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A POLICY BRIEF
BY
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BEYOND FEDERAL ALLOCATIONS: THE COST OF BORROWINGS AND DEBT SERVICING AT STATE LEVEL IN NIGERIA

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Acronyms

ACRONYM	MEANING
NEITI	Nigeria Extractive Industries Transparency Initiative
EITI	Extractive Industries Transparency Initiatives
RMAFC	Revenue Mobilization Allocation and Fiscal Commission
DMOs	Debt Management Offices
VAT	Value Added Tax
CIT	Company Income Tax
FAAC	Federal Account Allocation Committee
OAGF	Office of the Accountant General of the Federation
IGR	Internally Generated Revenue
NBS	National Bureau of Statistics
FCT	Federal Capital Territory
NNPCL	Nigerian National Petroleum company Limited
FIRS	Federal Inland Revenue Service
SAP	Structural Adjustment Programme
IMF	International Monitory Fund
MTEF	Medium Term Expenditure Framework
PPP	Public Private Partnership
GDP	Gross Domestic Product

Table of Contents

Foreword

Across Nigeria's 36 states, a silent fiscal emergency is unfolding, one that demands urgent national attention and coordinated policy action. Behind the monthly announcements of federal allocations lies a harsher reality: mounting debts, crippling deductions, and shrinking revenues are eroding the capacity of subnational governments to deliver basic services and critical infrastructure. This policy brief, Beyond Federal Allocations: The Cost of Borrowings and Debt Servicing at the State Level in Nigeria, is NEITI's timely response to that reality. It is both a diagnostic tool and a call to reform. It peels back the veneer of gross FAAC allocations to reveal the unsustainable debt servicing burdens that now consume as much as 30% of some states' revenues. It exposes the structural fiscal imbalances, regional disparities, and the fragile underpinnings of our revenue-sharing system that increasingly threaten the stability of Nigeria's federal architecture.

What is at stake is not merely fiscal arithmetic; it is the very foundation of social investment, infrastructure development, and economic justice at the grassroots level. When debt repayments outpace investments in schools, hospitals, roads, and security, the human cost becomes immeasurable, and the promise of democracy is diminished. NEITI's mandate under the Nigeria Extractive Industries Transparency Initiative Act and the global EITI Standard is clear: to promote transparency, accountability, and prudent revenue management

This policy brief expands that mandate to interrogate the fiscal health of state governments, especially how extractive-linked revenues are deployed or depleted through opaque deductions, obligations, and weak debt governance under reported frameworks. The insights presented here are drawn from NEITI extensive to the issues, analysis of official data from the Federation Accounts & Allocations Committee which NEITI sits in as Observer, Office of the Accountant-General of the Federation, the National Bureau of Statistics, NEITI's Oil/Gas and Mining Industry Reports, Fiscal Allocation and Statutory Disbursement Reports, and other covered entities. The evidence points to an urgent need for reforms in debt management, public financial accountability, and revenue diversification, particularly in states where the debt-to-allocation ratio has exceeded globally accepted thresholds. NEITI, through this policy intervention, seeks to catalyze a national dialogue on subnational fiscal sustainability. We advocate for realistic borrowing anchored on measurable development outcomes, conditional federal support tied to fiscal performance, and institutional reforms that prioritize transparency, real-time reporting, and citizen oversight. This Policy Brief is more than an academic exercise it is a blueprint for action. It is a tool for federal and state policymakers, development partners, civil society, and oversight institutions to work together in building a more resilient and equitable fiscal future for Nigeria. We must act now before debt becomes destiny.

Orji Ogbonnaya Orji,PhD
Executive Secretary/CEO NEITI

Abstract

This policy brief, titled Beyond Federal Allocations: The Cost of Borrowings and Debt Servicing at State Level in Nigeria, provides an incisive examination of the deteriorating fiscal health of Nigeria's subnational governments. It explores the rising burden of debt servicing deductions from Federation Account Allocation Committee (FAAC) revenues and the persistently weak Internally Generated Revenue (IGR) performance across states. Using authoritative data from the Office of the Accountant-General of the Federation (OAGF), the National Bureau of Statistics (NBS), and NEITI's own analysis, the brief uncovers how debt obligations ranging from 10% to over 30% of gross allocations are increasingly crowding out funds for basic public services and infrastructure investment. The study identifies a pattern of unsustainable borrowing practices, compounded by limited economic diversification, fragile tax systems, and weak fiscal transparency. It presents evidence that many states, especially those with low IGR, are becoming fiscally vulnerable and dependent on volatile oil-derived federal transfers. To address these systemic challenges, the brief recommends a comprehensive set of reforms focused on strengthening domestic revenue mobilization, enforcing fiscal responsibility laws, rationalizing expenditures, and enhancing transparency in debt reporting and financial management. Ultimately, this policy brief calls for a coordinated and conditional federal state partnership to restore subnational fiscal sustainability. It urges the implementation of pragmatic reforms that can build resilient, accountable, and self-sustaining state economies aligned with national development goals and the EITI Principles, particularly the 2023 standards.

Executive Summary

This policy brief presents a critical analysis of the fiscal capacity of Nigerian states in light of increasing deductions from Federation Account Allocation Committee (FAAC) revenues, unsustainable debt servicing obligations, and weak Internally Generated Revenue (IGR) performance. Drawing from official data by the Office of the Accountant-General of the Federation (OAGF), the National Bureau of Statistics (NBS), and NEITI, the findings underscore a growing fiscal imbalance that threatens the ability of states to provide basic public services, build critical infrastructure, and improve living standards for citizens. The analysis reveals that in 2024, several states have experienced significant deductions from their gross FAAC allocations ranging from 10% to over 30% to service debts and other financial obligations. States such as Kaduna (32.06%), Ogun (26.54%), and Bauchi (26.16%) are among the hardest hit. Simultaneously, the 2023 IGR data indicates that at least ten states, including Taraba, Yobe, Kebbi, and Gombe, generated less than ₦20 billion each in internal revenues. These two fiscal stress points' high deductions and low revenue generation highlight the systemic vulnerability of subnational public finance in Nigeria. The core policy issue emerging from this analysis is the unsustainable reliance on borrowing in the absence of adequate revenue growth. Many states continue to depend heavily on volatile federal transfers while accumulating debts that consume an increasing share of their statutory allocations. The consequences are stark: limited fiscal space for capital investment, deferred infrastructure development, and growing public dissatisfaction due to unmet socio-economic needs. Compounding these challenges are weak tax administration systems, low levels of economic diversification, and poor fiscal transparency at the subnational level.

To address these issues, the policy brief proposes a set of strategic policy options. First, there is a compelling need for states to strengthen domestic revenue mobilization. This includes broadening the tax base through the formalization of informal enterprises, digitizing tax collection systems, and improving tax compliance and enforcement. States must also diversify their economies by investing in sectors such as agriculture, manufacturing, and solid minerals to reduce dependence on oil-derived federal allocations. Second, the implementation of robust fiscal responsibility frameworks is critical. State governments must enact and enforce fiscal laws that limit unsustainable borrowing and link debt acquisition to clear developmental outcomes. Rationalizing public expenditure is also essential this means prioritizing high-impact infrastructure and social investments while eliminating wasteful or redundant spending. Third, enhanced transparency in debt reporting and public financial management is vital to restoring public trust and accountability. States should be required to publish quarterly debt service reports and adopt NEITI's standards in managing extractive revenues, especially in resource rich regions. Furthermore, federal support to states whether in the form of debt restructuring or bailouts should be conditional on verifiable improvements in IGR performance, transparency, and fiscal discipline. In conclusion, subnational fiscal architecture is at a critical juncture. Without urgent reforms to curtail excessive borrowing and improve internal revenue generation, many states will remain trapped in a cycle to build resilient, transparent, and self-sustaining state economies capable of meeting the needs and aspirations of their people.

INTRODUCTION

Revenue allocation in Nigeria lies at the heart of the country's governance and development architecture. As a federal republic, Nigeria operates a three-tiered system of governmentfederal, 36 constituent states and the Federal Capital Territory (FCT), and 776 local government areas each vested with specific responsibilities and fiscal obligations. The distribution of revenues among these tiers is both a constitutional imperative and a strategic tool for national integration, equitable development, and social stability.

The origins of Nigeria's fiscal federalism trace back to the colonial era, notably the Raisman Commission of 1958, which introduced the principle of derivation to ensure that resource rich regions received a fair share of revenues derived from their territories. Post-independence, the fiscal structure evolved through various commissions including the Binns (1964), Dina (1968), Aboyade (1977), and Okigbo (1980) Commissions each attempting to recalibrate the revenue sharing formula in response to shifting political dynamics, regional agitations, and economic priorities.

The 1979 Constitution, and subsequent amendments, codified revenue allocation as a statutory obligation of the Nigerian state, mandating the Federation Account as the central pool from which revenues are distributed monthly. Today, this distribution is governed by a revenue sharing formula that allocates 52.68% to the federal government, 26.72% to states, and 20.60% to local governments. Additionally, a 13% derivation fund is set aside for oil-producing states, in recognition of the environmental and economic impacts of resource extraction

This structure, though pivotal, now faces mounting pressure. The rise in subnational borrowing, coupled with weak internally generated revenue (IGR) and rising debt-servicing deductions from monthly allocations, has exposed deep vulnerabilities in Nigeria's fiscal federalism. Many states, despite receiving significant gross allocations, are left with limited net funds due to pre-committed deductions for external debt servicing, contractual obligations, and other liabilities.

Against this backdrop, this policy brief by the Nigeria Extractive Industries Transparency Initiative (NEITI) interrogates the true financial health of Nigerian states beyond the headline figures of federal allocations. It examines the growing cost of debt servicing, the implications for public service delivery, and the urgent need for reform. Rooted in NEITI's mandate to promote transparency and accountability, this brief seeks to provide actionable insights that can support a more resilient, equitable, and fiscally sustainable federation.

Nigerian States

IMPORTANCE OF POLICY BRIEF

This policy brief, “Beyond Federal Allocations: The Cost of Borrowings and Debt Servicing at State Level,” is both timely and strategic. It provides a comprehensive assessment of the growing fiscal vulnerabilities confronting Nigeria’s subnational governments, vulnerabilities that are often masked by seemingly robust gross allocation figures but are, in reality, eroded by mounting debt-servicing deductions. At its core, the brief reveals the fiscal truth behind the numbers. It moves beyond surface level figures to unveil the shrinking net revenues available to states after deductions for external debt, contractual liabilities, and statutory obligations. By doing so, it exposes the silent but significant erosion of financial capacity at the state level.

Relevance to Resource Mobilization

This policy brief contributes significantly to the discourse on sustainable resource mobilization at the subnational level by highlighting key gaps, proposing corrective strategies, and aligning fiscal practices with broader development objectives.

- **Exposing Revenue Leakages:** The analysis reveals how unchecked debt servicing and opaque deductions systematically erode the financial capacity of states. By bringing these leakages to light, the brief encourages states to plug fiscal drains and retain a greater share of their statutory allocations for critical investments.
- **Enhancing Internally Generated Revenue (IGR):** The brief underscores the urgent need to expand state level IGR through digital tax administration, the formalisation of informal enterprises, and incentives for small and medium sized businesses. Economic diversification beyond oil revenue is framed as a strategic necessity for long term fiscal sustainability.
- **Improving Fiscal Management and Discipline:** Through its call for the establishment of State Debt Management Offices (DMOs), real time financial disclosures, and independent audits, the brief promotes better governance of public resources. These measures empower states to assess liabilities accurately, negotiate better terms, and avoid high risk borrowing practices. Safeguarding
- **Development Financing:** The policy recommendations aim to reduce the burden of debt servicing on core developmental sectors. By advocating for rational borrowing, capped deductions, and improved debt transparency, the brief seeks to secure more fiscal space for infrastructure, healthcare, education, and economic growth initiatives.

In essence, the brief presents a roadmap for building resilient state economies that are fiscally responsible, diverse in revenue and development focused.

More importantly

The brief serves as a diagnostic and reform tool by:

1. **Exposing fiscal stress points:** It identifies states with high deduction to allocation ratios, clearly signaling where urgent fiscal interventions are needed to avert financial distress.
2. **Highlighting debt risks:** It maps out the growing burden of debt and its direct consequences on development planning and public service delivery.
3. **Advocating fiscal prudence and reform:** The brief calls for stronger debt management frameworks, transparent borrowing practices, and performance linked fiscal strategies at the subnational level.
4. **Linking fiscal performance to service delivery:** By drawing a connection between rising deductions and declining investments in health, education, infrastructure, and economic diversification, it makes a powerful case for fiscal sustainability.
5. **Supporting NEITI's broader transparency agenda:** It champions real time disclosure of debt and deductions, helping to deepen Nigeria's commitment to fiscal openness, accountability, and reform in line with global best practices.

In essence, this policy brief is not merely analytical. It is a blueprint for reform. It equips policymakers, development partners, and oversight institutions with the evidence and recommendations necessary to build resilient, accountable, and development-focused state governments. The brief draws on 2024 fiscal allocation and deduction data across Nigeria's 36 states, providing comparative insights into fiscal performance.

It highlights states like Akwa Ibom and Anambra, which exhibit commendable financial discipline, and contrasts them with others like Bauchi, where deductions drastically reduce available funds, threatening developmental outcomes.

NEITI Mandate

Alignment with NEITI's Mandate and the 2023 EITI Standards NEITI's statutory mandate is to promote transparency, accountability, and prudent management of revenues from Nigeria's natural resources. This policy brief extends that mandate to a critical yet often overlooked area, Which is Subnational public finance and debt transparency. By casting a spotlight on opaque deductions and the burden of subnational debt, the brief delivers on NEITI's four core strategic pillars:

- **Fiscal Transparency:** It demystifies the layers of deductions and debt servicing at the state level, enabling public understanding of how much states truly receive and spend.
- **Revenue Governance:** By assessing debt sustainability and revenue shortfalls, the brief advances NEITI's advocacy for responsible revenue management.
- **Equitable Development:** The brief addresses structural imbalances between oil rich and non oil producing states, reinforcing NEITI's campaign for fairness in the distribution and use of extractive revenues.
- **Institutional Accountability:** Through its call for real time reporting, audits, and fiscal disclosures, it resonates with NEITI's broader institutional reform agenda.

NSWG IN ENGAGEMENT MEETING

EITI STANDARD 2023

Specific Relevance to the 2023 EITI Standards. This policy brief is directly responsive to the emerging priorities of the 2023 EITI Standards, particularly Requirements 2, 5, and 6, which emphasize: State participation and financial relations, Public financial transparency at the subnational level, Debt disclosure and management of extractive revenues. Specifically, the brief addresses:

The transparency of subnational transfers is required in tracking how federal allocations and natural resource revenues are shared and used.

The publication of debt and deduction data supports the EITI's demand for clear reporting on government borrowing and liabilities, especially when linked to extractive revenue.

The safeguarding of development spending, ensuring that debt servicing does not compromise public investments in health, education, and infrastructure.

Provides clarification of financial flows related to extractive resources, particularly for oil producing states that benefit from the 13% derivation fund.

By highlighting disparities in allocation, deduction, and fiscal capacity, the brief reinforces the need for greater equity, oversight, and reform at the subnational level. In advancing this policy brief therefore, NEITI seeks to strengthen Nigeria's fiscal architecture ensuring that state governments are not only recipients of revenue but also stewards of responsible financial management. By aligning with the 2023 EITI Standards and NEITI's national mandate, the brief promotes a future where debt is sustainable, transparency is the norm, and development is both inclusive and accountable.

FAAC IN SESSION

Revenue Mobilization

Nigeria's economy relies heavily on oil, which comes mainly from the Niger Delta. The federal government collects most of the revenue from oil and redistributes it to states and local governments.

Revenue Mobilization Allocation and Fiscal Commission (RMAFC) is responsible for determining the indices that would be applied for the sharing based revenue sharing formula. The current formula is:

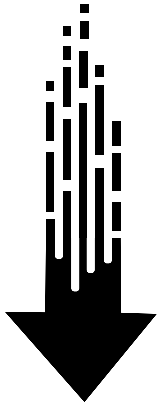
1. Federal government gets 52.68%.
2. States 26.72%.
3. Local governments 20.60%.

There's also a portion for the Federal Capital Territory and some funds like the Derivation Principle, which gives 13%of oil revenues back to the oil-producing states.

Horizontal Allocation among States is based on:

- Population (30%) Equality of
- States (40%) Internal Revenue
- Generation (10%) Land Mass and
- Terrain (10%) Social
- Development Factors (10%)

Mr. Wale Edun (Minister of finance) with
Dr. Orji Ogbonaya Orji (ES/CEO NEITI)



Sources of Revenues Being Shared

The revenues shared under Nigeria's Federation Account are drawn from:

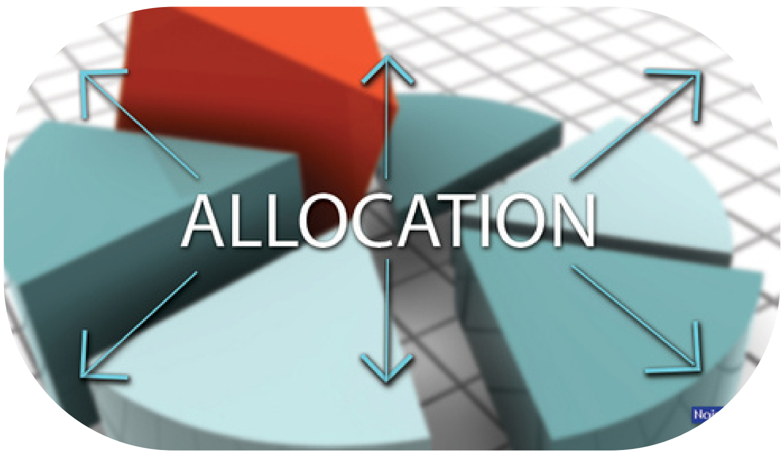
1. Oil and Gas Revenue (royalties, petroleum profit tax, sales)
2. Company Income Tax (CIT)
3. Value Added Tax (VAT) administered separately
4. .Import and Export Duties.
5. Solid Minerals Revenue.
6. Customs and Excise Duties
7. Dividend from the Nigerian National Petroleum Company Limited (NNPCL)
8. Other Statutory Revenues and dividend (e.g. penalties, and dividends from government investments)

Nigeria's Revenue Sharing System

Revenue sharing in Nigeria is not just a fiscal exercise; it is a constitutional obligation, a policy instrument, and a unifying framework designed to balance the country's deep seated regional disparities. As a nation marked by vast differences in geography, population, resource endowments, and development levels, equitable revenue distribution is central to sustaining federalism and promoting inclusive growth.

Nigeria's revenue sharing system is anchored on five principles these are:

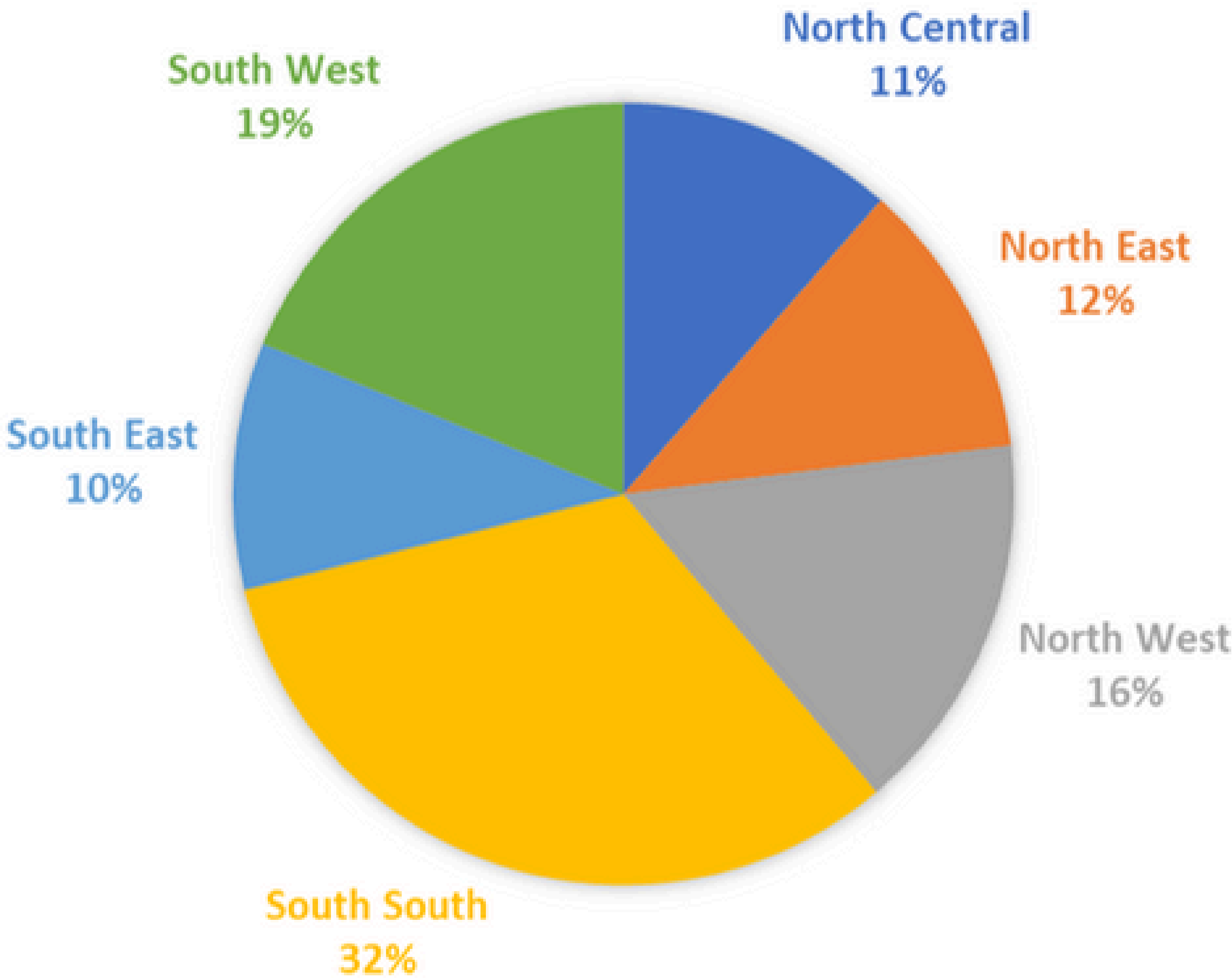
- **Equity:** Revenue sharing seeks to close the economic and infrastructural gaps between Nigeria's federating units. It ensures that no state or local government is left behind, regardless of its resource base or revenue generating capacity.
- **National Unity:** In a diverse federation like Nigeria home to over 250 ethnic groups revenue sharing acts as a binding force. By ensuring that all regions benefit from national wealth, it strengthens the collective identity and trust in the Nigerian project.
- **Balanced Development:** The formula is designed to stimulate uniform progress across the country. It provides all tiers of government with the fiscal resources needed to invest in health, education, roads, water, and other public goods that underpin socioeconomic advancement.



- **Resource Pooling:** Centralized revenue collection enables the nation to harness funds from its most lucrative sectors, particularly oil and gas, and redistribute them in a way that supports nationwide development while respecting state autonomy.
- **Fiscal Responsibility:** By tying subnational budgets to shared national resources, the system encourages states and local governments to adopt prudent financial management practices, enhance transparency, and ensure accountability.

Alh. Atiku Baguda (Minister of Budget) with Dr. Orji Ogbonaya Orji (ES/CEO NEITI)

2024 GROSS ALLOCATION TO GEOPOLITICAL ZONE

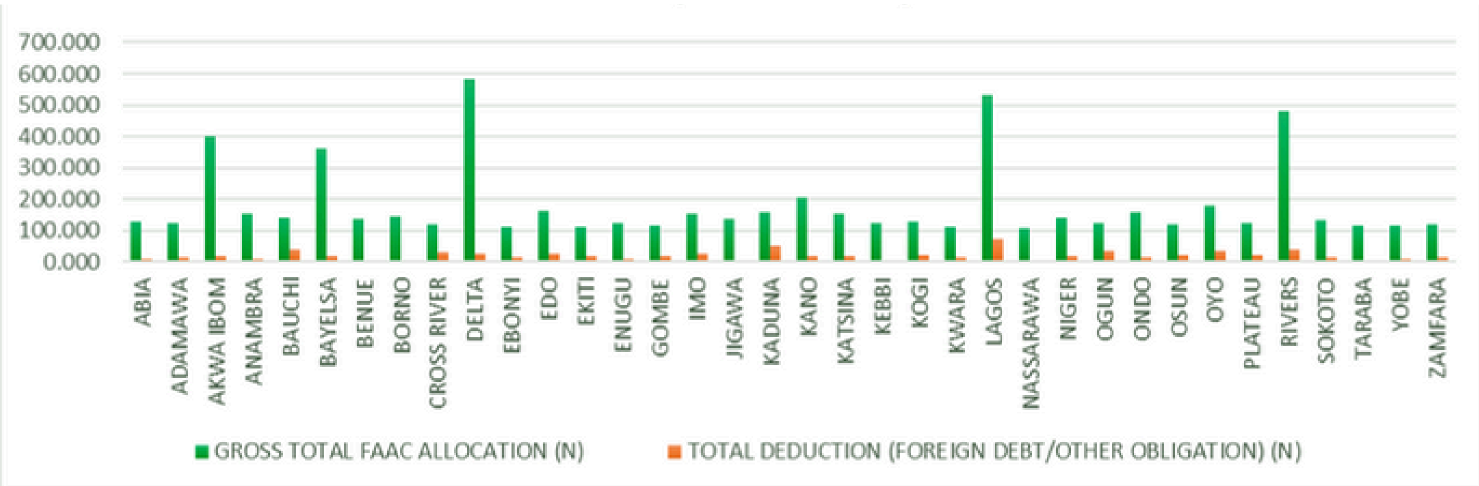


The operational mechanism for revenue sharing is defined by constitutional and institutional frameworks:

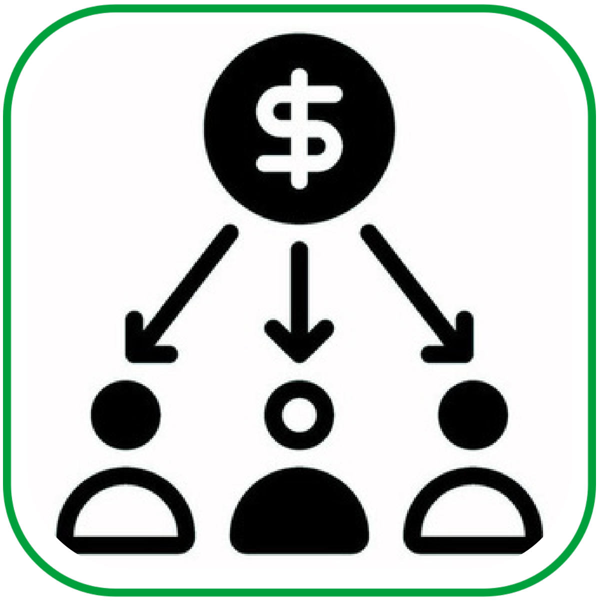
- All federally collected revenues are deposited into the Federation Account. domiciled in CBN

- The Federal Accounts Allocation Committee (FAAC), comprising representatives of the federal, state, and local government, convenes to review revenue inflows, validate statutory and debt related deductions, and approve final disbursements.
- Once approved, the funds are disbursed electronically to the accounts of each tier of government based on the approved revenue sharing formula.

Revenue distribution is a monthly event, typically occurring in the third or fourth week of each month, following FAAC deliberations. FAAC meetings are traditionally held at the Federal Ministry of Finance Headquarters in Abuja, Nigeria's capital. These meetings are not only administrative but also politically sensitive, as they reflect the fiscal pulse of the federation.



The importance of Nigeria's revenue sharing mechanism extends beyond financial transactions. It is a core function of statecraft in a multi ethnic, resource uneven federation. Revenue sharing is essential to:



- Uphold the federal character principle and meet constitutional mandates.
- Equip each level of government with the financial capacity to perform its statutory functions, security, education, healthcare, infrastructure, and more.
- Nationwide economic growth and social development.
- Reduce interregional tension by ensuring that every part of the country has a stake in, and derives benefit from, national prosperity.

In essence, Nigeria's revenue sharing framework administered by the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) and operationalized through FAAC is a constitutionally entrenched mechanism for managing diversity, distributing opportunities, and sustaining the federal system. It is not just about who gets what, but about ensuring that every citizen, in every corner of Nigeria, has access to the dividends of national development.

Sources of subnational Loans, Lenders, Risks of Borrowing in Nigeria

State governments in Nigeria increasingly resort to borrowing to augment dwindling federal allocations and limited internally generated revenues (IGRs). This section provides a data driven mapping of the sources of subnational loans (domestic and external), and analyzes the terms, conditions, and associated fiscal risks of such borrowings.

Sources of Subnational Loans

A. Domestic Borrowing:

- **Commercial Bank Loans:** States borrow from Nigerian commercial banks for recurrent spending or short-term capital projects. These loans are often collateralized with Irrevocable Standing Payment Orders (ISPOs) against FAAC allocations.
- **Central Bank of Nigeria (CBN) Interventions:** Through programs such as the Anchor Borrowers' Programme, Budget Support Facility, and COVID-19 Intervention Fund.
- **Capital Market Instruments:** A few states have issued bonds (e.g., Naira-denominated subnational bonds) approved by the Securities and Exchange Commission (SEC).
- **Special Funds and Institutions:** Some states access funding from specialized institutions such as the Bank of Industry (BOI) or Infrastructure Bank Nigeria.

B. External Borrowing:

- **Multilateral Creditors**: These include the World Bank (International Development Association – IDA), African Development Bank (AfDB), and Islamic Development Bank (IsDB), primarily for education, health, agriculture, and infrastructure.
- **Bilateral Creditors:** Loans from countries such as China (via China Exim Bank), France (via AFD), and Germany (via KfW).
- **Export Credit Agencies & Commercial Lenders:** Rarely accessed due to repayment capacity concerns, but occasionally through syndicated loans or Public-Private Partnerships (PPPs).

Analysis of terms and conditions:

- **Tenor & Repayment:** External loans tend to have longer maturity periods (20–30 years), while domestic commercial loans are shorter (1–5 years), placing repayment pressures on current administrations.
- **Interest Rates:** Concessional external loans average 1.5–3%, while domestic commercial loans average 15–25%, significantly increasing debt service costs.
- **Collateralization:** Domestic loans are often backed by ISPOs against FAAC allocations, reducing states' fiscal flexibility and exposing future revenues to automatic deductions.
- **Purpose Utilization:** Many domestic loans fund recurrent expenditure rather than infrastructure, raising sustainability concerns.
- **Transparency:** External loans often come with procurement safeguards, while domestic borrowing lacks public disclosure on terms and implementation outcomes.

Risks and Fiscal Implications of Loans to States

- **Revenue Volatility Risk:** High dependence on FAAC allocations exposes states to macroeconomic shocks (e.g., oil price fluctuations), affecting loan servicing.
- **Debt Sustainability Risk:** States with low IGR and high recurrent expenditure (e.g., Kogi, Benue, Taraba) are at risk of defaulting on obligations, even with FAAC-backed guarantees.
- **Intergenerational Risk:** Long-term loans collateralized by future revenue streams erode fiscal space for successive administrations.
- **Development Effectiveness Risk:** Weak project monitoring and evaluation frameworks, especially for domestic loans, hinder measurable development outcomes.
- **Regulatory Oversight Gap:** Inadequate public access to subnational debt data undermines transparency and accountability, despite DMO's quarterly updates.

2024 GROSS ALLOCATION & DEDUCTIONS				
S/N	STATE	GROSS TOTAL FAAC ALLOCATION 2024 (N)	TOTAL DEDUCTION 2024 (FOREIGN DEBT/OTHER OBLIGATION) (N)	% OF DEDUCTION ON GROSS TOTAL
1	ABIA	128,932,830,257.03	8,542,962,709.56	6.63%
2	ADAMAWA	123,977,044,409.72	13,156,638,013.76	10.61%
3	AKWA IBOM	400,037,326,691.39	19,546,849,786.59	4.89%
4	ANAMBRA	152,664,276,981.59	6,937,896,813.82	4.54%
5	BAUCHI	142,200,789,603.67	37,195,719,677.44	26.16%
6	BAYELSA	362,386,760,687.55	16,162,170,666.18	4.46%
7	BENUE	135,700,820,421.23	4,853,151,619.05	3.58%
8	BORNO	143,472,088,008.84	3,775,715,734.81	2.63%
9	CROSS RIVER	118,779,250,556.98	28,337,948,586.77	23.86%
10	DELTA	581,265,214,105.90	28,069,725,486.71	4.83%
11	EBONYI	110,005,026,217.90	12,190,318,888.09	11.08%
12	EDO	163,681,729,208.91	24,515,220,249.15	14.98%
13	EKITI	111,867,976,987.85	18,695,614,174.89	16.71%
14	ENUGU	123,245,934,560.16	9,717,054,895.65	7.88%
15	GOMBE	113,919,695,528.63	18,485,402,204.42	16.23
16	IMO	154,124,555,990.20	24,774,782,712.46	16.07
17	JIGAWA	137,129,199,383.65	3,758,866,367.78	2.74
18	KADUNA	159,697,493,008.23	51,201,637,872.24	32.06

19	KANO	203,532,543,139.28	17,320,013,586.55	8.51
20	KATSINA	152,195,103,158.50	17,886,579,073.37	11.75
21	KEBBI	123,721,758,892.66	5,027,314,660.05	4.06
22	KOGI	128,647,429,699.00	21,291,717,068.18	16.55
23	KWARA	112,198,859,205.46	13,034,410,414.90	11.62
24	LAGOS	531,110,635,712.79	72,701,902,535.50	13.69
25	NASSARAWA	108,318,145,617.14	4,134,091,528.49	3.82
26	NIGER	139,161,354,631.92	19,050,485,140.47	13.69
27	OGUN	123,030,483,535.59	32,655,239,036.91	26.54
28	ONDO	157,833,975,835.71	14,895,081,401.79	9.44
29	OSUN	118,548,604,682.55	21,419,220,241.01	18.07
30	OYO	178,966,538,275.97	34,315,864,059.81	19.17
31	PLATEAU	124,619,900,136.77	22,380,120,275.14	17.96
32	RIVERS	481,235,385,586.39	38,564,944,404.88	8.01
33	SOKOTO	131,773,014,974.07	14,424,576,160.70	10.95
34	TARABA	115,461,604,667.43	5,829,848,529.80	5.05
35	YOBE	115,456,984,258.88	9,875,910,930.98	8.55
36	ZAMFARA	121,643,368,676.78	12,767,478,217.32	10.5

Source FAAC /NEITI

Understanding the historical trajectory of borrowing and debt servicing at Nigeria's subnational level is key to unpacking the fiscal fragility that many states face today. What began as a tightly regulated process has, over the decades, evolved into a complex and often unsustainable pattern of borrowing that now constrains fiscal autonomy and development outcomes across the federation.

Colonial and Post-Independence Foundations (Pre-1970s)

In Nigeria's colonial and immediate post-independence periods, borrowing powers were heavily centralized. Under the 1958 Constitution and the 1960 Independence Constitution, regional governments (now states) were restricted from accessing external loans without express approval from the federal government. Domestic borrowing was permitted but stringently regulated to enforce fiscal discipline and safeguard national economic stability. This centralized control was designed to maintain macroeconomic balance and avoid fragmented debt obligations that could compromise national development plans.

The Oil Boom and Reconstruction Era (1970s–1980s)

The discovery and commercial exploitation of oil in the Niger Delta transformed Nigeria's revenue profile. The oil boom of the 1970s led to a flood of petro-dollars into the Federation Account, significantly reducing the need for state-level borrowing. States could largely fund their development projects from generous FAAC allocations. However, the aftermath of the Nigerian Civil War (1967–1970) saw a shift. The imperative to rebuild war-torn regions drove several states to seek domestic loans to finance post-war reconstruction, especially in infrastructure and social services. While borrowing increased modestly during this era, the fiscal cushion provided by oil meant debt remained within manageable limits.

Economic Crisis and Structural Adjustment (1980s–1990s)

By the early 1980s, global oil prices plummeted, exposing Nigeria's overdependence on oil as a single revenue source. State revenues sharply declined, pushing subnational governments into borrowing to meet their recurrent and capital obligations.

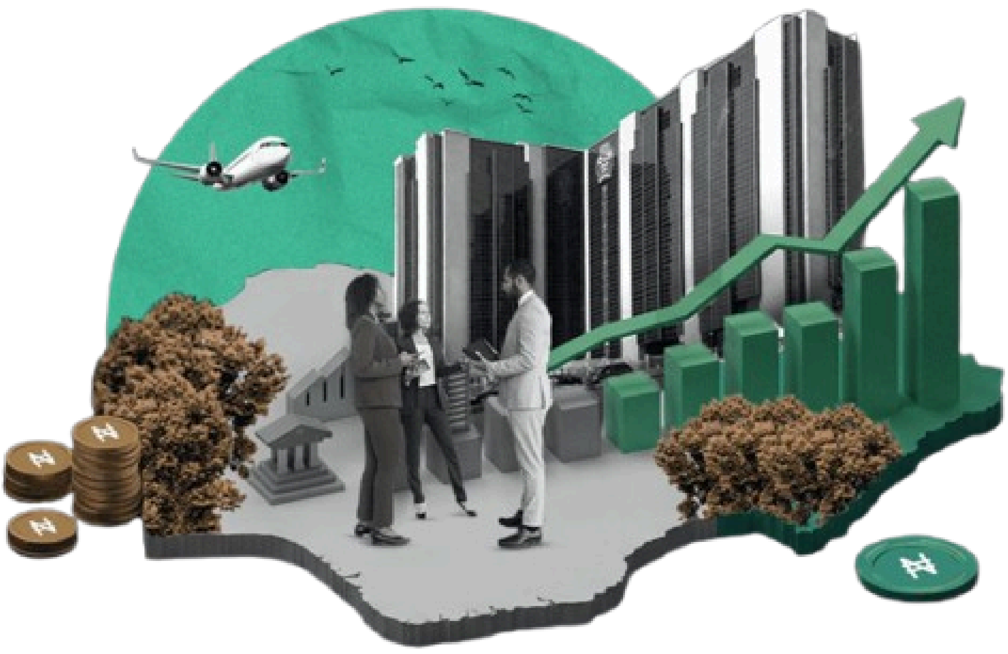
The introduction of the Structural Adjustment Programme (SAP) In 1986, while aimed at liberalizing the economy, it had a profound impact on subnational finances. It promoted fiscal decentralization and granted states greater autonomy to borrow externally and domestically. However, this autonomy came without the corresponding institutional frameworks to manage debt responsibly.

As debt levels soared, the federal government began deducting debt servicing obligations directly from states' monthly allocations through FAAC. These automatic deductions were intended to protect Nigeria's credit worthiness but had the unintended consequence of reducing state level financial discretion and deepening their dependency on federal bailouts.

Democratic Transition and the Debt Overhang (1999–2005)

The return to democratic rule in 1999 ushered in a wave of ambitious infrastructure spending by state governments. With popular demand for service delivery and legacy projects, state executives aggressively pursued both domestic and external loans, often collateralized against anticipated federal allocations.

By the early 2000s, the combined debt burden at the state level had become unsustainable. External debt, particularly from bilateral and multilateral sources, ballooned alongside domestic obligations. The Paris Club debt relief initiative secured by the federal government in 2005 offered significant reprieve by reducing external debt stock. Yet, this relief was quickly offset by a renewed surge in domestic borrowing, much of which was used to finance recurrent expenditures rather than long-term capital investments.

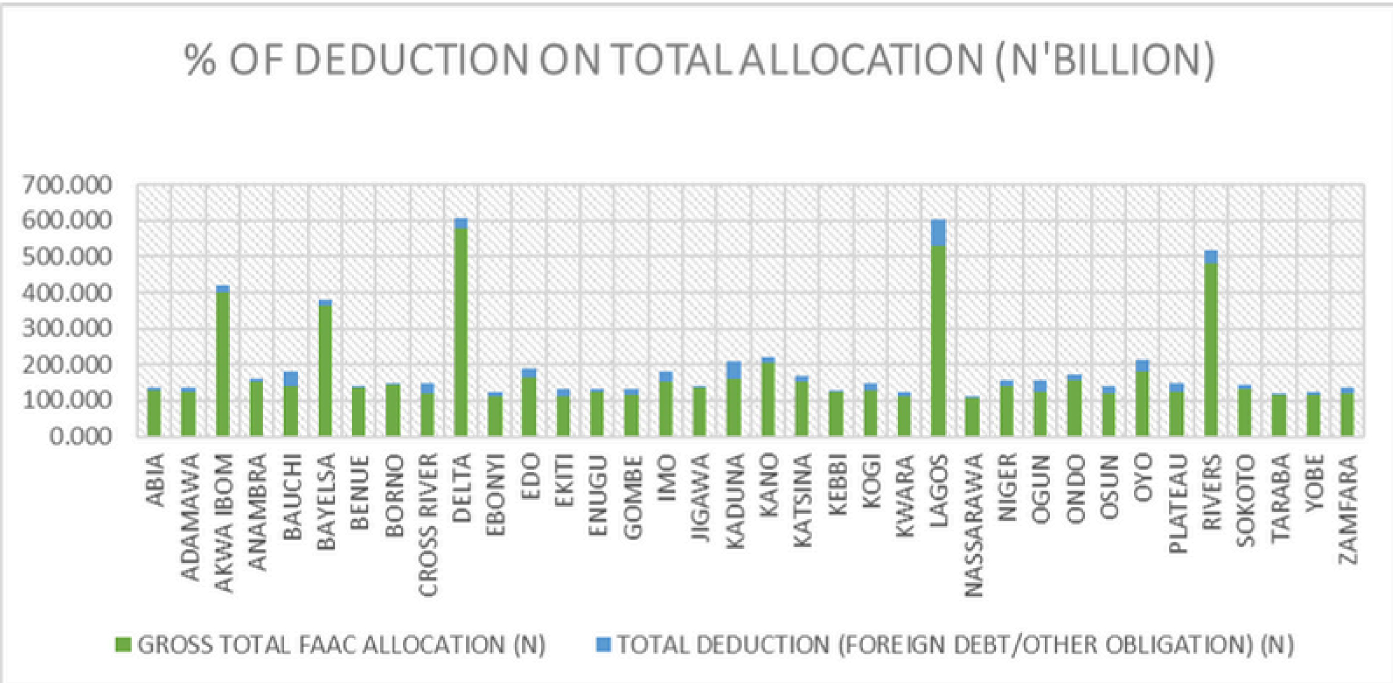


Contemporary Trends and Rising Fiscal Pressures (2006–2025)

In the past two decades, state borrowing has escalated steadily, fueled by a convergence of structural and cyclical factors:

- Volatile oil prices have led to unpredictable and often declining FAAC allocations.
- Widening infrastructure deficits continue to demand urgent capital outlays. Expanding wage bills, pension liabilities, and administrative overheads have squeezed budgets.
- Rising social demands including healthcare, security, and
- education have further pressured state treasuries.

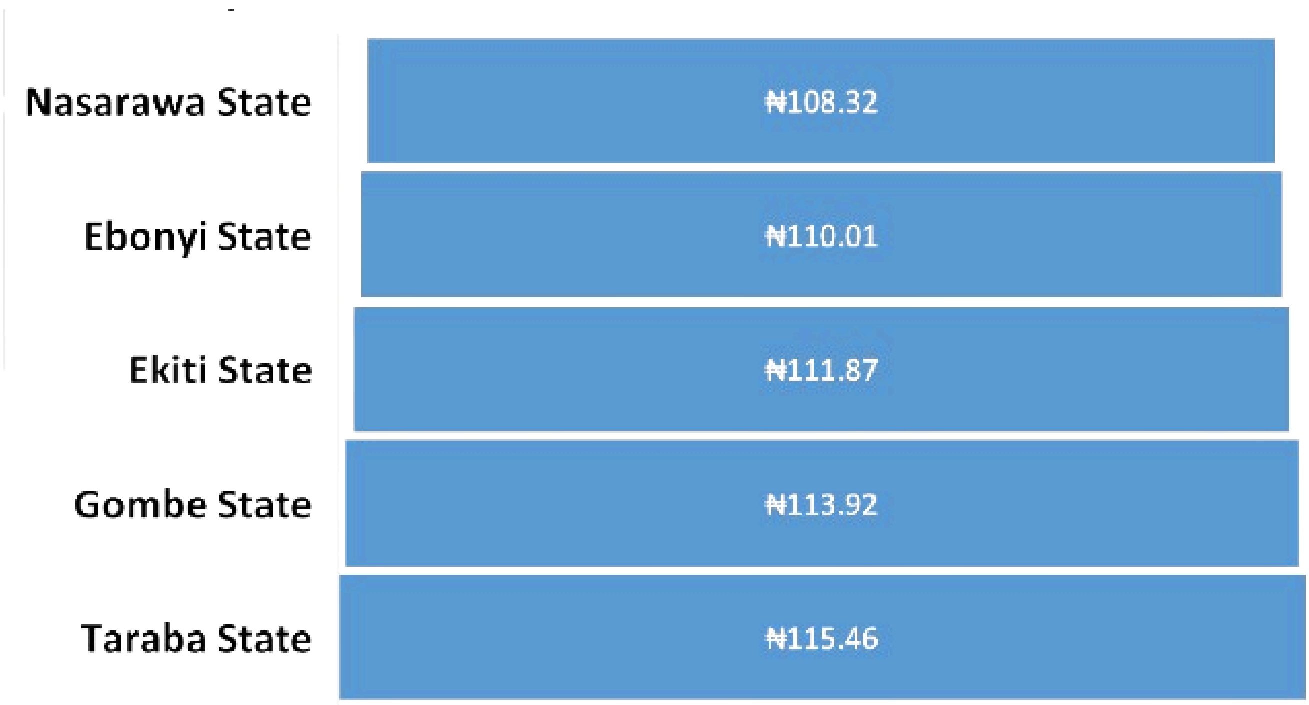
As a result, deductions from FAAC allocations to service debts and contractual obligations have grown in both size and frequency. In many states, these deductions now consume over 20% to 25% of gross allocations, leaving limited room for discretionary or developmental spending. This trend has undermined states' fiscal sovereignty, distorted budget priorities, and in many cases, pushed states into fiscal distress. The consequences are far-reaching: salary arrears, abandoned infrastructure projects, escalating borrowing to service existing debts, and growing dependence on federal bailouts. In extreme cases, this has created a dangerous cycle of borrowing to survive, rather than borrowing to grow, threatening not only the financial health of individual states but the broader stability of Nigeria's fiscal federation.



Top five (5) States with Highest Gross Allocations

Some states stood out in terms of total receipts from the Federation Account. In 2025, the top five recipients of gross allocations were:

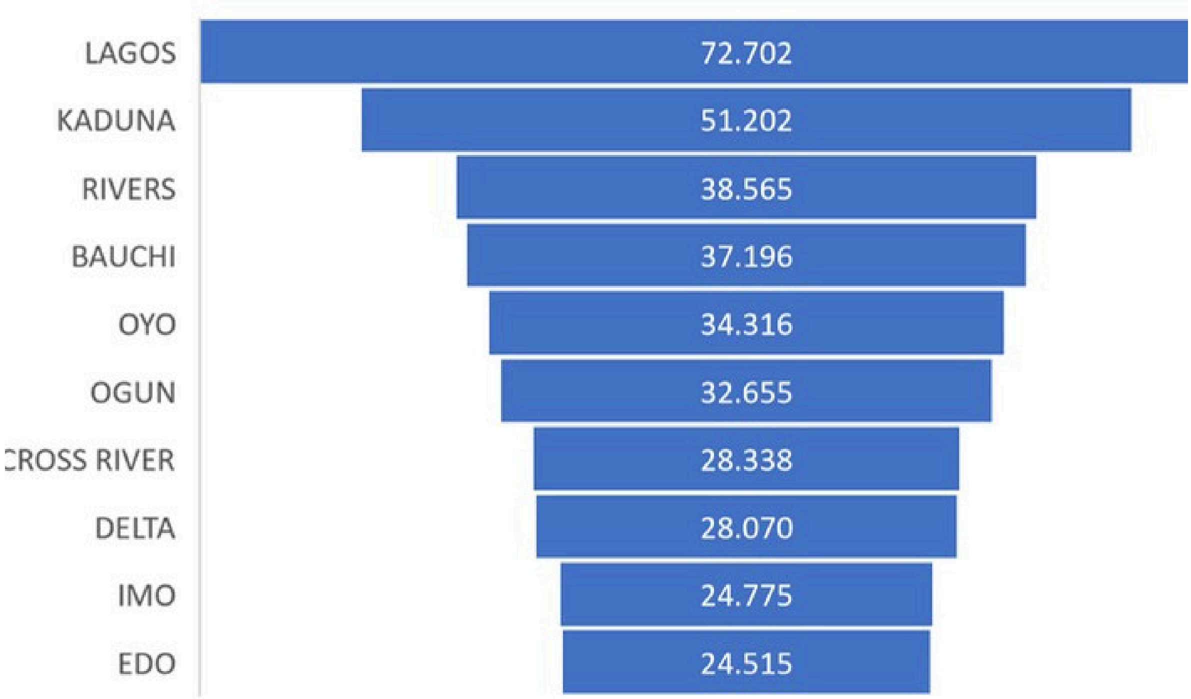
- Delta State: ₦581.27 billion
- Lagos State: ₦531.11 billion
- Rivers State: ₦481.24 billion
- Akwa Ibom State: ₦400.04 billion
- Bayelsa State: ₦362.39 billion



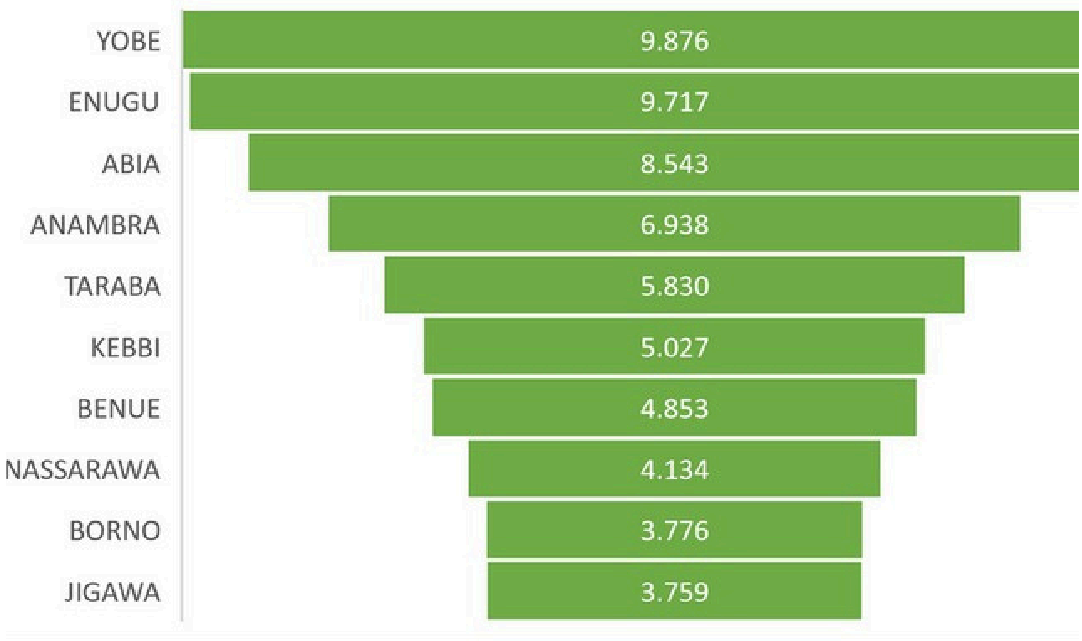
At the other end of the spectrum, the bottom five states in gross allocations were

- Nasarawa State: ₦108.32 billion
- Ebonyi State: ₦110.01 billion
- Ekiti State: ₦111.87 billion
- Gombe State: ₦113.92 billion
- Taraba State: ₦115.46 billion

Top 10 States with the highest indebtedness in 2024



Top 10 States with the Lowest indebtedness in 2024



The disparity is significant: a five fold difference between Delta (₦581.27 billion) and Nasarawa (₦108.32 billion), underscoring the uneven distribution of federally collected revenues and the need for strategic fiscal equalization.

Top States Demonstrating Fiscal Resilience

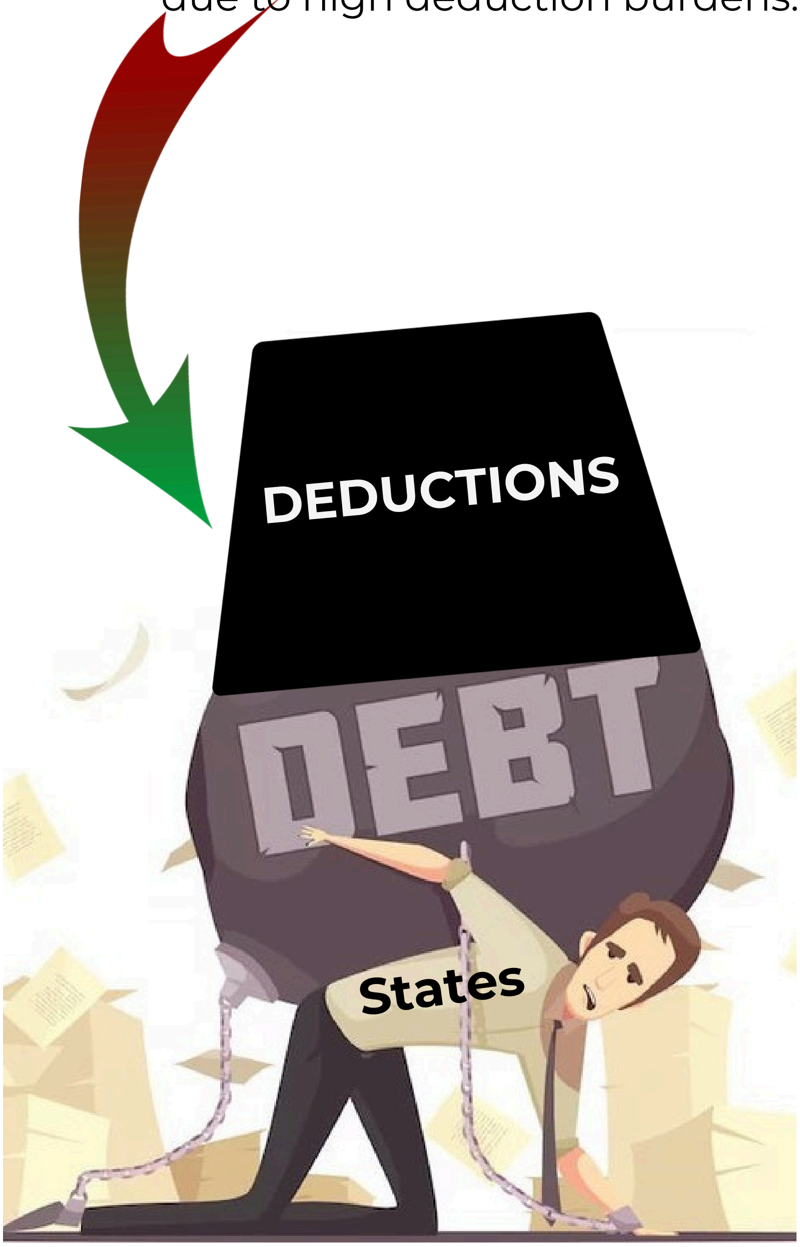
Despite high gross allocations, some states retained a remarkable share of their revenues post deductions, reflecting strong fiscal management and low debt obligations:

- **Akwa Ibom State**: Retained 95% of its gross allocation, underscoring disciplined borrowing and minimal exposure to deductions.
- **Abia State:** Retained 93.4% of gross allocation, with deductions amounting to only ₦8.54 billion.
- **Enugu State:** Retained 98.5% of its allocation, reflecting prudent financial discipline despite prevailing security pressures.
- **Nasarawa State:** With deductions as low as ₦4.26 billion, it retained over 96% of its receipts.

Dr. Alex Otti (Governor Abia State) with
Dr. Orji Ogbonaya Orji (ES/CEO NEITI)

Top States Under Severe Fiscal Pressure

Conversely, some states are battling significant fiscal constraints due to high deduction burdens. Notable examples include:



- **Bauchi State:** Recorded one of the highest deduction-to-gross ratios at 26.1%, sharply reducing its net available revenue.
- **Kaduna State:** Deductions totaled ₦51.20 billion, with external debt alone accounting for ₦45.59 billion (28.6% of gross allocation).
- **Cross River State:** Faced deductions of ₦28.34 billion, reflecting a combination of external debt and contractual liabilities.
- **Ogun and Ondo States**: Heavily burdened by contractual obligations tied to PPP and infrastructure projects.

External Debt Servicing Pressures

Several states are dedicating significant portions of their monthly allocations to external debt servicing:

- Kaduna State: ₦45.59 billion (28.6% of gross allocation)
- Lagos State: ₦72.32 billion (13.6%)
- Cross River State: ₦17.10 billion (14.4%)

In contrast, states such as Benue (₦2.55 billion), Zamfara (₦2.53 billion), and Yobe (₦2.31 billion) recorded the lowest external debt deductions, reflecting relatively lower exposure.

Contractual Obligations

Deductions from states tied to contractual liabilities (e.g., infrastructure PPPs and development agreements) are becoming more significant: Katsina State: ₦10.20 billion (highest in contractual obligations) Ogun State: ₦6.00 billion in direct contractual deductions, plus ₦14.67 billion in other related deductions Ondo State: ₦7.73 billion Kano State: ₦3.51 billion Interestingly, states such as Abia, Adamawa, and Akwa Ibom, along with 15 others, recorded zero contractual obligations, reflecting a conservative or strategic borrowing approach.

Other Deductions (Administrative and Statutory)

States also incurred additional deductions unrelated to debt or contractual obligations. Notable figures include:

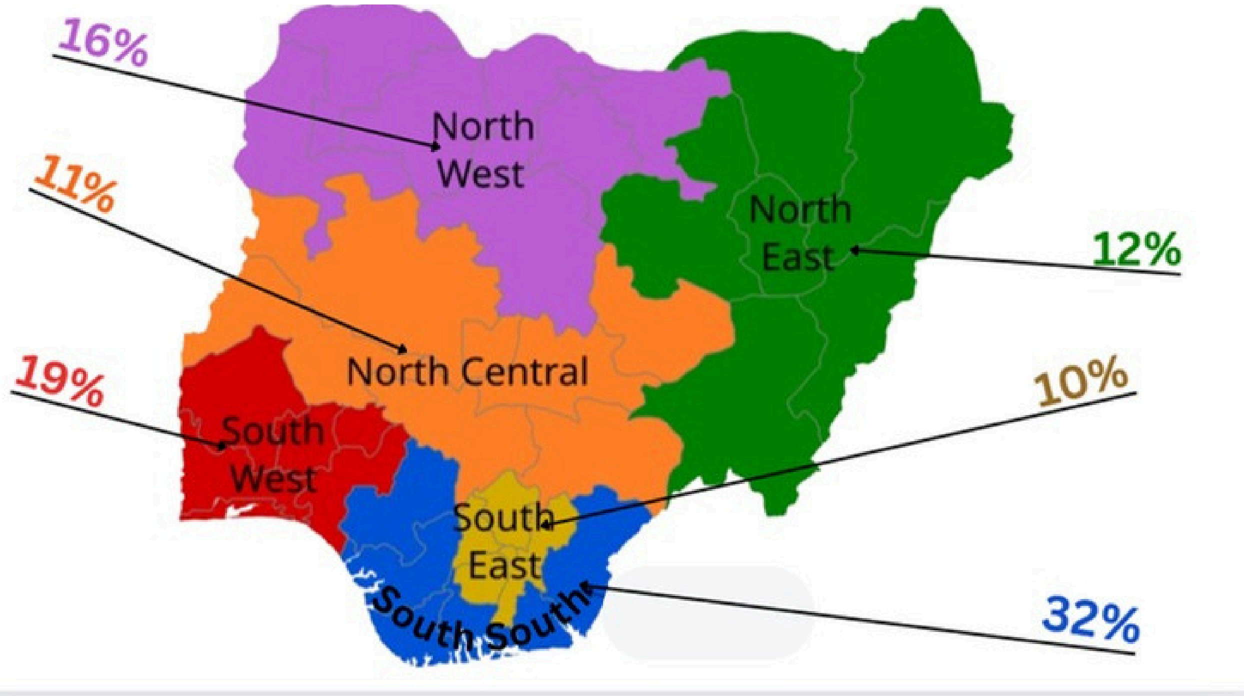
- Delta State: ₦24.95 billion
- Rivers State: ₦15.43 billion
- Lagos State: ₦0.39 billion (notable given its otherwise high external debt load)

States with the lowest "other deductions" include:

- Abia State: ₦2.43 billion
- Enugu State: ₦1.08 billion
- Nasarawa State: ₦0.42 billion

NEITI Nigeria Extractive Industries Transparency Initiative

2024 GROSS ALLOCATION TO GEOPOLITICAL ZONE



The states in the North West, north east and north central show higher debt-to-allocation ratios (Avg 18.7% vs South's 9.2%). Key findings from this analysis indicate a significant variance in debt burdens (0.6% to 32.1% of gross allocations)

- South-South states (e.g., Delta, Rivers, Bayelsa) dominate in gross allocations due to their oil producing status.
- However, Northern states (especially in the North East and North Central) carry higher debt-to-allocation ratios, compounding their already limited revenue base.
- On average, the North records an 18.7% deduction rate, compared to 12.3% for Southern states.

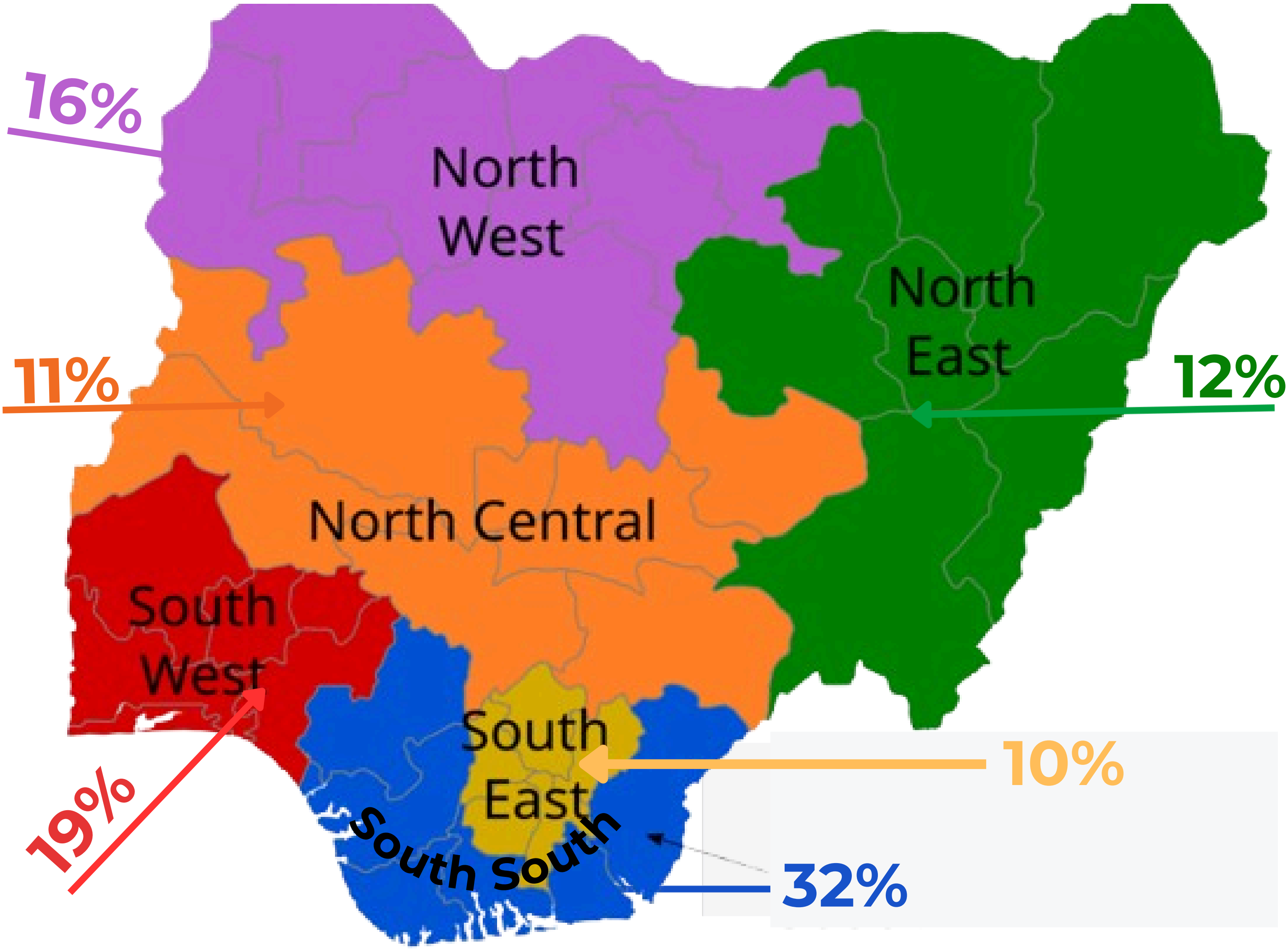
Zonal Disparities and Structural Imbalances

Disbursement Analysis based on geopolitical zones shows Regional Disparities as follows: South South dominance as a of four out of the six oil producing states are from the region, belonging to the states in top 10 allocations Combined Rivers and Delta states received ₦1.06 trillion. Also based on the Allocation per Capita South South ₦284.5k average, while the North West has a ₦127.8k average. The Debt Ratio for the Northern States is 18.7% average deductions, while for the Southern States is 12.3% average.

- **Oil Revenue Impact:** The nine oil-producing states received 43.2% of total allocations, while the remaining Non oil states also rely heavily on federal transfers (87-92%) of revenue
- **Fiscal Sustainability:** From the analysis of the 2025 revenue allocation and disbursement data to the states, some Red Flags (negative indicators) it was observed that:

1. 14 states exceed 20% debt-to-allocation ratio.
2. Cross River state has a 23.8% deduction rate despite mid-tier allocation.
3. Zamfara state has a ₦5.07 billion contractual obligations without major infrastructure projects.

2024 GROSS ALLOCATION TO GEOPOLITICAL ZONE

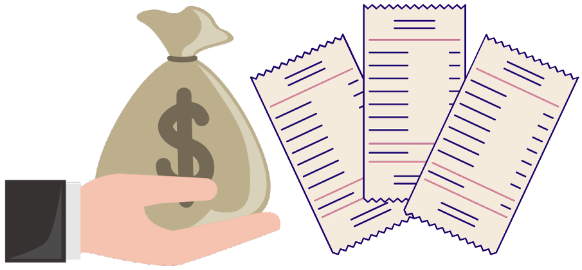


Allocation Trends and Seasonality

- Peak allocations across states were recorded in December 2024, with Bayelsa receiving ₦52.29 billion. A noticeable
- uptick in allocations occurred in Q3 (July– September), with nationwide increases ranging between 12–15%, signaling seasonal revenue variations.

Net Allocation Impact Winners and Losers. Highest Total Deductions (Volume):

- Lagos State: ₦72.70 billion
- Kaduna State: ₦51.20 billion
- Cross River State: ₦28.34 billion



Most Fiscally Secure (Lowest Deductions):

- Abia State: 93.4% net retention
- Enugu State: 95.5% net retention
- Nasarawa State: Minimal deductions of ₦4.26 billion

These insights paint a picture of an increasingly fragmented subnational fiscal landscape, where a handful of states manage their finances prudently, while others spiral deeper into debt related deductions that crowd out development spending.

Unmasking Fiscal Stress in Nigeria's Subnational Governance. The analysis of fiscal operations across Nigeria's 36 states, as detailed in this policy brief, presents a sobering picture of structural imbalances, rising debt burdens, and unequal fiscal outcomes that threaten the sustainability of subnational governance. These findings are particularly relevant in the context of the brief's central focus, examining the cost of borrowings and debt servicing at the state level and its implications on development financing.

Key trends have been identified from data Analyzed

1. Fiscal Dominance vs. Debt Exposure:

States like Lagos, despite maintaining fiscal dominance and benefiting from the highest gross allocations, still carry a significant debt burden, 13.6% of its allocation is committed to external debt servicing. This juxtaposition illustrates that high Revenue alone does not guarantee fiscal health, especially where borrowing is not aligned with revenue-generating capacity.

2. Contractual Obligations as Hidden Liabilities:

In at least 11 states, contractual obligations consume between 6% and 15% of total allocations, diverting funds away from core public services. States like Katsina, Ogun, and Ondo are particularly exposed. The lack of transparency around the nature and terms of these obligations calls for urgent reform in public procurement and contract financing.

3. Debt Servicing Undermining Development

Eight states now exceed a 20% deduction-to-allocation ratio, a Red flag for development planning. When a fifth or more of Gross revenue is channeled to service past borrowings, little is left for health, education, infrastructure, and job creation, key levers for inclusive growth and poverty reduction.

4. Inadequate Debt Management Structures

The data strongly indicates an urgent need for state-level debt management frameworks. The absence of formal Debt Management Offices (DMOs) in most states contributes to poor tracking, forecasting, and planning around liabilities. This undermines fiscal stability and increases the risk of default or bailout dependency.

5. Deep Allocation Disparities:

The 2024 FAAC disbursement data reveals a 5:1 allocation ratio between the highest and lowest recipient states, with Delta State receiving ₦581.27 billion compared to Nasarawa's ₦108.32 billion. This vast gap questions the equity of the current revenue formula and suggests that the vertical and horizontal sharing models may require a comprehensive review.

6. Oil-Based Skew in Resource Distribution

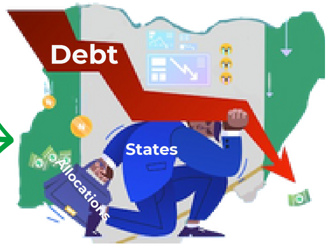
The allocation structure remains heavily tilted toward oil-producing states, reinforcing fiscal monocultures and creating disincentives for economic diversification in both oil rich and non-oil regions. This imbalance is further exacerbated by the 13% derivation principle, which, though constitutionally justified, continues to raise questions about Equitable development in non-resource states.

7. Debt Threshold Breach Across the Board:

Shockingly, 22 states now exceed the World Bank's 15% debt to revenue threshold, placing them in the high risk category for debt distress. Without deliberate policy interventions, this trend could escalate into a broader macroeconomic risk, especially in periods of revenue shocks or delayed FAAC disbursements.

8. Regional Fiscal Inequities

The Northern states, despite receiving lower gross allocations, show higher deduction ratios, implying that debt servicing constitutes a larger share of their already limited resources. This trend compounds historical underdevelopment in these regions and undermines national objectives for balanced growth.



9. Data Integrity and Transparency Gaps

Persistent data inconsistencies and limited real-time reporting impede a clear understanding of the true fiscal positions of states. Without accurate, timely, and publicly accessible data, policymaking, planning, and accountability mechanisms remain weak.

10. Eight States at Immediate Risk

The brief identifies eight high-risk states where deduction burdens, debt exposure, and fiscal misalignment converge dangerously. These states require immediate technical support, oversight, and reform incentives to prevent deeper insolvency and socioeconomic fallout.

Confronting a Looming Subnational Fiscal Crisis:

The cumulative effect of these findings is clear: Nigerian states are at varying degrees of fiscal risk, with borrowing and debt servicing patterns now threatening core governance functions. While economically strong states like Lagos and Rivers face substantial deductions from external debts, smaller states such as Nasarawa and Enugu, though receiving lower allocations, are showing signs of financial prudence.

This contrast underscores the need for a differentiated but coordinated response. National and subnational policymakers must prioritize debt management reforms, allocation formula reviews, and revenue diversification strategies. Only then can Nigeria break the cycle of debt dependency and position its federating units for fiscal resilience, equitable development, and sustainable governance.

POLICY RECOMMENDATIONS

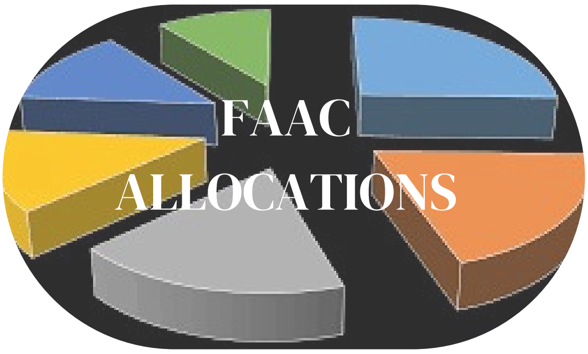
1. Strengthen Debt Management Frameworks

- **Establish State Debt Management Offices (DMOs):** The national economic council (NEC) should Mandate all states to create DMOs to monitor debt sustainability, enforce ceilings (e.g., aligning with the World Bank's 15% debt to revenue threshold), and negotiate favorable restructuring terms for high risk states (e.g., the 8 states exceeding 20% deduction rates). This should be closely monitored to ensure state fiscal independence

- **Federal Oversight and Support:** Introduce conditional federal grants requiring states to adopt fiscal responsibility laws and transparent debt reporting. State's should be encouraged to domesticate anti-corruption principles and initiative such as open government partnership (OGP), extractive industry transparency initiative (EITI) and pass the fiscal responsibility laws in their states. High debt states (e.g., 22 exceeding 15% ratio) could access debt relief programs tied to austerity measures and revenue reforms.

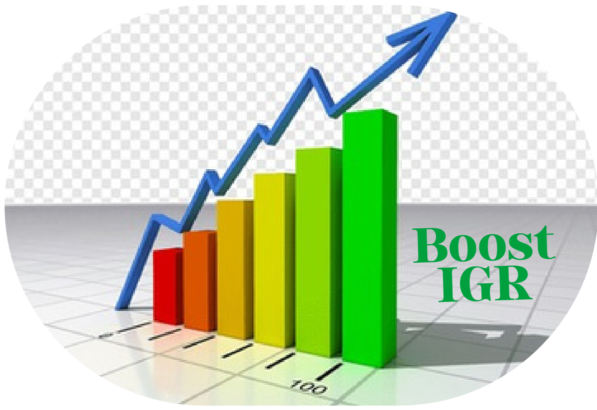
II.Reform Federal Allocation Policies

- **Revise Revenue Formula:** Transition from oil derived allocations to a needs based model, incorporating population, poverty rates, and infrastructure gaps to address the 5:1 disparity. Allocate a portion of oil revenues to an investment fund to boast young entrepreneurs especially youths from the restive Niger Delta region. (The fund should be privately sector managed by appointing a fund Manager)
- **Reduce Oil Dependency:** Incentivize non-oil sectors through grants to diversify state economies and mitigate to skewed allocations toward oil-producing regions, encourage them to develop other sectors such as the blue economy and agriculture.



III.Boost Internally Generated Revenue (IGR)

- **Tax Modernization:** Implement digital tax collection, broaden the tax base, and combat evasion. Offer federal matching funds for states achieving IGR growth targets.
- **Economic Diversification Grants:** Support agro-processing, tourism, and SMEs in low revenue states (e.g., northern states with high deductions) to reduce borrowing needs.

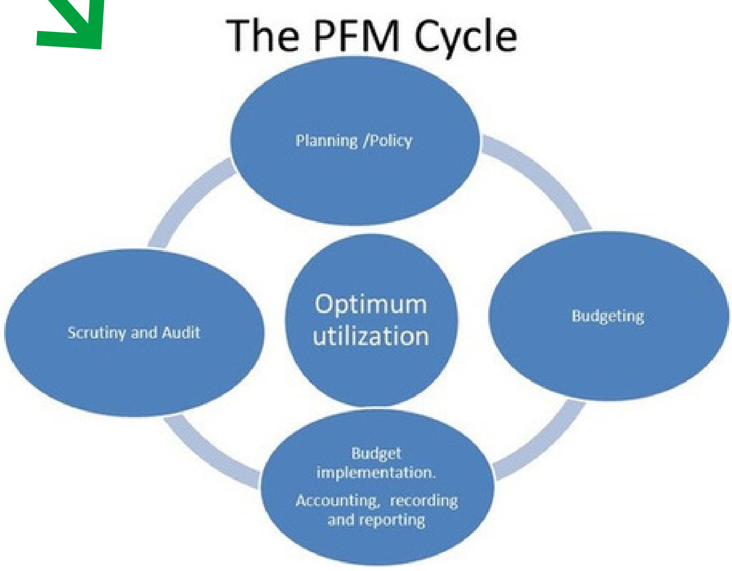


IV.Enhance Fiscal Transparency and Accountability

- **Mandate Real-Time Reporting:** Enact legislation requiring standardized, public fiscal data publication to address inconsistencies. Use platforms like Open Treasury Portals for oversight.
- **Independent Audits:** Partner with international bodies (e.g., IMF, World Bank) to conduct annual audits and certify compliance with fiscal guidelines.

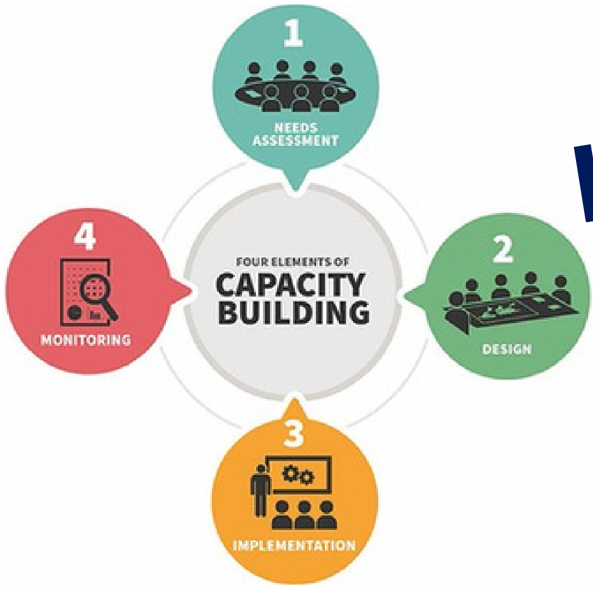
V. Optimize Public Financial Management

- **Prioritize Development Spending:** Cap contractual obligations (e.g., 15% of allocations) and enforce zero-based budgeting to redirect funds to critical sectors like healthcare and education.
- **Debt Service Relief:** Negotiate moratoriums or concessional loans for northern states facing high deduction ratios despite low allocations.



VI. Capacity Building and Legal Reforms

- **Fiscal Governance Training:** Launch federal programs to train state officials in budget management, contract negotiation, and debt strategies.
- **Amend the Fiscal Responsibility Act:** Enforce penalties for non-compliance with debt/revenue ratios and mandate medium-term expenditure frameworks (MTEFs).



VII.Equitable Resource Mobilization

- **Phase Out Derivation-Based Allocations:** Gradually reduce oil-linked allocations while increasing equalization grants to poorer states.
- **Cross-State Collaboration:** Encourage regional partnerships for shared infrastructure projects (e.g., transport networks) to reduce costs and spur development.

VIII.Cost-Saving Implementation Strategy

- **Effective implementation of the recommendations:** In this policy brief requires a phased, realistic, and cost-efficient approach. The strategy outlined below is structured across three key timelines: short, medium, and long term, prioritizing actions that deliver maximum impact with minimal cost, leverage existing institutions, and build sustainable fiscal systems across Nigeria's subnational governments.

- **Public Disclosure Mandate:** States should be required to publish detailed loan agreements and debt sustainability analyses on NEITI and DMO portals.
- **Legislative Oversight:** State Houses of Assembly should play more active roles in loan approvals, project monitoring, and performance audits.
- **IGR Linked Borrowing Framework:** Limit new borrowings to a defined ratio of states' actual IGR, not projections or FAAC allocations.
- **Central Repository of Subnational Loans:** DMO, in collaboration with NEITI, should host a public database of all state-level loans and repayment schedules.
- **Subnational EITI Framework:** Develop a Subnational Natural Resource Governance and Fiscal Responsibility Framework under NEITI to monitor state-level extractive revenues, borrowings, and fiscal responsibility.

Short Term (0–2 Years): Laying the Foundations for Reform

Focus Areas: Institutional Setup, Data Transparency, Urgent Fiscal Relief

Key Actions:

- Establish State Debt Management Offices (DMOs) using existing staff within state Ministries of Finance. Cost saving measures include leveraging training from the federal DMO and using shared platforms for debt tracking.
- Launch real-time fiscal reporting systems using open-source financial reporting tools integrated into NEITI's data dashboards and existing federal portals (e.g., Open Treasury).
- Commence targeted debt restructuring for high-risk states through conditional federal support on new funds disbursed without signed reform compacts.

Cost-Saving Tactics:

- Utilize virtual training modules and peer learning exchanges across states.
- Embed DMO functions within existing budget units where new recruitment is not feasible.
- Automate deductions reporting via FAAC linked dashboards to reduce administrative overhead.

Expected Outcomes:

- 36 DMOs operational.
- Monthly fiscal disclosures by all states.
- Debt profiles of 8 high-risk states restructured or placed under review.

Medium Term (2–5 Years): Building Fiscal Resilience and Revenue Capacity

Focus Areas: Revenue Reform, Capacity Strengthening, Equitable Allocation

MEDIUM TERM

Key Actions:

- Revise federal allocation formula to reflect equity, poverty, and infrastructure gaps.
- Expand IGR programs through digital tax solutions and grants to states for automation. Use private sector partnerships to avoid high public implementation costs.
- Train fiscal officers via the proposed National Fiscal Governance Academy, using blended learning methods (online and physical).
- Audit and standardize budgeting processes, promoting zero based budgeting and project prioritization.

Cost-Saving Tactics:

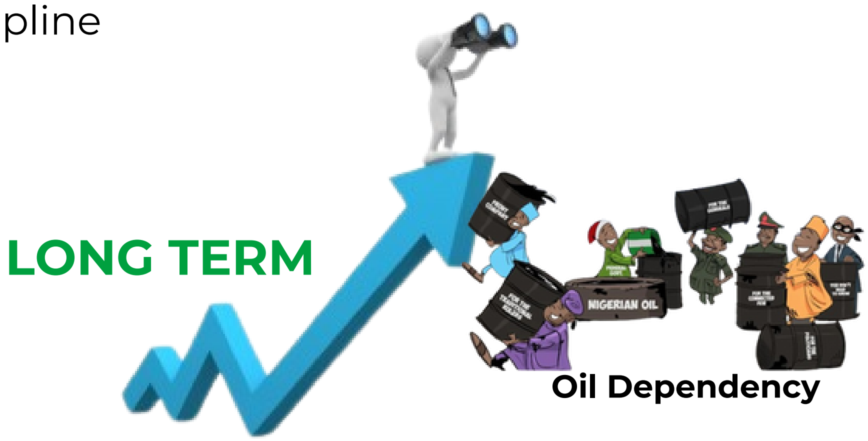
- Deploy open source digital tax platforms.
- Implement Public Private Partnerships (PPPs) for tax system modernization.
- Outsource audit functions to accredited local firms under competitive frameworks.

Expected Outcomes:

- Improved IGR performance in at least 20 states.
- Revised revenue formula approved and in effect.
- Over 1,000 state fiscal officers trained and certified.

Long Term (5+ Years): Sustaining Gains and Reducing Oil Dependency

Focus Areas: Economic Diversification, Inter State Collaboration, Institutional Discipline



Key Actions:

- Institutionalize fiscal discipline through permanent state legislation aligning with the Fiscal Responsibility Act and EITI standards.
- Implement economic diversification strategies especially in agriculture, solid minerals, and services through cost sharing models and regional clusters.
- Reduce oil revenue dependency by gradually increasing equalization transfers to low-revenue states and incentivizing cross-state infrastructure projects.

Cost-Saving Tactics:

- Promote inter-state resource pooling for shared services and infrastructure (e.g., regional transport networks, agro-processing zones).
- Use performance-based grants instead of blanket subsidies.
- Encourage private sector led implementation of economic diversification programs.

Expected Outcomes:

- At least 15 states reducing reliance on FAAC transfers by 30%.
- Subnational economies contributing over 40% to non oil national GDP.
- All 36 states meeting minimum standards for fiscal transparency and discipline.

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