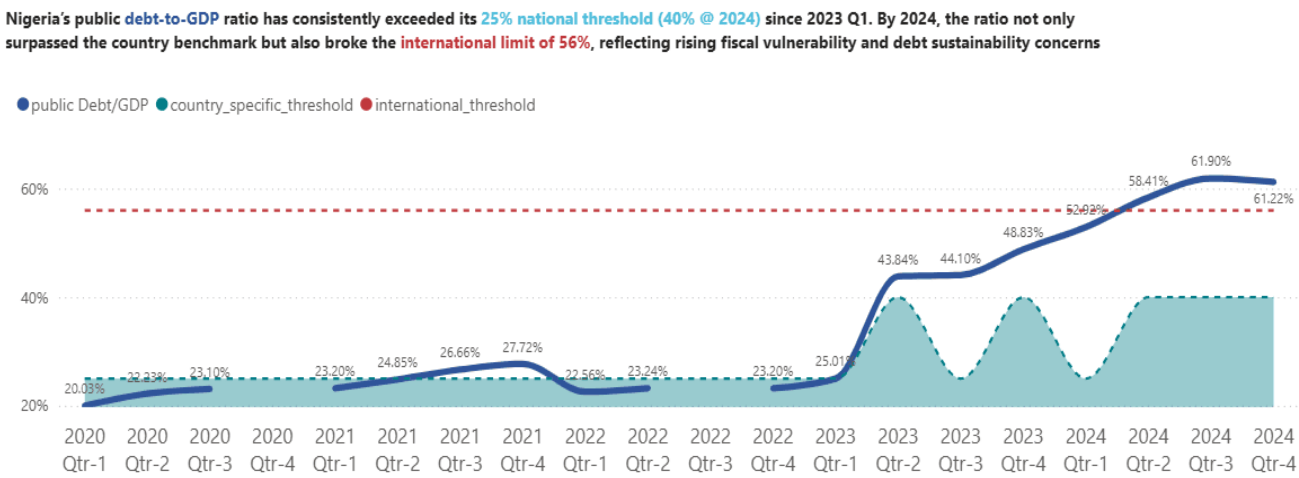
The trajectory of Nigeria's public debt-to-GDP ratio demonstrates a rapid escalation of fiscal risk, with the indicator breaching both domestic and international sustainability thresholds earlier than expected.[12] The ratio first exceeded the national ceiling of 25% in Q3 2021 at 27.72%, signalling early deterioration in fiscal discipline and a rising dependence on deficit financing.

This breach did not occur in isolation; it reflected a deeper structural problem that the economy was not generating sufficient revenue to support its growing fiscal obligations. This overall economic performance was significantly weakened by the negative impact of the production losses in the oil sector, combined with the insufficient growth rate of the non-oil sector [13]. This hindered stronger GDP growth and led to a faster rise in the debt ratio than in the economy.

As shown in Figure 1.1, by 2024, the ratio remained above the 25% national limit and surpassed the revised 40% benchmark set for that year. The situation became more critical when the ratio climbed to 61.22% by Q4 2024[14] , overshooting the 56% international sustainability threshold.

12. National Debt Threshold.
https://budgetoffice.gov.ng/index.php/resources/internal-resources/reports/quarterly-budget-implementation
13. Annual Economic Report, CBN 2022
https://www.cbn.gov.ng/Out/2024/RSD/2022%20ANNUAL%20REPORT.pdf
14. https://budgetoffice.gov.ng/index.php/resources/internal-resources/reports/quarterly-budget-implementation

Figure1.1 Public Debt Burden Relative To Benchmark.



Source: Budget Implementation report (BIR).

With deficits becoming a structural feature of the budget, the government relies increasingly on borrowing to close the gap each year. This accumulation of deficit-financed debt naturally feeds into a rising debt stock, and the pace at which the deficit expands relative to economic growth shapes the trajectory of Nigeria's debt sustainability. It is within this context that the debt-to-GDP ratio becomes essential not just as a numerical indicator, but also as a reflection of how rapidly debt is growing relative to the size of the economy. A consistently widening deficit, therefore, directly translates into upward pressure on the debt-to-GDP ratio, providing a basis for understanding how debt obligations begin to influence broader macroeconomic outcomes.

“There is no doubt that this move is a government decision to focus on meeting the fiscal deficit through borrowing rather than on increasing revenue.

Chapter 02

Scanning Sub-National Debt

Although the Federal Government is Nigeria's primary borrower, sub-national debt has become a structurally important aspect of the country's overall public debt burden. This development holds critical implications for fiscal sustainability and intergovernmental finance. As Nigeria's fiscal pressures intensified between 2020 and 2024, state governments increasingly turned to domestic and external borrowing to finance infrastructure, close revenue gaps, and sustain recurrent obligations. **This growing reliance on debt, often without commensurate growth in states' internally generated revenue (IGR), has widened fiscal vulnerabilities across the federation. As of December 2024, Table 2.1 shows that states collectively owed N11.33 trillion.** This figure comprises N3.97 trillion in domestic debt and N7.36 trillion[15] in external debt. The composition means that 65% of all sub-national liabilities are foreign-currency-denominated, directly exposing states to exchange-rate volatility they cannot independently manage.

Crucially, because states cannot independently borrow externally, under the Fiscal Responsibility Act (2007), all external loans are intermediated by the Federal Government and subsequently repaid through automatic deductions from FAAC allocations. This structural arrangement deepens states' dependency on federal transfers and amplifies the impact of Naira depreciation on their fiscal stability.

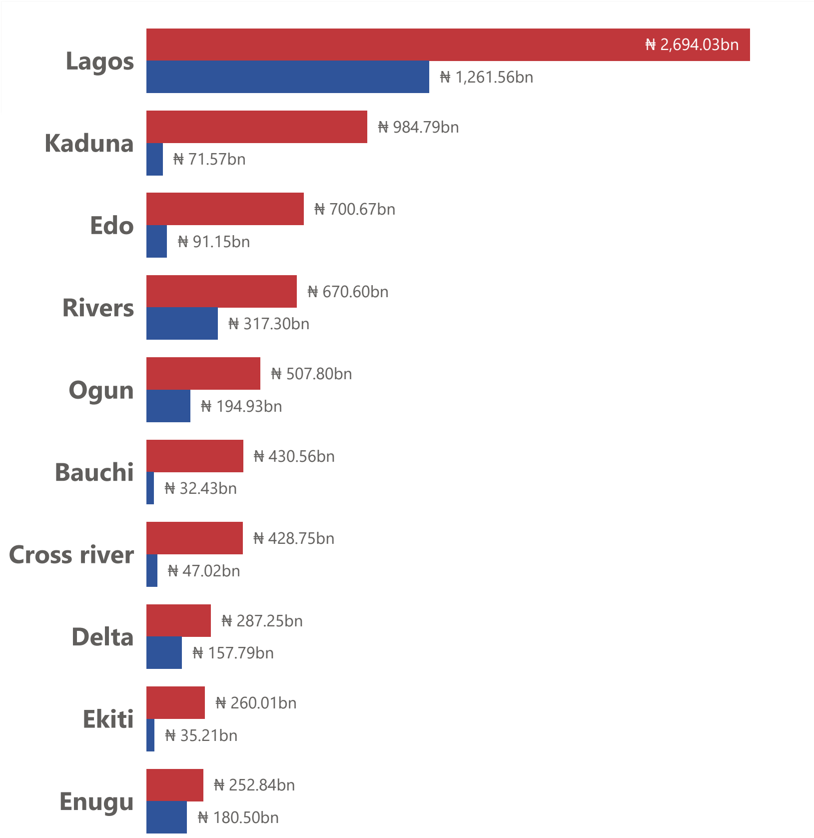
Concentration Risks: A Few States Carry Almost Half of the Debt

A significant insight from Figure 2.1 reflects that Nigeria's sub-national debt is highly concentrated. Just five (5) states, specifically Lagos (N2.69 trillion), Kaduna (N984.8 billion), Edo (N700.7 billion), Rivers (N670.6 billion), and Ogun (N507.8 billion), account for 49.1% of all sub-national debt in 2024. This concentration reflects substantial differences in economic size, borrowing capacity, infrastructure ambition, and access to credit markets. Lagos, for instance, accounts for nearly 23.8% of all state debt, reflecting its market depth and larger infrastructure pipeline.

However, the presence of lower IGR states with high debt profiles, such as Kaduna (N984.8 billion)[16], highlights a deeper structural issue; borrowing decisions are not always aligned with revenue-generating capacity. Instead, they are often driven by developmental needs, political priorities, or the availability of guaranteed external financing through the Federal Government. The structural challenge many states face is the significant gap between their IGR and their substantial debt obligations.

15. Nigeria's Sub-National Debt Profile https://www.dmo.gov.ng/debt-profile/sub-national-debts
16. Nigeria - Internally Generated Revenue

Figure 2.1 Top 10 States Ranked by Total Debt



Bottom 10 States Ranked by Total Debt

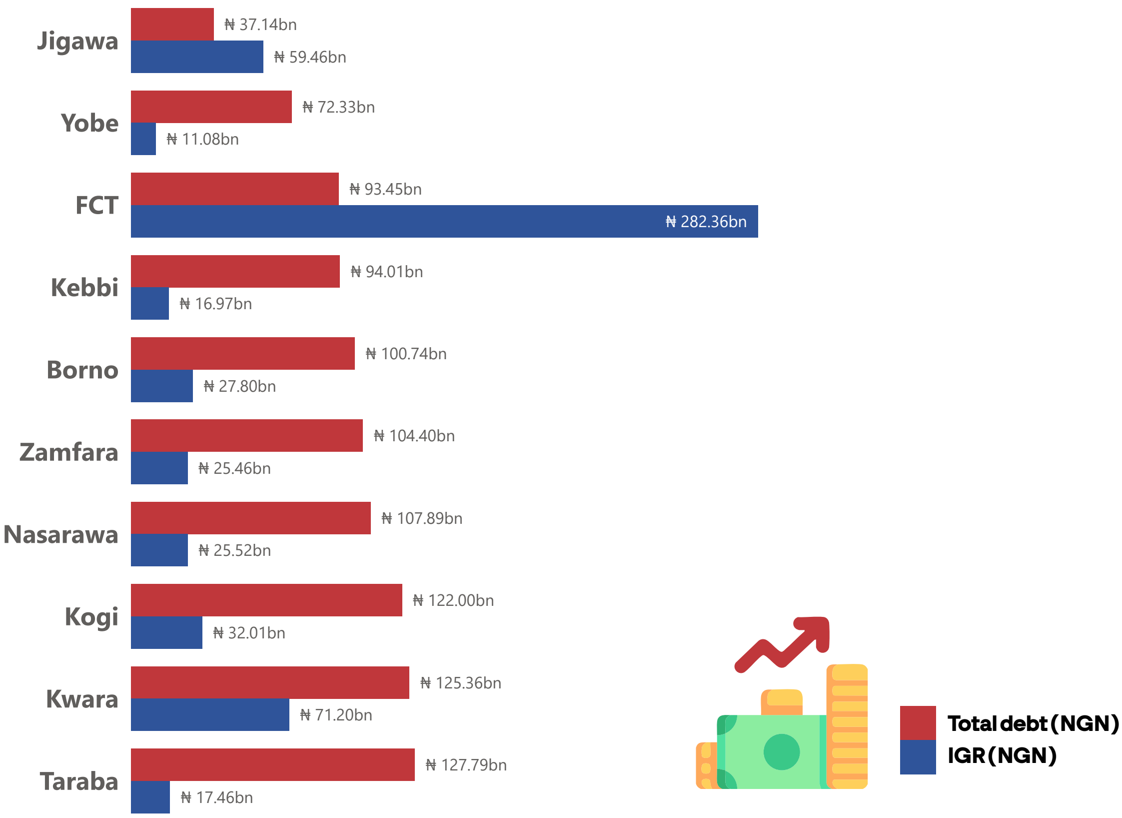


Table 2.1 Nigeria's State IGR and Sub-National Debt as at 2024.

State	IGR (NGN)	Domestic Debt (NGN)	External Debt (NGN)	Total Public Debt (NGN)	% of Sub-National Debt
Abia	40,009,340,912.93	66,078,662,682.98	155,683,015,312.39	221,761,677,995.37	1.96%
Adamawa	20,298,222,818.56	81,232,719,282.98	150,229,015,118.70	231,461,734,401.68	2.04%
Akwa ibom	75,768,017,871.08	122,193,037,697.65	54,549,785,591.63	176,742,823,289.28	1.56%
Anambra	42,689,648,058.74	28,684,540,143.05	159,077,519,540.71	187,762,059,683.76	1.66%
Bauchi	32,427,554,765.85	143,948,069,260.24	286,609,257,815.49	430,557,327,075.73	3.80%
Bayelsa	64,013,288,202.51	82,722,072,815.09	86,071,272,125.51	168,793,344,940.60	1.49%
Benue	20,434,774,732.75	122,575,619,594.08	39,235,320,814.89	161,810,940,408.97	1.43%
Borno	27,803,527,850.21	27,914,959,613.76	72,829,976,319.32	100,744,935,933.08	0.89%
Cross river	47,018,239,529.33	118,134,026,523.31	310,612,033,613.29	428,746,060,136.60	3.78%
Delta	157,785,188,072.55	199,575,659,736.39	87,677,263,541.68	287,252,923,278.07	2.53%
Ebonyi	13,177,829,475.63	18,112,026,850.56	139,730,805,319.92	157,842,832,170.48	1.39%
Edo	91,153,908,548.19	112,998,966,385.30	587,674,035,570.74	700,673,001,956.04	6.18%
Ekiti	35,213,748,270.98	53,528,717,341.06	206,482,653,712.32	260,011,371,053.38	2.29%
Enugu	180,500,141,598.36	119,284,430,106.62	133,556,619,811.58	252,841,049,918.20	2.23%
FCT	282,364,055,025.74	63,557,338,984.16	29,893,499,031.50	93,450,838,015.66	0.82%
Gombe	20,724,823,840.00	89,241,389,619.79	50,623,887,735.38	139,865,277,355.17	1.23%
Imo	25,270,602,765.46	126,144,102,593.35	109,592,483,469.80	235,736,586,063.15	2.08%
Jigawa	59,455,563,495.20	1,329,234,426.88	35,812,931,903.23	37,142,166,330.11	0.33%
Kaduna	71,574,658,542.97	25,764,761,060.10	959,021,843,590.33	984,786,604,650.43	8.69%
Kano	74,771,014,335.51	60,649,754,463.22	187,350,123,154.81	247,999,877,618.03	2.19%
Katsina	39,152,790,613.55	25,679,586,232.65	154,127,334,548.61	179,806,920,781.26	1.59%
Kebbi	16,971,704,831.43	15,222,009,996.95	78,788,292,339.40	94,010,302,336.35	0.83%
Kogi	32,012,618,177.80	41,587,578,673.55	80,411,395,900.18	121,998,974,573.73	1.08%
Kwara	71,197,075,565.91	59,078,849,493.01	66,284,921,388.22	125,363,770,881.23	1.11%
Lagos	1,261,556,415,048.56	900,191,716,363.58	1,793,837,742,192.20	2,694,029,458,555.78	23.77%
Nasarawa	25,518,692,329.97	26,597,217,075.38	81,292,191,933.52	107,889,409,008.90	0.95%
Niger	34,660,234,106.71	140,739,523,757.12	103,111,362,779.70	243,850,886,536.82	2.15%
Ogun	194,933,884,872.57	211,860,195,068.71	295,940,990,454.20	507,801,185,522.91	4.48%
Ondo	31,251,840,302.79	12,876,176,042.46	116,323,909,503.59	129,200,085,546.05	1.14%
Osun	54,767,865,323.88	84,266,880,137.42	115,275,371,467.78	199,542,251,605.20	1.76%
Oyo	65,287,038,267.92	89,908,362,124.03	81,017,019,263.67	170,925,381,387.70	1.51%
Plateau	31,139,826,680.23	94,088,741,500.68	49,356,056,091.70	143,444,797,592.38	1.27%
Rivers	317,303,986,832.38	364,393,017,734.54	306,202,127,261.57	670,595,144,996.11	5.92%
Sokoto	20,845,754,441.54	55,409,834,144.35	78,247,304,438.36	133,657,138,582.71	1.18%
Taraba	17,460,514,087.44	81,387,745,236.16	46,406,190,562.26	127,793,935,798.42	1.13%
Yobe	11,084,367,202.33	42,055,410,877.07	30,270,387,335.66	72,325,798,212.73	0.64%
Zamfara	25,455,960,759.33	59,044,383,851.89	45,353,369,853.17	104,397,753,705.06	0.92%

Source: Nigeria Bureau of statistics (NBS) and Debt Management Office (DMO).

These significant external debt concentrations signify that, with roughly 65% of sub-national debt in foreign currency as of 2024, every episode of Naira depreciation immediately inflates sub-national debt profiles and reduces available FAAC resources due to automatic deductions. This effect is most pronounced in states with modest IGRs, such as Kaduna, Bauchi, Cross River, and Ekiti, which still maintain large debt portfolios, indicating a widening mismatch between the states' fiscal capacities and their escalating borrowing commitments.

As exchange-rate adjusted repayments increase, states face a reduction in fiscal space for essential capital spending, social services, and wage obligations, heightening socioeconomic vulnerability and increasing dependence on federal bailouts, as seen in the past. This sub-national lens is important to note because the sustainability of Nigeria's total public debt is no longer determined solely by the Federal Government. States have become active drivers of debt accumulation, and their escalating vulnerability to foreign-exchange shocks now poses a systemic risk to national fiscal stability.

Building on the comprehensive analysis of structural deficits, unproductive debt, and systemic sub-national vulnerabilities, achieving long-term fiscal resilience for Nigeria demands a multi-faceted and rigorously disciplined policy response focused on three non-negotiable strategic pillars: Revenue Mobilisation, Expenditure Prioritisation, and Enhanced Debt Management.

> **"Although the Federal Government is Nigeria's primary borrower, sub-national debt has become a structurally important aspect of the country's overall public debt burden. This development holds critical implications for fiscal sustainability and intergovernmental finance.**

Chapter 03

FGN Public Debt Composition Profile.

Nigeria's domestic debt portfolio grew sharply, with FGN Bonds and Treasury Bills accounting for the bulk of this increase. The outstanding value of FGN Bonds (with maturities ranging from 2 to 30 years) surged from N11.83 trillion in 2020 to N55.44 trillion in 2024, as seen in Table 3.1. Concurrently, Treasury Bills (with short-term maturities of 91 to 364 days) jumped from N2.72 trillion to N12.35 trillion over the same period.

Table 3.1 Structure of Domestic Debt Instrument (2020 – 2024)

Debt Instrument	Tenure	2020 (N'M)	2021 (N'M)	2022 (N'M)	2023 (N'M)	2024 (N'M)
FGN Bond	2 – 30 Years	11,830,260.67	13,963,219.81	16,421,564.06	44,260,216.37	55,436,128.94
Treasury Bill	91 – 364 Days	2,720,236.49	3,786,137.29	4,422,716.79	6,522,000.46	12,351,121.93
FGN Saving Bond	2 – 3 Years	12,292.21	16,424.06	27,505.04	39,177.67	72,866.77
Sukuk Bond	7 – 10 Years	362,557.00	612,557.00	742,557.00	1,092,557.00	992,557.00
Green Bond	5 – 7 Years	25,690.00	25,690.00	15,000.00	15,000.00	15,000.00
Promissory Bond	5 – 10 Years	971,661.00	801,611.02	530,033.69	1,329,060.37	1,542,188.37

Source: Debt Management Office (DMO).

The rapid growth reflects both rising fiscal pressures and strategic, yet costly, responses by the Federal Government to manage short-term liquidity gaps. The expansion of domestic debt is directly connected to the Ways & Means advances. The Federal Government formally converted these short-term Central Bank overdrafts into long-term FGN Bonds, reshaping the debt profile.

Due to the formalisation of the Ways & Means advances, which had reached unsustainable levels by 2023, FGN Bonds became the most significant component of domestic debt. This securitisation converted immediate short-term borrowing into long-term debt, producing a sharp increase in bond issuance from 2020 (N11.83 trillion) to 2024 (N55.44 trillion). While this strategy reduced immediate short-term fiscal stress, it locked in higher interest obligations for decades, effectively transferring the repayment burden to future generations. Consequently, interest payments surged, making debt servicing a dominant fiscal concern.

The Ways & Means-driven spike in FGN Bonds also influenced Treasury Bill issuance. **The Federal Government continued to rely on short-term instruments with repayment periods of less than a year to manage recurring financing needs, creating a dual pressure on debt service.** Treasury Bills, the government's primary short-term debt instrument, nearly doubled in value from N6.52 trillion in 2023 to N12.35 trillion in 2024. These short-term securities provide quick access to cash but expose the government to rollover and interest rate risks, particularly in a high-rate environment.

The continued growth of Treasury Bills, alongside Ways & Means securitisation into FGN Bonds, demonstrates a pattern of dual pressure that reflects long-term debt locking in high interest and short-term debt subject to volatile market rates. Together, these trends explain the escalating cost of domestic debt service. Other domestic debt instruments, such as FGN savings bonds, Promissory Notes, Sukuk bonds, and green bonds, complement the broader debt strategy, providing targeted funding avenues. However, their relatively small size means their capacity to mitigate risk is modest, and they do not offset the fundamental surge in long-term obligations driven by the Ways & Means securitisation.
As fiscal pressures intensified, the Federal Government shifted to external borrowing to diversify its financing sources and mitigate domestic interest rate pressures. However, this transition has introduced significant structural trade-offs. Nigeria's external debt profile between 2020 and 2024 shows a reconfiguration in both source composition and debt maturity structure, marked by a growing exposure to potentially costlier, shorter-term credit.

Multilateral Creditors

Multilateral creditors such as the World Bank, AfDB, and IMF continue to anchor Nigeria's external debt portfolio, offering long-tenure and concessional loans that stabilise debt service costs. The World Bank's loan exposure, as indicated in Table 3.2, significantly expanded from $11.5 billion in 2020 to $17.8 billion in 2024, while AfDB's increase from $2.8 billion to $3.7 billion reflects sustained borrowing for infrastructure and social-sector investments. These concessional credits typically carry long maturities (up to 40 years) and grace periods of up to 10 years, which defer crucial fiscal pressure. **The IMF's exposure, which fell from $3.5 billion to $8.0 million, reflects the phase-out of pandemic-era support facilities. The long-term, low-interest nature of these credits serves as a fiscal stabiliser, cushioning the debt service burden.** Yet, the narrow fiscal space and limited concessional windows restrict Nigeria's capacity to rely solely on such sources.

Bilateral Borrowings

Bilateral borrowing, particularly from China, marks a second tier of Nigeria's external finance. Exim Bank of China's portfolio expanded from $3.26 billion to $5.32 billion over the review period, reflecting continued funding for large-scale infrastructure projects with medium-term maturities of 15 to 20 years. **While such borrowing supports physical capital formation (such as infrastructure and utilities), it also introduces currency risk and raises concerns about project efficiency.** That is, Nigeria's repayment of foreign-currency borrowings depends on the prevailing exchange rate. For instance, if the Naira depreciates by 50% against the Chinese Yuan, the cost of servicing a ¥100 million loan in Naira terms instantly doubles, even if the loan size in Yuan remains the same. This introduces unpredictable fiscal stress and can rapidly inflate Nigeria's total debt burden.

Repayment obligations in foreign currency expose Nigeria's fiscal position to exchange rate depreciation, while the project-tied nature of Chinese loans often limits fiscal flexibility. Other bilateral sources, such as India, Germany, Japan, and France, play marginal but steady roles, typically in concessional development financing. Collectively, however, bilateral exposure reinforces Nigeria's dependence on external project-tied finance, constraining fiscal discretion and potentially increasing long-term repayment commitments for expenditures that do not generate sufficient future revenue or economic returns to service the debt.

Commercial Debt Expansion and Rollover Risk

The most significant structural change emerges from the expansion of commercial borrowing, particularly through Eurobonds and syndicated loans. **Eurobond exposure surged from $11.2 billion in 2020 to $17.3 billion in 2024, reflecting Nigeria's growing reliance on international capital markets to meet foreign-exchange and fiscal financing needs.**

While Eurobonds provide immediate liquidity, they are issued at market-determined rates averaging between 6 to 9%, with minimal grace periods and maturities often below ten years. This pattern implies a substantial front-loaded debt service burden, as Nigeria faces concentrated repayment schedules over a short horizon. The fiscal implication is the creation of rollover pressure on external reserves, where the need to service or roll over maturing bonds collides with periods of volatile oil revenue and exchange rate instability. Syndicated loans and promissory notes, though smaller in scale, exhibit similar features, short maturities and high cost, further amplifying rollover exposure.

Table 3.2 Composition of External Borrowing From 2020–2024

Creditors	Debt Tenure	Grace Period	2020 ($'M)	2021 ($'M)	2022 ($'M)	2023 ($'M)	2024 ($'M)
International Monetary Fund (IMF)	4-10 Years	2 - 6 Years	3,535.23	3,435.33	3,266.44	2,469.90	800.23
World Bank	12-40 Years	3-10 Year	11,532.78	12,383.01	13,933.15	15,445.74	17,807.48
Africa Development Bank (AFDB)	18 – 40 Years	3 – 10 Years	2,865.63	2,837.94	3,001.87	3,233.73	3,709.06
Exim Bank of China	15 – 20 Years	5 – 7 Years	3,264.16	3,634.91	4,293.63	5,167.14	5,319.35
Exim Bank of India	15 – 20 Years	5 Years	37.00	33.48	30.34	25.94	19.42
Germany (Kreditanstalt Fur Wiederaufbau)	10 - 30 Years	3 – 10 Years	184.32	164.27	144.54	125.90	105.78
Japan (Japan international Cooperation Agen – JICA)	20 – 30 Years	7 – 10 Years	80.20	71.79	62.72	58.33	53.31
France (Agence francaise Development)	10 -20 Years	3 – 10 Years	493.71	561.60	535.95	580.13	592.60
Commercial Bonds	5 – 30 Year	13 – 30 Days	11,168.35	14,668.35	15,618.35	15,118.35	17,318.38
Promissory note /Syndicated Loan	5 – 10 Years	1 - 2 Years	186.70	600.64	807.91	270.00	54.87

Source: Debt Management Office (DMO)

Fig 3.2 Other External Financing Instruments (2020–2024) — Spotlight on Minor Instruments

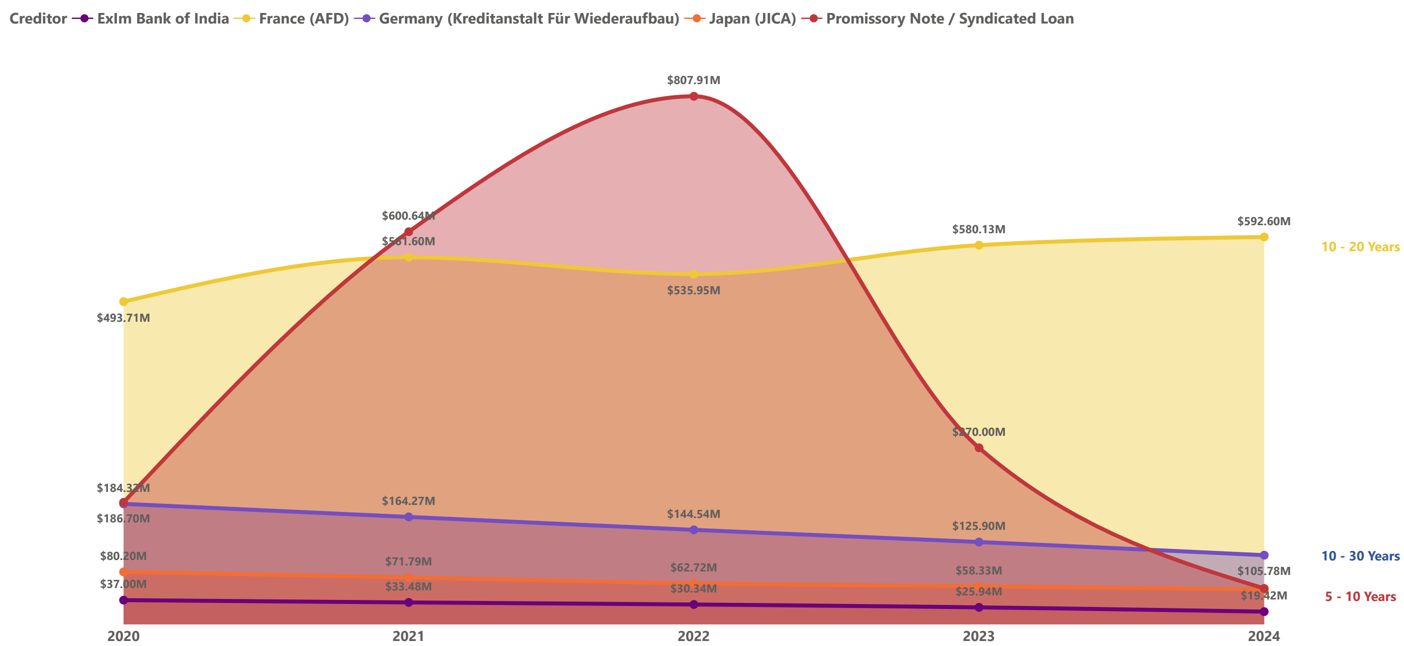
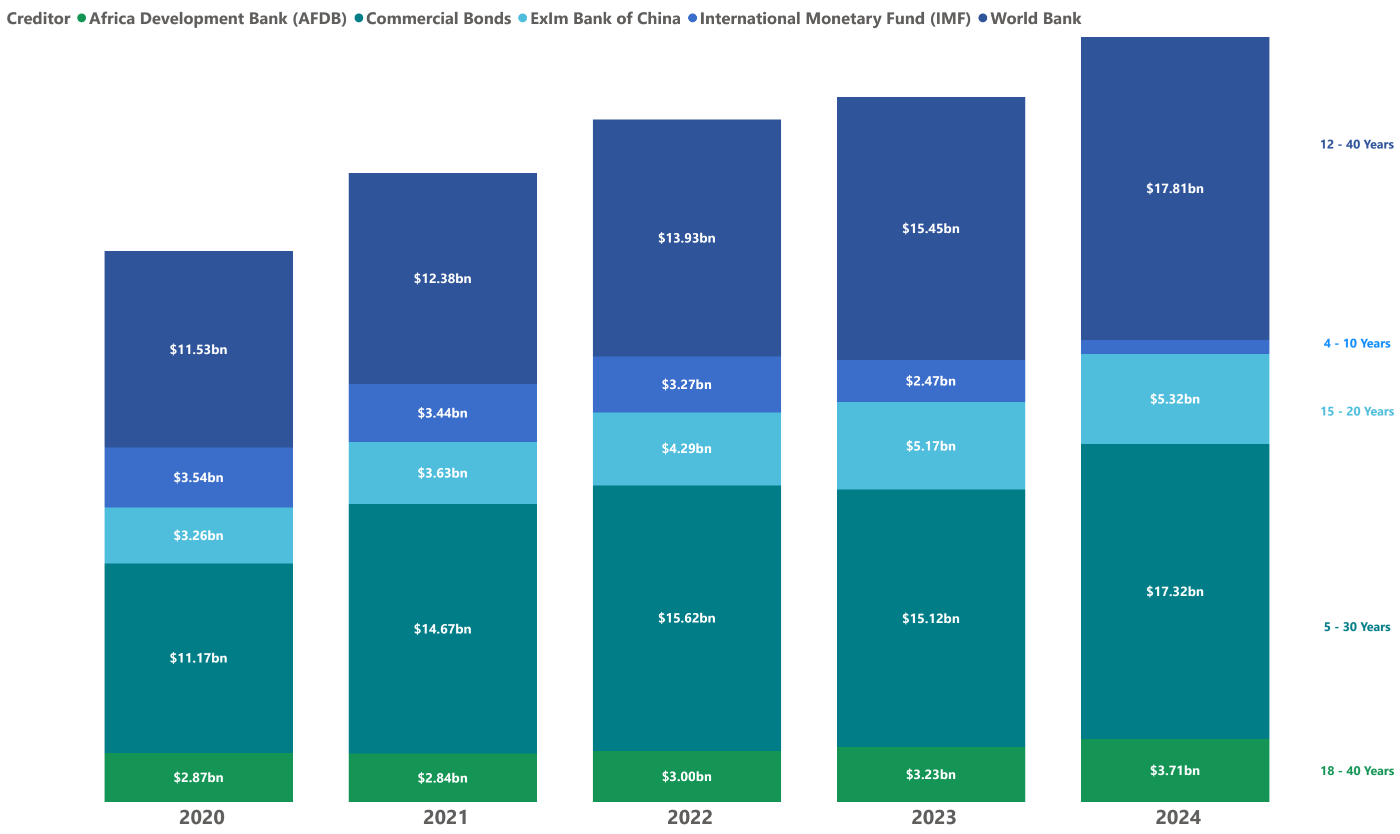


Fig 3.2 Structure of External Borrowing Instruments (2020–2024) & Tenure. Emphasis on the highest creditor



Dual Vulnerability and Sustainability Challenge

The interplay between domestic and external borrowing, therefore, reflects a dual vulnerability: one characterised by internal domestic rollover and crowding-out pressures, and the other defined by external refinancing and exchange rate risks. The compositional tilt toward commercial debt signals an erosion of Nigeria's debt sustainability anchor.

The structure of the debt portfolio shifts from the stabilising influence of long-term, low-cost concessional loans to an increasingly short-term, market-priced instrument mix. This evolution inevitably accelerates the growth of the interest-to-revenue ratio, which already exceeds prudential benchmarks, thereby critically constraining fiscal flexibility.

Moreover, the predominance of non-productive debt accumulation driven by budget support rather than productive investment weakens the growth elasticity of debt, meaning that new borrowing contributes less to GDP expansion than it adds to repayment obligations. Essentially, Nigeria is shifting from cheap, long-term credit to expensive, short-term loans, making the management of national finances more difficult and costly.

Furthermore, the prevalence of debt accumulation for non-productive purposes, primarily serving budget support (recurrent expenditure) rather than generating capital investment, severely impairs the growth elasticity of debt. The policy implication is clear: while external borrowing provides temporary fiscal relief, it concurrently raises solvency and liquidity risks. Addressing long-term debt sustainability may require two options: rebalancing Nigeria's debt portfolio toward concessional and semi-concessional sources and implementing comprehensive domestic revenue mobilisation to reduce the persistent reliance on borrowing.

Simultaneously, institutional reforms in project execution, procurement, and public investment management are needed to ensure that borrowed resources generate measurable economic returns. **Without such measures, Nigeria's debt trajectory risks transitioning from a fiscal management tool to a structural constraint on economic growth and macroeconomic stability.**

Economic Burden Of Domestic Debt Servicing.

Domestic borrowing has remained the backbone of Nigeria's financing strategy between 2020 and 2024, mainly reflecting a deliberate attempt to minimise exposure to external shocks and foreign-exchange risk. However, the structure of Nigeria's domestic debt market, dominated by high-yield instruments such as FGN Bonds, Treasury Bills, and Sukuk, has created a steep and rapidly rising interest-cost burden. As a result, the fiscal implications of domestic borrowing now outweigh its stabilising benefits. Table 3.3 reflects an escalation in the cost of servicing domestic debt, driven not by large principal repayments but by an accelerated rise in interest liabilities. While principal payments fluctuated within a moderate range, from N250 billion in 2020 to N317 billion in 2022, interest payments grew more than threefold, from N1.83 trillion in 2020 to N5.60 trillion in 2024. This sharp divergence reveals a debt portfolio increasingly shaped by high-cost refinancing, rather than by deliberate reduction of outstanding obligations.

Fig 3.3 Domestic Debt Service (Composition of Principal and Interest)

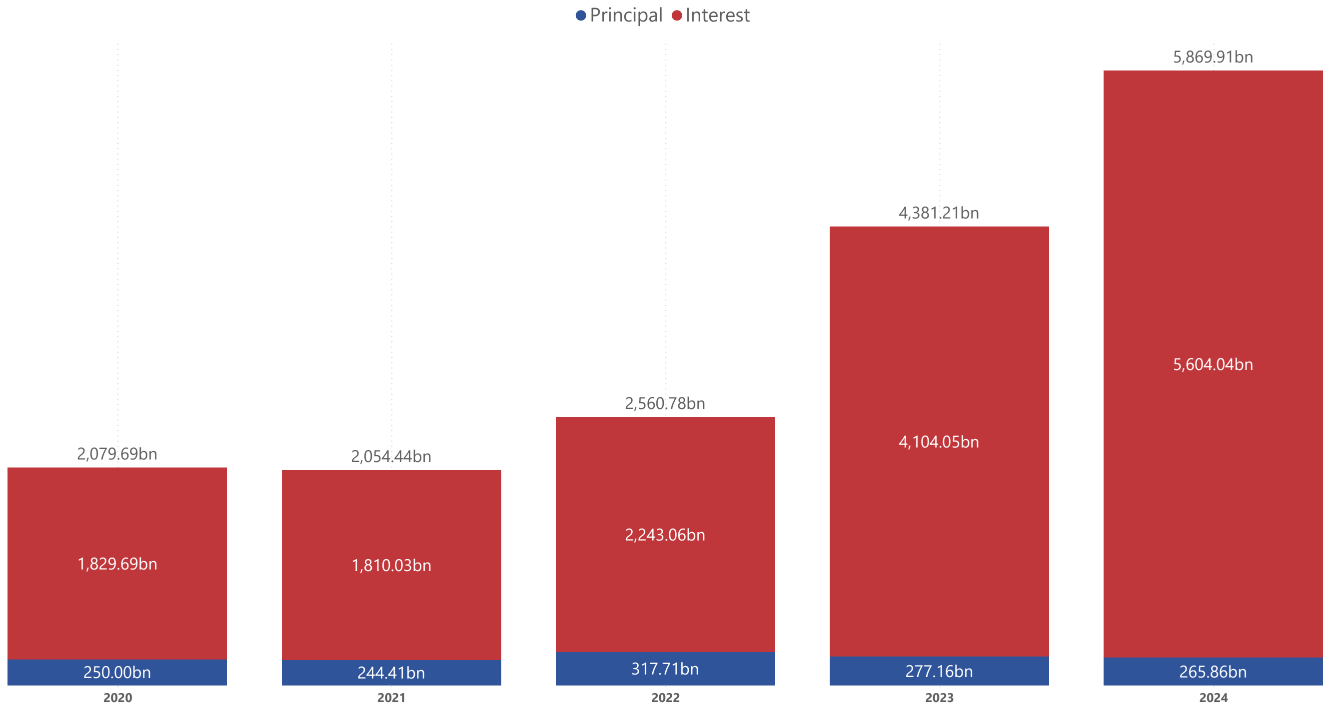


Table 3.3 Domestic Debt Service From 2020 to 2024

Year	Principal (N'M)	Interest (N'M)	Debt Service (N'M)	Interest share (%)	Principal share (%)
2020	250,000.00	1,829,693.07	2,079,693.07	88%	12%
2021	244,407.48	1,810,034.04	2,054,441.53	88%	12%
2022	317,711.79	2,243,064.67	2,560,776.46	88%	12%
2023	277,155.01	4,104,052.34	4,381,207.36	94%	6%
2024	265,863.94	5,604,041.54	5,869,905.481	95%	5%

Source: Debt Management Office (DMO)

The total domestic debt service bill rose from N2.08 trillion in 2020 to N5.87 trillion in 2024, an outcome attributable to both sustained high borrowing rates and frequent rollover of maturing instruments. The widening gap between stable principal repayments and rapidly increasing interest outlays signals intensifying fiscal vulnerability. This pattern is characteristic of a rollover-dependent debt profile, in which the government perpetually swaps old debt for new, thereby incurring more expensive obligations. Monetary developments also compound the pressures. The Central Bank of Nigeria's aggressive tightening cycle culminates in a Monetary Policy Rate (MPR) of 27.50%[17] in late 2024, directly raising the cost of new issuances and debt refinancing. Because government securities are benchmarked against the MPR, each policy rate hike mechanically increases the yield investors demand. Consequently, domestic debt service costs surged to 95% in 2024 alone, reflecting both higher rates and expanded borrowing volumes.

Economic Burden Of External Debt Service.

Nigeria's external debt servicing profile between 2020 and 2024 reveals one of the most critical yet often underappreciated drivers of fiscal stress: exchange-rate-induced debt servicing costs. While external borrowing is typically justified on the grounds of lower interest rates, long tenors, and access to development finance, the fiscal benefits of these loans have been eroded by the rapid and persistent depreciation of the naira.

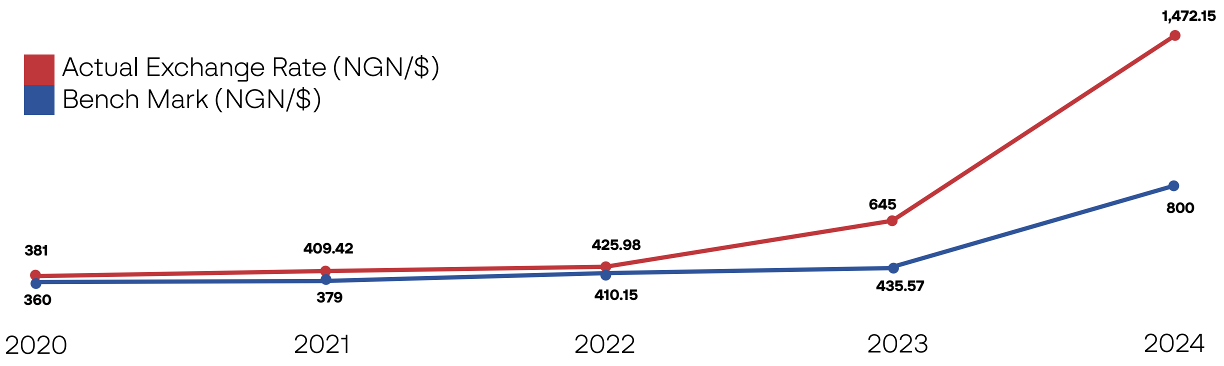
As a result, Nigeria is increasingly paying a domestic fiscal premium on every dollar of external obligation. Table 3.4 shows that the naira depreciation has become the dominant force shaping the real domestic cost of external debt service. Although the Federal Government's annual budget, through the MTEF, set conservative benchmark exchange rates, the actual market rates used for debt repayment were consistently and substantially higher, as disclosed by the CBN.[18] This gap between the projected exchange rate and the actual settlement rate created what this report defines as the exchange Loss, the additional naira the government must generate to meet unchanged, dollar-denominated obligations.

The evidence below reflects a structural, accelerating, foreign-exchange-driven fiscal burden: The cumulative Exchange Loss between 2020 and 2024 amounted to N3.97 trillion, indicating that nearly N4 trillion in debt service costs were unplanned and attributable solely to currency weakness. The burden is highly concentrated in the later years: N3.13 trillion (79% of the entire five-year exchange loss) occurred in 2024 alone. The Exchange Loss jumped by 326% between 2023 and 2024 following the decision to unify the exchange rate and the subsequent rapid depreciation from a benchmark of N800/$ to an actual rate of N1,472.15/$.

17. Monetary Policy COMMUNIQUE No.155
18. Data & Statistics | Central Bank of NigeriDebta

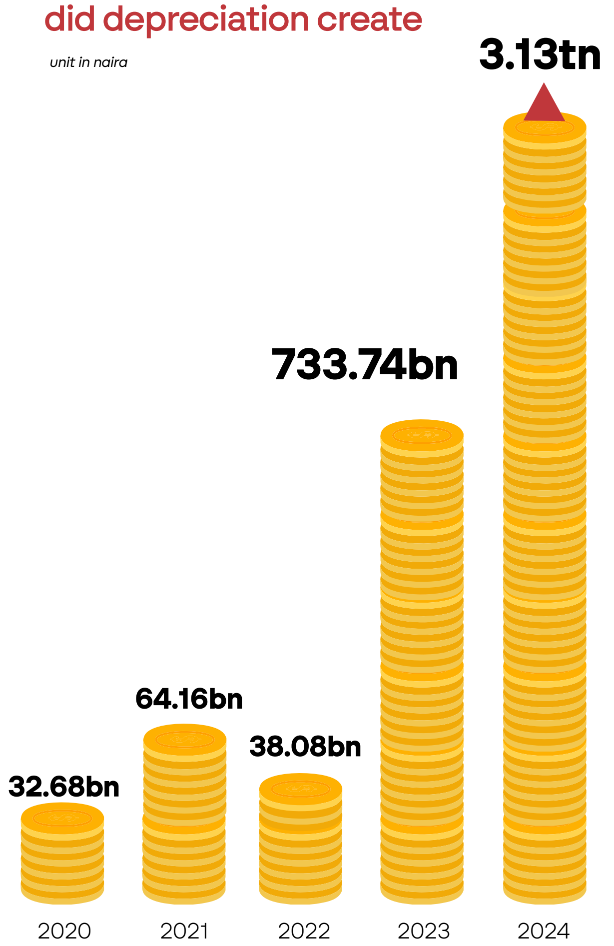
Exchange Rate Analysis

What happened to the exchange rate ? it depreciated



How much extra cost did depreciation create

unit in naira



How depreciation affects debt crisis in naira

(massive exchange-rate-induced-escalation)

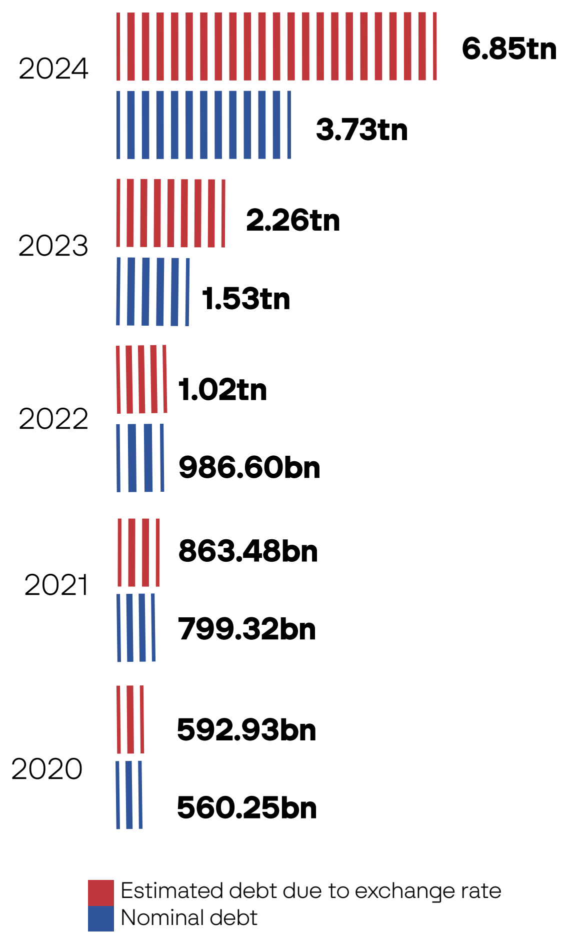


Table 3.4 External Debt Service and its additional cost from Naira Depreciation (2020 - 2024)

Year	Debt Service ($'M)	Bench Mark Exchange Rate (N/$)	Actual Exchange Rate (N/$)	Estimated Debt Service (N/$) at Benchmark rate	Actual Debt Service	Additional cost due to Naira Depreciation
2020	1,556.25	360	381	560,251.50	592,932.84	32,681.34
2021	2,109.03	379	409.42	799,323.83	863,480.64	64,156.81
2022	2,405.47	410.15	425.98	986,602.50	1,024,681.05	38,078.55
2023	3,503.51	435.57	645	1,526,023.56	2,259,763.52	733,739.96
2024	4,657.75	800	1,472.15	3,726,200.00	6,856,906.66	3,130,706.66

Source: CBN, Budget Office and DMO

This fiscal shock has direct policy significance. Because the dollar value of external debt service did not increase dramatically, the surge in domestic costs is entirely a function of macroeconomic management, specifically, exchange rate reforms and the structural weakness of Nigeria's foreign supply. Put differently, Nigeria is not paying more dollars; it is paying far more naira for the same dollar.

The implication is severe: the government forked out an unbudgeted N3.13 trillion in 2024 to service foreign debt amid Naira depreciation. These funds represent resources from crowded-out fiscal space, diverted from infrastructure, health, education, energy transition, and social protection. Each episode of naira depreciation transfers scarce domestic revenue into foreign-exchange-denominated repayments rather than public investment. These dynamic highlights a more profound structural vulnerability. The more Nigeria relies on external borrowing without stabilising foreign-exchange inflows, the more debt service is exposed to currency risk. As the exchange rate becomes more volatile, external debt, even with a concessional interest rate, becomes increasingly expensive in domestic terms, undermining fiscal planning and debt sustainability.

Chapter 04

Examining Regulatory Inconsistencies in Public Debt Issuance and Management

Over the past decade, Nigeria's public debt has grown substantially, reflecting persistent fiscal deficits, revenue shortfalls, and an increasing reliance on borrowing to finance development projects and recurrent expenditure. As debt levels rise, so do concerns about the transparency, accountability, and sustainability of the country's debt management practices. Ensuring compliance with legal and institutional frameworks, promoting inclusion, and preventing regulatory breaches are therefore central to sustaining fiscal credibility and protecting citizens' welfare.

Nigeria has established a set of laws and agencies intended to guide responsible debt management, including the DMO, the Fiscal Responsibility Commission (FRC), and the National Assembly's oversight committees. These institutions are mandated to ensure that all borrowing decisions are transparent, within statutory limits, and tied to capital development. However, emerging evidence from public audits, civil society monitoring, and independent assessments suggests recurring non-compliance with these laws, limited inclusion of citizens and civil society in debt-related decision-making, and several regulatory breaches that weaken fiscal discipline and transparency. Findings reveal recurring patterns of the procedural violations, reporting delays, and weak adherence to budgetary rules that collectively undermine transparency, accountability, and sustainability in debt governance.

Delayed and Incomplete Publication of Debt Report

Transparency in debt management depends heavily on the timely dissemination of accurate and comprehensive public debt data. Section 6(c) and (d) of the DMO Act[19] mandates the DMO to "collect, collate and disseminate information on debt and debt-related issues." This provision implicitly requires the agency to release debt statistics promptly to enable public scrutiny, fiscal accountability, and informed policy formulation. However, there have been recurring delays in publishing Nigeria's debt data, raising concerns about compliance with both statutory and international transparency standards. Although the DMO consistently publishes press releases accompanying new debt data, the timing and clarity of these communications are critical for fiscal transparency. The DMO's press releases serve as the primary means for citizens, policymakers, and budget institutions to access official debt information. However, delays or

19. Debt Management Office

inconsistencies in releasing these statements weaken the transparency chain and limit the usefulness of the data for evidence-based budget planning.

For example, the press release reporting the Total Public Debt Stock as of December 31, 2024, was published only on April 4, 2025, several weeks after the close of the fiscal quarter. While this delay does not violate any specific domestic law, it limits access to timely information during the critical early phases of the 2025 budget planning cycle. As a result, the public is less able to scrutinise borrowing decisions and evaluate compliance with fiscal sustainability objectives.

The delay in debt communication also contravenes the spirit of Section 48 of the Fiscal Responsibility Act (2007)[20], which calls for the publication of all fiscal information "in a manner that ensures wide circulation and accessibility." These accessibility barriers not only exclude critical non-state actors from participating in fiscal oversight but also weaken Nigeria's compliance with the Open Government Partnership (OGP) commitments to open fiscal data[21]. More importantly, such practices undermine the credibility of debt sustainability assessments, which depend on up to date, disaggregated, and easily verifiable information.

Beyond transparency and accessibility issues, Nigeria's debt management framework continues to face regulatory breaches and weak institutional oversight, undermining fiscal discipline. Although both the Debt Management Office (Establishment) Act, 2003 and the Fiscal Responsibility Act, 2007, establish clear legal procedures for borrowing and reporting, compliance remains uneven across different layers of government. Section 41(1) of the Fiscal Responsibility Act stipulates that "government at all tiers shall only borrow for capital expenditure and human-development projects" and that the appropriate legislative body must approve any such borrowing. Similarly, the same Act requires the Minister of Finance to ensure that all public borrowings are consistent with the Medium-Term Expenditure Framework (MTEF) and within sustainable limits.

Evidence of Borrowing for Recurrent Spending

The Fiscal Responsibility Act explicitly restricts borrowing to capital or human-development purposes; however, empirical and media evidence indicate that recurrent expenditure has frequently been financed with borrowed funds.

For instance, reports from the International Centre for Investigative Reporting (ICIR)[22] reveal that "a significant portion of Nigeria's borrowing is used for recurrent expenditure like salaries and overhead costs rather than for infrastructural development. This pattern constitutes a direct breach of Section 41(1) of the Federal Responsibility Act, as such expenditures neither create productive assets nor contribute to long-term fiscal sustainability. It also contradicts the principles of fiscal responsibility, which hold that borrowing must generate measurable future returns sufficient to repay the debt. However, media analysis shows that federal borrowing has increasingly been used to finance recurrent expenditures (including salaries, debt service, overheads) rather than strictly capital projects.

20. Fiscal Responsibility Act 2007 https://internationalbudget.org/wp-content/uploads/Nigeria-FiscalResponsibilityAct2007-English.pdf
21. Nigeria's Open Government Partnership http://ogpnigeria.gov.ng/wp-content/uploads/2025/08/NAP-III-2023-2025.pdf
22. https://www.icirnigeria.org/every-nigerian-to-owe-n770k-as-tinubus-new-loan-request-pushes-debt-to-n183trn/

Evidence of New Loan Acquisition

Without Prior Legislative Approval
Another recurring regulatory weakness is the approval process for new loans. Both the Fiscal Responsibility Act and the Constitution require that all external loans receive National Assembly approval before any disbursement or commitment. However, in several instances, borrowing arrangements have been executed or announced before receiving such approval.

A recent example is President Bola Tinubu's request for a $2.3 billion external loan to finance the 2025 budget deficit and partially refinance maturing Eurobonds. The approval request letter was sent to the National Assembly on September 22, 2024, as reported by Premium Times[23]. The proposed borrowing, which was designed to address fiscal gaps in the annual budget, raises concerns on two fronts, the Purpose Breach which is the loan intended to fund deficit financing, includes recurrent components, contravening Section 41 of the Federal Responsibility Act and Approval Breach which is the request that comes after the borrowing framework had already been incorporated into the budget and publicly discussed, suggesting that preliminary commitments were made before National Assembly consent.

This highlights a systemic issue of executive dominance coupled with weak legislative oversight in the debt contracting process. This situation undermines the accountability framework established by the Federal Responsibility Act (2007) and the DMO (Establishment) Act (2003). There are significant gaps in legislative agreement and oversight. Although the law mandates cost-benefit analyses and purpose statements for borrowing (as outlined in Section 44 of the Federal Responsibility Act), reports indicate that many new loans have been rapidly approved by the National Assembly without comprehensive disclosure or proper processing. This raises serious concerns about oversight.

> **"Beyond transparency and accessibility issues, Nigeria's debt management framework continues to face regulatory breaches and weak institutional oversight, undermining fiscal discipline.**

23. https://www.premiumtimesng.com/news/headlines/826399-tinubu-seeks-nass-approval-for-2-3bn-external-borrowing.html

Chapter 05

Real Cost Of Borrowing: Crowding Out Social Investments

Nominal debt stocks dangerously understate the actual fiscal burden, shifting attention from rising debt levels to the real cost of borrowing, i.e. the effective drain on government resources once interest outlays and currency effects on external obligations are considered. Between 2020 and 2024, rising domestic borrowing at relatively high interest rates, combined with the sharp depreciation of the Naira, significantly increased the government's debt-service obligations and reduced fiscal space for development priorities, making debt servicing a central driver of fiscal stress. Interest payments and foreign exchange adjustments have grown faster than revenues, crowding out allocations for health, education, infrastructure and climate finance. In short, Nigeria is not only accumulating debt but is also increasingly paying a premium to hold it, making the country more vulnerable to interest-rate shocks and exchange-rate volatility.

Nigeria's rising public debt continues to strain fiscal space, limiting the government's ability to turn planned resources into tangible development outcomes, particularly for youth-critical sectors. A closer look at budgetary allocations, released funds, and actual utilisation between 2021 and 2024 reveals persistent gaps that directly affect Education, Health, and Youth Development programs.

Table 5.1[24], an overview of the education sector, shows that N156.2 billion was appropriated in 2021, but only N122.2 billion was released, and N72.8 billion was utilised. This meant that despite substantial planning, nearly half of the available funds were either not made available or not spent, constraining the sector's ability to improve school infrastructure, learning materials, and teacher support. By 2024, appropriations had nearly tripled to N480.8 billion, yet only N169.1 billion was released, with N113.2 billion spent. While utilisation improved relative to released funds, the sector remained severely underfunded in absolute terms, limiting the government's capacity to expand access to quality education for Nigeria's growing youth population.

The health sector experienced a similar funding trend. In 2021, N134.6 billion was allocated for health services, but only N90.0 billion was released, and just N54.8 billion was spent. This limited release of funds and underutilisation resulted in health facilities struggling to maintain essential services, procure medicines, and expand access to critical interventions. By 2024, appropriations had increased significantly to N543.4 billion, with N197.7 billion released and N174.9 billion utilised. However, despite higher expenditure, the discrepancy between planned and actual resources indicates that rising debt obligations are limiting the government's ability to address urgent health needs, particularly for young Nigerians who rely on public health services.

24. Budget Implementation Reports https://budgetoffice.gov.ng/index.php/resources/internal-resources/reports/quarterly-budget-implementation

Youth Development presents an even starker example of constrained resource deployment. In 2024, N14.4 billion was appropriated, but only N10.0 billion was released and N3.6 billion utilised, while Youth Development (Sport) had N21.6 billion appropriated, N10.0 billion released, and N9.1 billion spent. This suggests that some targeted interventions can be executed effectively when the sector or program has clear structures and capacity. Still, it also highlights that such successes are not widespread across all youth-focused initiatives. This uneven discrepancy means that programs designed to provide skill development, entrepreneurship support, and sporting opportunities for youth are severely limited, reducing avenues for human capital growth and economic engagement.

Table 5.1 Fiscal Flow from Appropriation to Utilisation in Youth Sectors (2021–2024)

Year	Debt Service ($'M)	Amount Appropriated (N'M)	Amount Released (N'M)	Utilization (N'M)	Appropriation Performance (N'M)	Utilization Performance (N'M)
2021	Education	156,172.30	122,242.08	72,793.09	46.61%	59.55%
2021	Health	134,591.03	90,003.80	54,762.28	40.69%	60.84%
2022	Education	216,330.08	119,594.00	74,001.18	34.21%	61.88%
2022	Health	207,389.94	123,770.86	74,229.38	35.79%	59.97%
2023	Education	311,733.14	136,758.25	99,344.15	31.87%	72.64%
2023	Health	448,043.38	120,963.46	77,494.05	17.30%	64.06%
2024	Education	480,781.35	169,118.68	113,172.88	23.54%	66.92%
2024	Health	543,399.34	197,708.29	174,979.89	32.20%	88.50%
2024	Youth Development	14,417.02	10,010.17	3,609.66	25.04%	36.06%
2024	Youth Development (Sport)	21,624.36	10,010.17	9,071.32	41.95%	90.625

Source: Budget Implementation Report

These gaps reflect two fiscal challenges that are closely linked to rising public debt. Firstly, the difference between appropriated and released funds signals limited budgetary flexibility, as rising debt service and competing budget priorities reduce the government's ability to allocate planned resources. Secondly, the gap between released and utilised funds highlights execution inefficiencies within MDAs, further decreasing the developmental impact of allocations. In practical terms, the government's shrinking capacity to implement relevant spending in key sectors of the economy translates into fewer opportunities, slower social mobility, and weakened human capital formation. At a time when a large proportion of the population is in the young-adult bracket, the inability to channel resources into growth-enhancing sectors creates lasting developmental risks.

Impact on Women and Girls

The steep reduction in social spending directly impacts the focus on gender equality, women and girls. An analysis of the 2024 federal budget confirms that the combined allocations for Education (8.21%), Health (5.15%), and Social Development and Poverty Reduction (2.30%) amount to only 15.66% of total federal spending[25]. As the economy contracts and revenues stagnate, the growing burden of debt interest critically threatens to crowd out essential social expenditure still further. These systemic fiscal choices are far from gender neutral; they place a disproportionate burden on families, particularly women and girls.

The existing pressure on the budget was significantly amplified by a critical policy decision concerning the Debt Service Suspension Initiative (DSSI). Despite being eligible to participate, the Federal government opted out, reportedly to safeguard the nation's credit rating and preserve future access to commercial markets. However, this decision meant forfeiting an estimated $1.31 billion[26] in potential deferred debt payments. This substantial fiscal space could have been redirected immediately to vital social sectors. The magnitude of this missed opportunity is stark when compared to Nigeria's consistently low investment in human capital.

At the federal level, Nigeria's health budget has remained abysmally low, accounting for only 5% to 5.5% of total spending between 2022 and 2024. **BudgIT's State of States Report shows that in 2024, Nigerian states collectively budgeted N1.32 trillion for health, but actual expenditures reached only 61.9% of that allocation27. Some states spent less than 30% of their allocated health budget, emphasising the weakness of actual spending in crucial sectors.** The underfunding of the health sector leads to a decline in maternal and child health services, contributing to maternal mortality rates[28]. At the same time, cuts to education funding disproportionately affect girls' enrolment and retention rates, often forcing them to drop out due to rising school fees or the lack of basic sanitation facilities[29]. Furthermore, budget cuts usually increase the unpaid care burden on women and girls as public services deteriorate.

25. Social Spending on 2024 Health, Education and Social development and Poverty Reduction, Budgit 2024.
https://budgit.org/wp-content/uploads/2024/05/2024-FG-Budget-Analysis-2.pdf
26. Debt Service Suspension Initiative, world Bank.
https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative
27. State of States Report 2024 https://stateofstates.budgit.org/reports/details?year=2024
28. Aid cuts threaten fragile progress in ending maternal deaths, UN agencies
https://www.who.int/news/item/07-04-2025-aid-cuts-threaten-fragile-progress-in-ending-maternal-deaths-un-agencies-wa
29. Global debt reform could unlock $506 billion for education
https://malala.org/news-and-voices/debt-database-malala-fund-jubilee

When public services are severely underfunded and deteriorate, the responsibility for essential care and welfare shifts directly from the state to the household. The United Nations Human Rights Office notes that austerity-driven spending cuts invariably push the burden of providing social and essential services onto households. As a result, women and girls provide unpaid care for far longer, spending an average of 2.5 times as many hours on it as men do every day. This time, poverty is a significant barrier to realising their rights, limiting their opportunities to learn, secure decent paid work, rest, or participate in civic life. Globally, UN Women confirms that 45% of working-age women[30] are excluded from the labour force entirely because of unpaid care demands. This factor reduces women's economic dependency and hinders girls' retention in education.

Impact on Health

Nigeria's national health strategy is based on a fundamental principle: to ensure universal access to healthcare, every electoral ward must have one fully functional Primary Health Centre (PHC). This forms the foundation of the Ward Health System, which prioritises the ward, rather than the state or local government area (LGA), as the central focus for primary healthcare delivery. The minimum standard requires one PHC per ward. With today's 8,809 electoral wards, slightly higher than the earlier estimate of 7,740, the expectation is that the country should maintain around 8,000 to 9,000[31] functional PHCs to meet the service demands of its population.

However, the current reality starkly contrasts this vision. As of June 2025, only 1,163 PHCs have been completed and fully revitalised across the country. Even when including the 2,774 facilities currently undergoing rehabilitation and the 3,624 PHCs[32] with cleared Bills of Quantities, the gap remains substantial. These figures reveal that thousands of existing PHCs were never functional to begin with; many are substandard, unequipped, structurally weak, or unable to provide even basic services.

Most PHCs are unable to deliver essential services, including routine consultations, antenatal checks, simple deliveries, malaria treatment, and nutrition screening. As a result, patients bypass them and seek care at General Hospitals and Teaching Hospitals, overloading facilities designed for emergencies and specialised care. This creates an inverted health pyramid in which the higher levels are overwhelmed because foundational care is lacking. Tertiary hospitals are left handling cases like malaria, mild infections, and uncomplicated pregnancies, issues that should ideally be addressed at the ward level. Consequently, their ability to manage life-threatening cases is compromised before those emergencies even arise.

The collapse of the primary healthcare system is most pronounced in maternal health. Women lack access to a functional PHC for basic

30. Economic Implication of unpaid labour.
https://www.unwomen.org/en/articles/faqs/faqs-what-is-unpaid-care-work-and-how-does-it-power-the-economy
31. minimum primary health care standard
https://ngfrepository.org.ng:8443/jspui/bitstream/123456789/3153/1/Minimum%20Standards%20for%20Primary%20Health%20Care%20in%20Nigeria.pdf
32. PHC Revitalisation.
https://nphcda.gov.ng/phc-revitalization/#:~:text=Aligned%20with%20the%20presidential%20commitment,to%20~17%2C600%20PHCs%20over%204

screenings, such as anaemia tests, blood pressure monitoring, and early detection of pre-eclampsia[33]. These straightforward procedures can save lives. Without this care available locally, women often arrive at higher-level hospitals only when complications have escalated. This contributes significantly to Nigeria's persistently high maternal mortality rate, illustrating not just poor health outcomes but also the critical lack of timely access to the first layer of care that could prevent complications from becoming fatal.

Nigeria's debt burden further exacerbates the broader context of underfunded health services. The low allocation of 5.15% in the 2024 budget is far from sufficient to make a meaningful dent in the country’s high maternal mortality rate (MMR). In low-income countries, the lifetime risk of maternal death is a devastating 1 in 66, compared to approximately 1 in 8,000[34] in developed nations. Systematic underfunding of essential services, personnel, and supplies fuels this tragic statistic. Insufficient financial resources lead to fewer skilled birth attendants, a lack of essential medicines, and weakened reproductive health services - all critical factors impacting women's survival.

The impact of debt extends beyond funding limitations. Poor working conditions, stemming from underfunded health sectors, contribute to rising outflows of medical professionals[35]. Many doctors are not just leaving due to low pay; they are also departing because of unmanageable working conditions created by the healthcare system's collapse. Specialists are forced into general practice, emergency units become overcrowded, and burnout is routine. In rural postings intended to strengthen community-level care, healthcare workers face demoralising experiences without necessary tools, supplies, security, or basic infrastructure.

For young doctors, particularly those early in their careers, the absence of a functional health system means there is no viable pathway to practice safely, grow professionally, or deliver care to acceptable standards. Medical graduates are thrust into an environment where the workload is excessive, support is minimal, and facilities are overwhelmed. The choice to migrate often stems from the relentless pressure of working in a system that was never designed to handle its current demands.

The decline in maternal and child health services, driven by inadequate funding, creates a vicious cycle that worsens Nigeria’s high maternal mortality rates. The combination of insufficient health infrastructure and the pressing burden of debt ensures that Nigeria continues to struggle in improving healthcare outcomes for its most vulnerable populations.

“ Nigeria's debt burden further exacerbates the broader context of underfunded health services. The low allocation of 5.15% in the 2024 budget is far from sufficient to make a meaningful dent in the country’s high maternal mortality rate (MMR).

33. WHO https://www.who.int/news/item/08-03-2025-many-pregnancy-related-complications-going-undetected-and-untreated--who
34. Maternal Mortality Rate, UNICEF 2020-2023.
https://data.unicef.org/topic/maternal-health/maternal-mortality/
35. https://www.who.int/europe/news-room/feature-stories/item/why-are-so-many-health-and-care-workers-suffering-poor-mental-health-and-what-can-be-done-about-it----perspectives-from-finland

Impact on Education

The education sector faces a parallel crisis. The chronic lack of investment means many children, particularly girls, drop out of basic education because families cannot afford increasing school costs or because schools lack basic, gender-responsive facilities, such as clean sanitation. This does not imply that the impact is minimal with boys who are at risk of being involved in different societally threatening activities. Inaccessibility to good education contributes to Nigeria's teenage pregnancy rate. Research underscores the critical role of female education in survival outcomes, showing that a woman who can read is 50% more likely to have a child survive past the age of five (5)[36] . By continuing to underfund girls' education amidst a debt crisis, the government is not only harming today's generation but actively reinforcing poor health outcomes and deep-seated inequality for the next generation.

Nigeria's education sector is caught in a credibility crisis, and the Federal Ministry of Education's Roadmap for the Nigerian Educational Sector[37] sits at the centre of this contradiction. While the Roadmap lays out ambitious goals to improve quality, expand access, strengthen teacher capacity, and transform infrastructure, the reality is that these ambitions are fundamentally incompatible with Nigeria's current fiscal and institutional conditions.

The most serious constraint is fiscal. Nigeria operates with near-total fiscal space, with debt service consuming a bulk of federally retained revenue. This means the Federal Government has virtually no discretionary resources to finance capital-intensive interventions such as school rehabilitation, teacher recruitment, teacher training or safe-school infrastructure. While the education budget sits at roughly 8.21%[38] , this allocation is not sufficient to keep the current system functioning or transforming to meet the rigour of academic demands in the digital age. Meanwhile, Nigeria's 10.8% tax-to-GDP ratio[39], exposes a structural revenue weakness that makes it financially impossible to sustain the recurrent spending required to reduce the country's massive out-of-school population or provide continuous teacher training. With about 18.3 million out-of-school children (10.2 million children at the primary level and about 8.1 million at the junior secondary school level)[40] in Nigeria, this suggests a compelling and considerable commitment from governments across all tiers to invest available funding in reducing the numbers and to form commitments through sustainable policies. **The roadmap's responsibilities, such as reducing the number of out-of-school children by millions and improving school infrastructure nationwide, are therefore economically unachievable under current macroeconomic conditions. Without a fundamental restructuring of Nigeria's debt profile and revenue system, no educational reform, no matter how well designed, can be meaningfully implemented.**

Beyond the fiscal constraints, the quality of learning inside classrooms has deteriorated to a crisis state. UNICEF's Learning Poverty metrics, which show that 73% of Nigerian children aged 7-10[41] cannot read a simple sentence, reflect a system failing at its most basic responsibility. Learning poverty has emerged because classrooms are overcrowded, teachers are overwhelmed and insufficiently trained, and learning materials are absent. The roadmaps

36. Education Impacts, UNESCO.
https://unesdoc.unesco.org/ark:/48223/pf0000223115#:~:text=If%20all%20women%20in%20both,saving%201.35%20million%20children's%20lives.
37. Road Map for Nigerian Educational Sector
https://planipolis.iiep.unesco.org/sites/default/files/ressources/nigeria_FME-ROADMAP.pdf
38. Education Allocation,2024
https://budgit.org/wp-content/uploads/2024/05/2024-FG-Budget-Analysis-2.pdf
39.Tax to GDP Ratio, AFDB 2023
https://www.afdb.org/sites/default/files/documents/projects-and-operations/nigeria_country_diagnostic_note_2023.pdf
40. UNESCO Out-of-school children in Nigeria https://www.unesco.org/gem-report/en/publication/out-school-numbers-are-growing-sub-saharan-africa
41. UNICEF Learning Poverty
https://www.unicef.org/nigeria/media/10591/file/State-of-Nigerias-Children_Summary-of-the-2024-Updated-SitAn.pdf

emphasise improving learning outcomes, which is therefore disconnected from the existing teacher supply gap, poor instructional capacity, and widespread shortage of trained educators.

Compounding the crisis is a persistent failure in implementation and equity. UNICEF monitoring reports reveal that only about 14% of schools meet the basic Minimum School Standards[42], including essential safety features like perimeter fencing, classroom stability, and functional WASH facilities. The roadmap's infrastructure commitments, therefore, rest on a system where basic safety compliance has not been achieved, even for the most minimal requirements. Even when funding is released, execution capacity is weak. AfDB reports that several of its own Technical and vocational education and training (TVET)[43] and skills development programs failed to meet intended outputs due to systemic implementation bottlenecks, highlighting institutional issues that would also undermine the Roadmap's TVET and skills-oriented targets.

Taken together, these realities demonstrate that the Federal Ministry of Education Roadmap is not undermined because its goals are unimportant, but because they are unsupported by the fiscal, administrative, and institutional foundations required for success. The roadmap represents a necessary expression of national aspiration. Still, it cannot be delivered under Nigeria's current severe macroeconomic pressures, deep-seated learning environment challenges, and fundamentally weak implementation systems. Until the structural debt-revenue imbalance is aggressively confronted and institutional delivery frameworks are substantially strengthened, the roadmap may remain a poignant policy document of intent rather than the engine of transformation necessary for Nigeria's education system.

42. UNICEF Monitoring Report.
https://www.unicef.org/nigeria/press-releases/immediate-action-needed-protect-nigerias-children-and-schools
43. Technical and Vocational Education Training, AFDB 2023
https://www.afdb.org/sites/default/files/documents/projects-and-operations/nigeria_country_diagnostic_note_2023.pdf

Impact on AI Innovation, Infrastructure, and the Future of Nigerian Youth

The diversion of over 80% of federal revenue towards debt servicing fundamentally compromises Nigeria's economic future. This extreme fiscal crowding-out leaves minimal budgetary resources for strategic capital investments, skills development, and innovation, all of which are critical levers for unlocking economic opportunities for the huge youth demographic. This fiscal constraint impedes investment in digital infrastructure and future-ready skills (e.g., AI learning, coding) necessary for the rapidly growing digital economy.

Consequently, the neglect of education and job-creating initiatives has directly contributed to the rising youth unemployment rate observed in Nigeria today. The national budget consistently falls short of UNESCO's recommended benchmark that 15–20% of total public expenditure be allocated to education, as set out in the Education 2030 Framework for Action[44]. Instead, public sector spending on education remains at approximately 10% of the national budget and only 1.2% of GDP, placing Nigeria among the countries with the lowest educational investment worldwide, according to the World Bank[45].

Nigeria faces a significant digital skills gap, with approximately 78% of youth lacking digital literacy. Additionally, fewer than half of teachers (47%)[46] possess the basic ICT skills needed to deliver quality education essential for thriving in the digital economy. The shortage of locally trained professionals in high-demand technology areas hampers the sector and limits Nigeria's ability to seize opportunities in a rapidly growing digital landscape. This underfunding of the educational sector has a ripple effect, leading to high youth unemployment in productive sectors of the economy. According to NBS, the unemployment rate among youth aged 15-24 years was 8.6% in the third quarter of 2023[47], reflecting limited opportunities for young people lacking the skills required in the labour market.

In the context of the Fourth Industrial Revolution, this fiscal constraint is particularly puzzling, as it limits the government's ability to invest in the foundational architecture required for a modern, competitive economy.

As the global economy aggressively pivots toward an "AI race," the prerequisites for participation are physical, not just digital. Artificial Intelligence cannot function in a vacuum; it requires robust, consistent power supplies and high-speed, universal internet connectivity. Currently, the infrastructure gap, particularly in rural areas where a vast demographic of Nigerian youth resides, remains a significant barrier. Without the fiscal space to expand the national power grid and broadband network, the promise of AI efficiency in both the public and private sectors remains a herculean task. The debt burden, therefore, acts as a bottleneck, stalling the infrastructure upgrades needed to democratise access to technology.

The casualty of this trade-off is the Nigerian youth who lag behind their peers in other countries. If the government continues to direct spending toward debt service rather than addressing the underlying constraints on innovation, it risks creating a generational digital divide. For youth, including those in rural communities seeking to transition into the digital workforce, access to reliable infrastructure is the difference between economic inclusion and unproductivity if Nigeria fails to balance its fiscal obligations with strategic infrastructure investment. In such a case, Nigeria will not only lose the AI race but will also leave most of its young population unequipped to compete in a technology-driven global market.

44. UNICEF Education 2030 Framework for Action.
https://www.unesco.se/wp-content/uploads/2015/12/Framework-for-Action-2030.pdf
45. https://documents1.worldbank.org/curated/en/099101424050072899/pdf/P507001-c933771f-1821-40e6-8712-dceaebc602b6.pdf
46. UNICEF Digital learning.
https://www.unicef.org/nigeria/stories/connecting-every-child-digital-learning
47. Unemployment rate, Q3 2023
https://www.nigerianstat.gov.ng/elibrary/read/1241455

Impact on Climate Change Programming

Nigeria's escalating debt service obligations consume a substantial portion of public revenue, leaving limited fiscal space for climate-related investments. This financial constraint exists even before accounting for the country's pressing climate spending needs. According to Nigeria's Nationally Determined Contribution (NDC 3.0), transitioning to a low-carbon and climate-resilient future will require an estimated $337 billion in climate finance between 2026 and 2035 - comprising $195 billion for mitigation, $141.5 billion for adaptation, and $0.5 billion for climate awareness and education. The core challenge lies in the financing structure. Nigeria must domestically mobilise $67 billion (an unconditional 20% of the total), averaging $6.7 billion annually, to meet climate goals.

The remaining $270 billion[48], representing 80%, is entirely dependent on external financing, such as grants, concessional loans, and private investments. This heavy reliance on international climate funding exposes Nigeria's NDC implementation to significant volatility in global finance and donor countries' fiscal priorities. The severe implications are that climate change is projected to reduce GDP by 6% to 30% by 2050, equivalent to $100 to $460 billion in losses. Beyond the economic implications, failing to address climate risks will deepen poverty, worsen food insecurity and drive more climate-induced migration. Vulnerable groups like women and girls will face heightened inequality. Extreme weather conditions will also disrupt schooling and damage infrastructure, undermining long-term development.

48. https://unfccc.int/sites/default/files/2025-09/Nigeria%20NDC%203.0%20-%20Transimission%20Version%202.pdf

Flooding

Disasters from climate change are evident in Nigeria's flooding history. Flooding in recent times has escalated across the country on a disastrous scale, affecting more states and surpassing the destructive impacts recorded in 2012[49]. Available data indicate that the flooding crisis resulted from climate-induced extreme weather events, combined with operational factors such as dam releases and poor drainage systems. Given the existing disparities across states, the crisis highlighted highly unequal outcomes across geographic and socioeconomic lines. While urban communities were significantly affected, rural households experienced the harshest exposure, with 74% reporting direct impacts compared to 40% in urban areas[50].

The flood crisis in Nigeria has transformed from a seasonal environmental issue into a catastrophic socio-economic event. The damage goes beyond infrastructure; it has severely disrupted the country's productive capacity, undermining residential stability, transport networks, energy systems, and, most importantly, the agricultural sector that is the backbone of the rural economy.

Micro-level data from the UNDP assessment of the impact of the 2022 floods[51] shows the extent of this disruption at the micro level. For families reliant on crop farming, the impact has been nearly total, with 94.9% reporting adverse effects. The widespread destruction of farmland and crops has deprived households of their primary food sources and income. Furthermore, the economic fallout has extended well beyond agriculture. According to UNDP, nearly 80% of non-farming households have seen their livelihoods decline, while more than half of affected business owners have faced total collapse of their enterprises. This has resulted in a significant loss of capital within the local economy, with physical assets destroyed and revenue streams disappearing overnight.

The crisis has also placed a heavy burden on the next generation. Education has been severely disrupted, with 35.9% of households reporting interruptions in schooling. On average, children were out of school for 53 days, nearly two months of lost learning. This disruption has not been uniform, with more extended absences widespread in rural areas and among female-headed households, exacerbating the structural inequalities that jeopardise Nigeria's long-term human capital development.

A brutal fiscal reality compounds these vulnerabilities further. With debt servicing consuming most of the government revenue, Nigeria's ability to protect its citizens, 64% of whom were affected by this disaster, has been fundamentally compromised. Without restructuring its debt obligations to free up capital for climate adaptation and infrastructure resilience, Nigeria remains at serious risk of facing future catastrophes of this magnitude. The damage has significantly impaired the nation's productive capacity, affecting residential stability, transport networks, energy systems, and, crucially, the agricultural sector that underpins the rural economy.

Desertification, Drought and Degradation

Advanced desertification and the dramatic drying of Lake Chad have become one of the structural drivers of insecurity and food instability in Northern Nigeria[52]. A compelling explanation for today's widespread crisis rests on understanding desertification as the dominant long-term climatic trend that has reshaped land use and livelihoods across the region. Simultaneously, the shrinkage of Lake Chad stands as a prominent and internationally recognised example of regional ecological

49. Nigeria: Post Disaster Needs Assessment - Floods in 2012
https://www.gfdrr.org/en/publication/nigeria-post-disaster-needs-assessment-floods-2012
50. Nigeria Flooding Impact, 2023
https://www.undp.org/sites/g/files/zskgke326/files/2023-12/nigeriafloodimpactrecoverymitigationassessmentreport2023.pdf
51. Nigeria Flood Impact, Recovery and Mitigation Assessment Report 2022-2023
https://www.undp.org/sites/g/files/zskgke326/files/2023-12/nigeriafloodimpactrecoverymitigationassessmentreport2023.pdf
52. Season migration and settlement around Chad
https://www.mdpi.com/2079-9276/6/3/41

collapse. Taken together, these two environmental dynamics, the persistent encroachment of the desert and the catastrophic loss of a water source, create the ecological buffer and amplify the conflicts and severe food crisis currently affecting millions of Nigerians.

Across Northern Nigeria, rising temperatures, erratic rainfall, and long-term land degradation have steadily reduced the availability of both arable land and grazing reserves. Assessments consistently show that climate change is shrinking productive land and undermining rural livelihoods. Within this broad pattern, the shrinkage of Lake Chad represents an extreme ecological emergency: the lake has lost as much as 90% of its surface water since the 1960s[53], disrupting the livelihoods of people across the basin who depend on fishing, farming, and small-scale irrigation. The collapse of this water system is not an isolated incident but a symbol of the accelerating climate stress shaping everyday life in the region.

The environmental collapse has directly led to increasing insecurity. As arable land and water resources decrease in the North, climate-induced scarcity becomes a significant factor driving pastoral communities southward toward settled farming areas in search of viable pasture and water. UN assessments clearly indicate that this displacement raises the likelihood of violent encounters, as traditional migratory routes often intersect with and encroach upon agricultural lands. This situation has intensified the devastating loss of lives in farming communities across the Northern states. In the North-East, the effects are even more severe[54]. Loss of livelihoods, deepening poverty, and the desperation produced by ecological collapse have created fertile ground for recruitment, enabling extremist organisations to entrench themselves within vulnerable communities.

The interconnectedness of climate change, insecurity, and economic collapse is strikingly evident in Nigeria's food system. Insecurity in key agricultural regions has forced many farmers to abandon extensive areas of arable land, leading to a significant decline in food production and a consequent supply shock. **This crisis is exacerbated by a broader economic downturn and rising climatic pressures, which together have led to a severe food crisis. According to the World Food Programme[55], the convergence of economic hardship, climate challenges, and ongoing violence is projected to push 33.1 million Nigerians into acute food insecurity during the 2025 lean season.**

These pressures have also contributed significantly to Nigeria's historic food inflation, making basic staples increasingly unaffordable for households and compounding national poverty levels. These climate shocks set off a chain reaction that undermines livelihoods, intensifies competition over scarce resources, fuels conflict and extremism, disrupts agricultural production, and ultimately drives hunger and inflation nationwide. The evidence makes clear that Nigeria's climate crisis is not simply an environmental problem but a central determinant of insecurity, humanitarian vulnerability, and economic instability.

The interconnected crisis is directly compounded by the necessity of channelling available, scarce resources toward the crippling cost of debt repayment, which detracts from the urgent need to invest in agricultural support programs and essential measures to improve crop yield and climate resilience

53. Shrinkage of lake Chad - https://news.un.org/en/story/2017/04/555172
54. United Nation Trust Fund for security.
https://www.un.org/humansecurity/wp-content/uploads/2019/01/18-004-Nigeria-Programme-summary.pdf
55. World Food Programme
https://www.wfp.org/news/economic-hardship-climate-crisis-and-violence-northeast-projected-push-331-million-nigerians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Chapter 06

Policy Recommendations

Reversing the current trajectory of escalating debt and diminishing development impact demands that both the Federal and State Governments urgently adopt a disciplined, multi-pronged reform agenda. This strategy must go beyond mere fiscal balancing; it requires a fundamental restructuring of the social contract. The recommendations below are crafted to achieve two core objectives: stabilising the macroeconomic environment by halting unproductive debt accumulation, and safeguarding the future of Nigeria's youth, women, and girls from fiscal shocks. Through strict borrowing limits and the reallocation of savings toward high-impact social investments, this agenda aims to transform debt management from a source of national vulnerability into a catalyst for inclusive growth and intergenerational equity.

Strengthen Debt Sustainability

Nigeria stands at a financial crossroads: mounting debt payments are squeezing out vital investments in health, education, and infrastructure. Urgent action is needed. By enforcing strict borrowing limits and ditching costly short-term loans in favour of more innovative, long-term financing, the government can restore confidence and unlock resources for the nation's future. Now is the moment for a bold reset, putting sustainable development and opportunity for all back at the centre of Nigeria's economic agenda.

Enforce Stricter Borrowing Limits and Transparency Requirements for Federal and State Governments.

- **Operationalise FRA Sanctions:** The National Assembly should amend the Fiscal Responsibility Act to include clear punitive measures for MDAs or State Governments that exceed deficit or debt-to-revenue thresholds without legislative approval.

- **Encourage Transparency Incentives with Adequate Fiscal Accountability:** With the expiration of the SFTAS program in 2023[56], state-level accountability has weakened. The Federal Government should tie portions of FAAC allocations or federal guarantees for external loans to the timely publication of audited financial statements.

- **Enhance Sub-national Fiscal Accountability:** Transparency ensures that borrowed funds, for the benefit of future generations, are not misappropriated today. When debt profiles are hidden, crucial social services such as girls' education and youth skills training are often the first to suffer when debt comes due.

Aggressive Domestic Revenue Mobilisation with Progressive and Inclusive Tax Reform

The Ministry of Finance, Budget and Economic Planning should urgently shift from deficit-driven borrowing to stronger domestic revenue mobilisation to restore fiscal health. This requires comprehensive tax reform:

56. SFTAS Program
https://documents1.worldbank.org/curated/en/099051324074523711/pdf/P1620091c922be0f51af4314f3e43b7a62c.pdf

- **Improved Tax Compliance:** Strengthen revenue administration through modern digital platforms and capacity-building to improve compliance and efficiency across all levels of government.

- **Rationalise Incentives:** Conduct a swift, independent review and rationalisation of all tax incentives granted to the private sector to eliminate economically unjustified loopholes and ensure a fairer distribution of the tax burden.

- **Harvest Environmental Revenue:** Secure new revenue streams by expediting the implementation of green fiscal instruments. While the full carbon tax policy remains in the planned/pilot phase, the government must maintain the urgency to finalise the framework and commence phased implementation of this tax and other pollution levies to generate funds and provide strong decarbonisation signals to industry.

All changes to the tax system must strictly adhere to the principle of progressive taxation to ensure equity, protect low-income earners, and prevent regressive fiscal measures that could exacerbate poverty.

Prioritise Concessional Borrowing while Minimising Eurobond Exposure

The government, through the DMO, should revise its borrowing approach to prioritise highly concessional loans that offer lower interest rates, extended repayment periods, and grace periods designed to alleviate fiscal strain. This demands a gradual, determined decrease in reliance on high-cost instruments, particularly Eurobonds, which have short maturities and heighten the nation's susceptibility to global market fluctuations and acute exchange-rate disturbances. Beyond shifting toward cheaper, concessional financing, the government must implement additional structural reforms that strengthen fiscal resilience and ensure that its broader debt strategy remains sustainable:

- **Expedite debt restructuring discussions where possible:** DMO should expedite negotiations with essential creditors, both bilateral and multilateral, to explore restructuring alternatives such as maturity extensions, interest rate modifications, and repayment rescheduling. Where suitable, debt-for-development swaps or sector-specific relief agreements may also be considered. Accelerated restructuring will help smooth the government's cash flow profile and ensure that debt commitments do not hinder vital social and capital investments.

- **Broaden fiscal space without excessive borrowing:** Establishing sustainable fiscal space must be based on reforms rather than increased borrowing. The Federal Government needs to improve spending efficiency and strengthen the capabilities of revenue-generating agencies. This entails reducing leakages across ministries, departments, and agencies and implementing cost-saving technologies.

- **Actively generate more non-oil revenue through digital tax systems and MSME-friendly reforms:** There is an urgency to explore the diversified revenue opportunities by enhancing non-oil tax collection. This entails broadening digital tax systems to reduce human interaction, strengthening e-compliance, simplifying the tax framework, and decisively tackling illicit financial flows that drain public resources. A stronger, technology-driven, and fair tax system could help broaden the tax net, boost revenue mobilisation, and reduce the country's dependence on borrowing to finance recurrent expenditure.

- **Rationalise government spending and eliminate wasteful expenditure:** Prioritising efficiency by cutting wasteful and non-productive spending across government, which includes reducing high administrative costs, curbing unnecessary recurrent expenditure, and eliminating practices such as borrowing to pay salaries and rationalising expenditure, will ensure that every borrowed naira contributes to productive use and aligns with national development priorities, ultimately strengthening the government's fiscal position.

- **Increase priority spending on capital development:** Focusing more on infrastructure, energy, agriculture, and digital systems will enhance economic competitiveness and expand the country's productive capacity. By prioritising capital expenditure, Nigeria can create more jobs, boost productivity, and generate long-term returns, thereby improving our ability to repay debt.

Strengthening Governance and Oversight

To improve Nigeria's debt management, it is essential to implement comprehensive reforms to procurement and audit systems, ensuring transparency, efficiency, and accountability across all phases of public spending. In strengthening procurement processes, the government minimises inflated contract costs, curtails financial leakages, and prevents the misuse of borrowed funds on low-value projects.

Concurrently, enhancing audit systems, primarily through real-time digital audits and independent oversight, guarantees that every naira borrowed is tracked from its disbursement to its actual impact. This approach fosters public trust, mitigates corruption-related losses, and ensures that debt is directed solely to strategic, value-oriented projects that align with national development goals.

- **Expanding Public–Private Partnerships (PPPs) for Infrastructure:** By establishing more efficient procurement and audit systems, Nigeria can effectively expand PPPs to reduce reliance on direct government borrowing. When procurement frameworks are clear and transparent, and audits are reliable, private investors gain confidence that projects will be managed effectively, risks will be minimised, and returns will be protected. This enables PPPs to serve as a significant financing alternative for critical infrastructure, shifting some capital and operational expenses to the private sector while allowing the government to focus on regulation, oversight, and service delivery.

Climate Financing

Nigeria should aggressively pursue a strategic, low-debt approach to climate finance by formalising its institutional and market frameworks, with a strong focus on transparency and risk mitigation.

Create a National Climate Finance Framework to access the Green Climate Fund, Loss and Damage Fund, carbon markets, and global adaptation funds.

- **Operationalise Existing Architecture:** The government should urgently finalise the legal scaffolding (like the proposed Decarbonisation Bill) to fully anchor the National Carbon Market Framework (NCMF) and the Climate Change Fund. This is necessary to unlock the anticipated $3 billion annually from carbon markets and meet the governance standards required for Green Climate Fund (GCF) and Loss and Damage Fund proposals.

- **Institutionalise CSO Oversight:** The National Council on Climate Change (NCCC) should formally institutionalise the joint Government-CSO working group on climate finance. This platform, supported by partners like Heinrich Böll Stiftung (hubs) Nigeria, should be tasked with providing independent scrutiny of all GCF and Loss and Damage proposals, ensuring they are gender-responsive and prioritise anticipatory adaptation projects identified by organisations such as CISD, BudgIT, CODE, and others.

Advance Gender and Youth Programming

Improving Nigeria's debt management strategy requires a deliberate investment in gender and youth priorities. Borrowed funds must yield sustainable social and economic returns rather than just short-term financial benefits. By strategically directing resources toward demographics that significantly enhance productivity, encourage innovation, and strengthen community resilience, Nigeria can transform debt from a fiscal burden into a catalyst for inclusive development. The following strategies demonstrate how targeted initiatives focused on gender and youth can support long-term fiscal sustainability:

- **Mandate Gender-Responsive Budgeting and Tracking across MDAs:** Integrating gender-responsive budgeting within ministries, departments, and agencies ensures that public finances, including borrowed funds, are distributed in line with the genuine needs of women, girls, and marginalised groups. Through this, the government spends efficiently, minimises waste, and ensures that debt-funded initiatives yield quantifiable social benefits.

- **Encourage Outcomes-Based Programming over Activity-Based Programmes:** Transitioning from activity-based to outcomes-based programmes helps in designing and implementing programmes that have a long-term impact on people, especially women, girls, and youth. It supports accountability and ensures that borrowing leads to concrete developmental achievements. This method prioritises funding interventions that produce measurable improvements in employment, education, health, and economic empowerment for youth and women, thereby providing a stronger rationale for debt and improving returns on investment.

- **Increase Budgets for Maternal Health, Family Planning, Girl-Child Education, GBV Services, WASH, and Social Protection:** Focusing public investment on these essential social sectors is a critical strategy to alleviate long-term fiscal strain, improve overall population health, mitigate gender-based vulnerabilities, and strengthen human capital. Strategic budget increases ensure that debt obligations do not completely crowd out resources from critical areas whose deficits have a high societal impact. This approach directs funds towards high-impact areas that effectively disrupt inter-generational cycles of poverty, lessen future public spending obligations (e.g., lower healthcare costs), and boost Nigeria's long-term economic competitiveness across all geopolitical regions.

- **Enhance Credit Availability for Women-Led & Youth-led Businesses through Low-Interest Government-Backed Financing:** Promoting entrepreneurship among women and youth through accessible, low-interest loans is a direct way to enhance Nigeria's economic capacity and create a vital revenue stream to support the nation's debt management. By empowering these groups, which consistently demonstrate strong repayment discipline and creativity, the government fosters widespread job creation, stimulates the growth of micro, small, and medium enterprises (MSMEs), and strengthens economic resilience. This strategic approach enables the government to generate economic vitality and ensure debt sustainability without relying solely on additional public borrowing.

Co-creation and Participation

Nigeria must move past superficial consultations and take decisive steps to fully implement its commitments under the Open Government Partnership (OGP) National Action Plan III (2023-2025). Achieving this demands a transformative approach to debt governance, one that recognises CSOs, women, youth, and climate advocates as statutory partners in fiscal management, not merely as bystanders. To restore public confidence and guarantee that borrowed funds drive real development, the government should embed genuine co-creation throughout every stage, from negotiating credit grants to monitoring project outcomes.

Foster Open and Participatory Budgeting

- **Institutionalise Pre-credit/borrowing/loans Consultations:** The DMO and the Ministry of Finance should organise public town hall meetings before submitting any external loan requests to the National Assembly. These consultations must deliberately involve youth groups and women's associations to ensure that borrowing plans genuinely reflect the nation's real needs.

- **Encourage Inclusion Quotas:** The Budget Office should encourage the adoption of representation quotas for marginalised groups in all Medium-Term Expenditure Framework (MTEF) sessions. This is necessary to ensure that fiscal policy addresses the specific vulnerabilities of girls and rural women.

- **Adopt Better, Faster Ways for Citizens to Vote on Public Projects:** The government should adopt more accessible methods for citizens to vote on priority capital projects across rural and urban areas before borrowing plans are finalised. This ensures genuine input on project selection, leveraging technology (whether simple mobile systems or advanced digital platforms) to reach the maximum number of citizens.

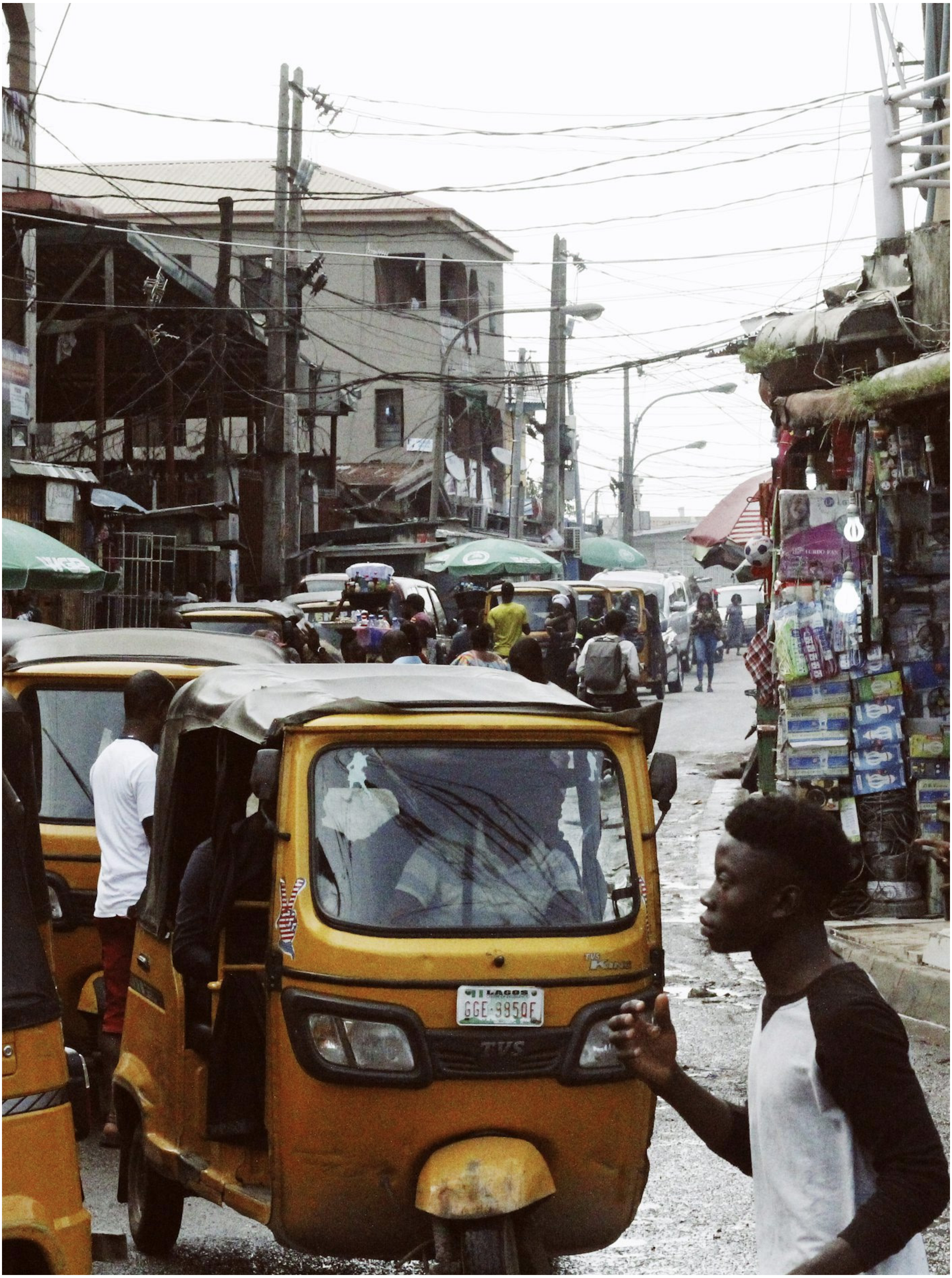
Strengthen the Role of CSOs and Development Partners

- **Support Independent "Value-for-Money" Audits:** The National Assembly should support CSOs undertaking independent audits of projects financed by external loans. This creates a "fiscal feedback loop" in which CSOs independently verify project delivery, enhancing accountability and assessing value for money.

- **Promote CSO-Led Transparency Monitoring:** Local and international development partners should continue to fund programs and strengthen CSOs' technical capacity to produce "Shadow Debt Reports" as independent annual assessments of the country's debt sustainability to verify official government data. This serves as a third-party peer-review mechanism for social accountability.

- **Integrate CSO Data into Official M&E:** The National and State Assemblies can establish joint government-civil society organisation project monitoring groups at various levels. The State Ministries of Budget and Economic Planning, along with the Federal Ministry of Budget and Economic Planning, should formally integrate CSO monitoring reports and findings into the government's official Monitoring and Evaluation systems for capital projects. When CSOs track and verify issues related to projects or programs, such as incomplete health centres financed by loans, the information should prompt an immediate official review and result in the suspension of further payments to noncompliant contractors. Adopting this approach will enhance transparency, strengthen accountability, and promote more effective public spending.

- **Establish a "Climate Finance Tracker":** Government-CSO climate working groups across the country should be supported to monitor the utilisation of the Green Climate Fund and other environmental grants, ensuring these funds are not diverted.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Conclusion

In conclusion, rising fiscal pressure and worsening budget execution are crowding out investment in youth-critical sectors. Unless fiscal space is restored and capital spending prioritised, the promise of public borrowing as a tool for development will continue to erode, leaving young Nigerians to bear the long-term consequences.

HEINRICH BÖLL STIFTUNG

CiSD Centre for Inclusive Social Development