Nigeria

World Bank Group: *Local Government Borrowing Database*

Nigeria Country Profile 2025 Update

Type of state	Federal
State / regional government level (number)	States (36)[1] Federal Capital Territory (FCT)
Local general government levels (number)	Local governments authorities (774) Area councils (6)
Total subnational liabilities, 2023 (state/regional + local)	BRL 1.32 trillion, (USD 265.1 billion eq.)
Local government outstanding liabilities, *% of total subnational, 2023*	0.37%
Total subnational liabilities growth, *CPI adjusted*[2], 2017-2023	-10%[3]
Local government liabilities growth, CPI adjusted, period 2017-2023	-33%

Legal & regulatory environment	• Local government borrowing is enabled, but low levels of own revenue are an obstacle to borrowing • Central government requires approval for all local governments external borrowing
Borrowing readiness	• Local governments' autonomy regarding revenue mobilization and expenditure assignments is limited • Intergovernmental transfers follow a transparent formula, but are not always a predictable source of revenue[4] • Lack of timely, reliable data on local governments finance[5]
Macro credit conditions	• Based on the IMF Financial Development Index, Nigeria's financial development is low especially as it pertains to efficiency and depth of financial markets and institutions[6] • Oil and gas revenues have historically been a very important yet volatile source of government revenue at all levels[7] • Recent macro-fiscal reforms have improved stability and created fiscal space for better public investment.[8]

Highlights

- Local governments in Nigeria have limited discretionary funding and decision-making power over revenues and expenditure.
- Local governments in Nigeria are allowed to borrow from domestic and foreign lenders in domestic and foreign currency, using a variety of instruments (such as loans and bonds), but borrowing requirements are restrictive.
- The degree of local governments taxation autonomy in Nigeria is extremely low and internally generated revenue constitutes only 3% of total local government revenue in 2023.
- Local governments outstanding debt levels are extremely low in Nigeria and borrowing data is not comprehensive.

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Borrowing legal & regulatory environment

Overview: Nigeria is a federation composed of three levels of government: central government, 36 states and the Federal Capital Territory (FCT), and 774 local governments authorities and six area councils.

The foundation of federalism in Nigeria originated with the introduction of decentralization and regional autonomy through the MacPherson Constitution of 1951. The current 1999 Constitution granted significant responsibilities to local governments, granting them increased authority over economic planning and development. In 2017, the Fourth Alteration Bill No. 6 aimed to reform local government administration, ensuring its democratic existence, funding, and the tenure of local councils.

According to the 1999 Constitution, local governments in Nigeria should be run by democratically elected councils. State governments have the authority to enact legislation regarding the establishment, structure, composition, financing, and functions of local government councils. All 774 local governments have a uniform structure and perform similar functions. They share common sources of revenue and maintain relationships with both the federal and state governments. Each state has a Ministry of Local Government and Chieftaincy Affairs, led by a commissioner responsible for overseeing the state-level laws governing local governments. State assemblies also exercise oversight functions to monitor the activities of local governments. While the constitution outlines the core functions of local governments, states may expand their responsibilities through legislation.[9]

Both federal and state governments are responsible for generating and collecting most taxes. Local governments' own revenues are very low and only collect a few sources of local taxes, such as for licenses and fees, as well as levies for commercial and motor drivers.[10] The money collected by the federal government goes into the Federation Account and is then distributed to the three tiers of government by the Federal Allocation Account Committee (FAAC), based on a formula proposed by the Revenue Mobilization Allocation and Fiscal Commission and approved by the National Assembly. The distribution of funds, which includes mainly oil revenue, as well as corporate income taxes, custom duties, and excise taxes, is shared among the three tiers of government. Local governments receive funding from both the federal account allocation (FAA) and the state government.[11] Value Added Tax (VAT) revenue is also shared by the FAAC and, according to the current formula, local governments are entitled to 35%.[12] In a landmark ruling on July 11, 2024, Nigeria's Supreme Court mandated that all Federation Account allocations to the country's 774 Local Government Areas (LGAs) be paid directly to their own accounts, rather than being routed through state governments. While the ruling marks a significant step toward fiscal autonomy for LGAs, it is yet to be fully implemented.

In 2023, state governments in Nigeria were accountable for 29% of the overall public expenditures and local governments accounted for 8% of public expenditures. Capital expenditure is primarily concentrated at the federal and state level, with states contributing 48% of the total capital expenditure and local governments only 4%. This disparity in capital investment reflects the local governments' scarce autonomy regarding revenue mobilization and expenditure assignments.[13]

***Borrowing framework & process*:** However, debt management functions at the local level are not clear.[14]

While local governments are allowed to raise debt, there are legal restrictions regarding the sources, purposes, and quantities of their borrowing. The National Assembly has enacted several relevant laws for borrowing, including the Debt Management Office (DMO) (Establishment, etc.) Act, 2003, the Fiscal Responsibility Act (FRA), 2007, the Investments and Securities Act (ISA), 2007, and the Finance Act, 2021. The key rules and restrictions on borrowing are outlined below:

- "Government at all tiers shall only borrow for capital expenditure, human development and to undertake critical reforms of significant national impact, provided that, such borrowing shall be on concessional terms or at relatively low interest rates and with a reasonably long amortization period subject to the approval of the appropriate legislative body where necessary" (FRA, 2007 and revised by the Finance Act, 2021).
- In the case of foreign currency borrowing, Federal Government guarantee shall be a requirement and no State, Local Government or Federal Agency shall, on its own borrow externally (DMO Act, 2003 and FRA, 2007). In practice, all subnational external loans are raised directly from the federal government through an on-lending subsidiary loan agreement mirroring the terms of the original loan.
- Debt limits are established annually by the National Assembly (FRA, 2007). The DMO

established that monthly debt service should not exceed 40%of the average monthly revenue of the preceding 12 months.

- All banks and financial institutions planning to lend money to state governments or any of their agencies must obtain the prior approval of the Minister of Finance (DMO Act, 2003).
- Local governments can issue securities on the domestic capital market only if the total amount of loans outstanding at any time, including the proposed loan, does not exceed 50% of the actual revenue for the preceding year (ISA, 2007). Furthermore, all capital market borrowing must meet other criteria listed in the Act, and finally be approved by the Securities and Exchange Commission (SEC) of Nigeria.
- The fiscal deficit limits set in the Fiscal Responsibility Act (FRA) of 2007 only applies to the FGN.[15] As of 2022, all states have passed state-level fiscal responsibility laws (FRLs) that set a specific fiscal targets.

It has been observed that in practice, some of the legal provisions regarding borrowing and debt management are not fully followed. For example, in the past, some state governments have borrowed from commercial banks to cover their current expenditures, which goes against the restrictions on borrowing sources and purposes. Additionally, some financial aid packages given to states by the federal government and the Central Bank of Nigeria (CBN) were reportedly used to fund recurrent spending, despite the Fiscal Responsibility Act's prohibition on such use of borrowed funds.[16]

Table 2: Local government borrowing requirements summary:

	Local governments
Consolidated Public Debt	Public debt must be kept at a "sustainable level"[17] of National Income as prescribed by the National Assembly (NASS) on advice from the Federal Minister of Finance (FRA 2007)
External Borrowing	• Local governments can borrow externally only through the Federal Government (including Federal Guarantee)[18] (FRA 2007 and DMO Act 2003). • Monthly debt service ratio must not exceed 40% of actual monthly revenue of the preceding 12 months (DMO Borrowing Guidelines, 2020)
• ***Domestic Borrowing (Capital Markets)*** • ***Domestic Borrowing (Commercial Banks)***	The total outstanding debt shall not exceed 50% of the preceding 12 months revenue o (to borrow from domestic capital markets) (ISA, 2007)
	Monthly debt service ratio[19] should not exceed 40% of its actual monthly revenue of the preceding 12 months (DMO Borrowing Guidelines, 2020)
	Borrowing from commercial banks requires prior approval from MoF (DMO act 2003, section 24; and DMO Borrowing Guidelines, 2020).

***Borrowing restrictions*:**

General restrictions:

- Local governments shall only borrow for capital expenditure and human development, provided that, such borrowing shall be on concessional terms or at relatively low interest rates[20] and with a reasonably long amortization period subject to the approval of the appropriate legislative body where necessary (Finance Act 2021).

Debt limits:

The National Assembly should establish and approve overall limits on the consolidated debt of the federal and subnational governments annually (FRA, 2007). Such a limit is set by the Federal Debt Management Office (FDMO) as part of the annual budget exercise. The prevailing quantitative limit imposed on state borrowing is that monthly debt service should not exceed 40 percent of the average monthly revenue of the preceding 12 months.

Domestic borrowing:

- Borrowing from capital markets: The total amount of outstanding debt from capital markets at any time shall not exceed 50% of the actual revenue of for the preceding 12 months
- Borrowing from commercial banks: Monthly debt service ratio[21] must not exceed 40% of its actual monthly revenue of the preceding 12 months

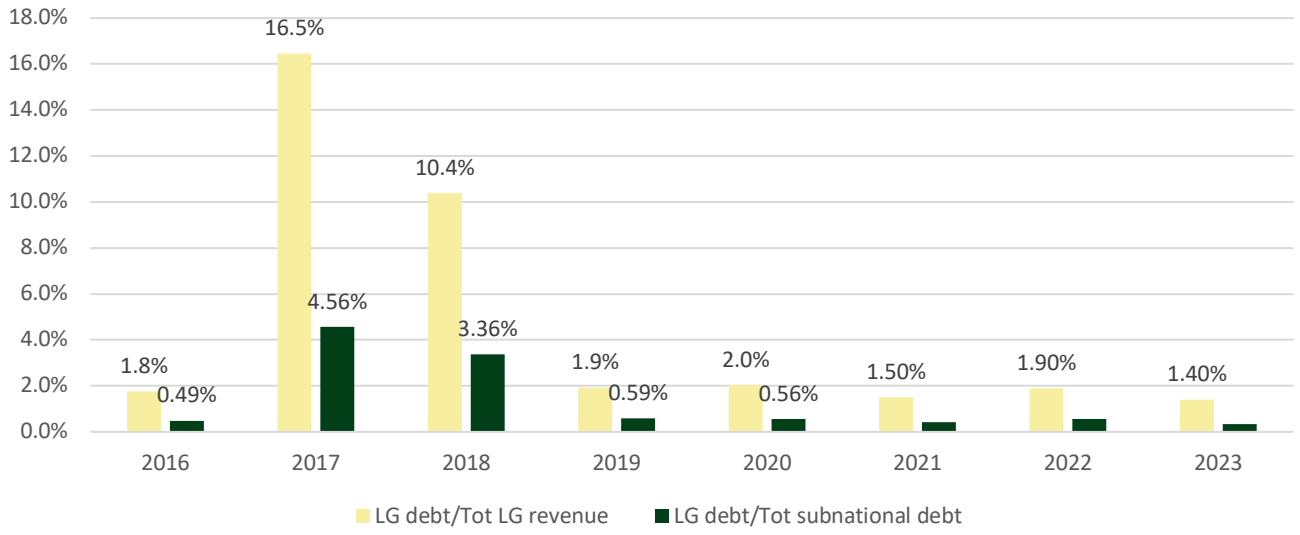
External borrowing:

- Monthly debt service ratio of a local government cannot exceed 40% of its actual monthly revenue of the preceding 12 months
- According to the Fiscal Responsibility Act (2007) and the Debt Management Office Act (2003), local governments need to seek a federal government guarantee to borrow externally.

Debt management

***Aggregate debt levels**: Aggregate debt levels:* Local government debt in Nigeria is a small share of total public debt and GDP. In 2023, local government outstanding debt stock amounted to 36.8 billion Naira (USD 57 million) and accounted for 0.02% of GDP, 0.03% of public debt and 0.37% of total subnational debt (Figure 1). Local governments outstanding debt as a percentage of total local revenues was 1.4% in 2023. Local government debt as a percentage of local revenue has been fluctuating over the past five years between 1.4% and 2%. The Central Bank of Nigeria reports local governments total outstanding debt up to 2023. It is unclear whether the fluctuation may be caused by the occasional large loan (i.e. Lagos local governments aggregate outstanding debt jumped from USD 3 million in 2016 to USD 200 million). Lack of timely, reliable data on local governments finance may also be responsible for fluctuation of data from year to year. It is also important to note that the Central Bank of Nigeria's data on local government debt is derived from surveys, which may introduce limitations related to accuracy and consistency.

Figure 1: Ratios of LG debt to total subnational debt and LG debt to LG revenue (2016-2023)



Source: Central Bank of Nigeria and Debt Management Office.

Lenders and types of instruments: Local governments in Nigeria are allowed to borrow from domestic financial institutions and the domestic capital market. They are allowed to issue bonds in the domestic market and take out loans. As of 2023, no local government has either issued bonds or have they borrowed from the external market through loans.

Use of Special Purpose Entities and Public-Private Partnerships: Although there is no established practice in Nigeria on Corporate Governance for state-owned enterprises (SOEs), there are legal provisions that govern their ownership. Section 16 of the 1979 and 1999 Nigerian Constitutions allow for the legalization of state-owned enterprises. To increase efficiency, the government has privatized numerous SOEs. The ownership and governance

of state-owned enterprises (SOEs) are not centralized, and SOEs have its own specific legislation outlining ownership and governance structure.[22] Official public sources of information do not indicate whether there are any SOEs owned by local governments in Nigeria and what their legal and regulatory framework is.

In 2005, the Infrastructure Concession Regulatory Commission Act (ICRCA) was enacted to regulate public-private partnerships (PPPs) in Nigeria. PPPs can be procured at both the national and state governments levels. Lagos State's Public Partnership Law in 2011 is an example of how individual states in Nigeria can establish their own PPP frameworks. While investment projects are the responsibility of each state, the Central Government may offer guarantees to provide support. There is no evidence of PPPs programs done at the local government level.

Transparency & open data The Central Bank of Nigeria publishes financial statistics for Federal, State, and Local governments, though local government data is based on surveys.

In Nigeria, each state has an Auditor General who receives annual accounts from local authorities. State assemblies exercise oversight over the activities of local governments. Community councils must have their annual budgets approved by the district officer and keep proper accounts and prepare financial statements by the end of each financial year. These financial statements are submitted to the Auditor General, who conducts audits and prepares reports. The audited financial statements and audited reports are submitted to the district officer. The Auditor General also has the authority to conduct special reviews or other necessary audits.[23]

Official, publicly available statistics on liabilities and borrowing

Item	***Total liabilities***	***Total liabilities breakdown by level of government***	***Sources of borrowing breakdown***	***Borrowing instruments breakdown***
Official source(s)	Central Bank of Nigeria	Central Bank of Nigeria	Not reported	Not reported
Latest update; (periodicity)	2022, (annual)	2022, (annual)	N/A	N/A

Financial & debt management: In 2023, local government revenue came from four key sources: 34% from Federal Allocation Account, 40% from Value Added Tax (VAT) collection (done at the Central level), 3% of Internally Generated Revenue (IGR), and 0.6% in State Allocations. In the same year, local governments represented 14% of total government revenue and 12% of total government expenditures (a decrease of 3% respectively since 2021).

The Constitution mandates that each state government must maintain a special account (State Joint Local Government Account (SJLGA)), into which all allocations from the Federation Account and from the state government should be paid to the local governments.[24] The SJLGA is administered by the Joint Account Allocation Committee (JAAC). The Constitution provides no further regulation of the SJLGA, leaving the determination of how much is transferred to local governments to the States House of Assembly. The percentage allocations to local government councils are not fixed and depend on the amount standing in the Federation Account and the amount of internally generated revenue by each state.

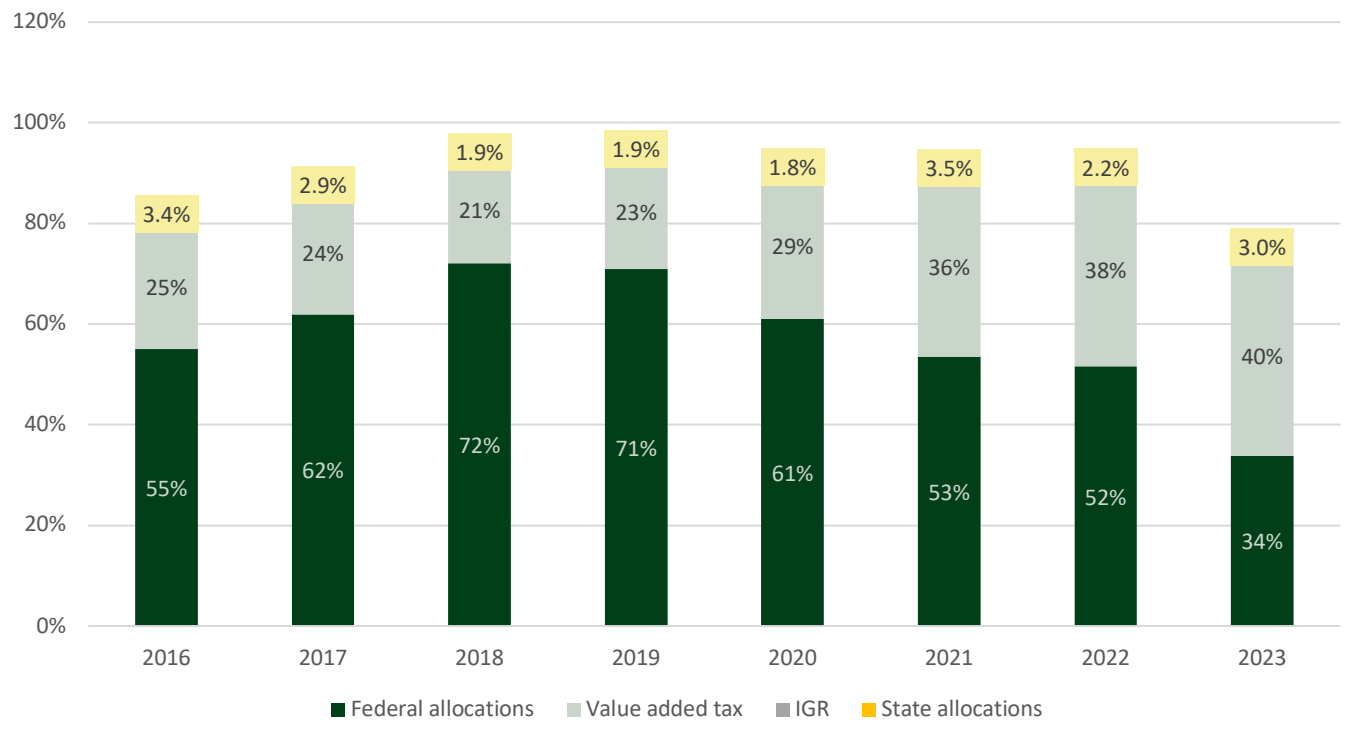
Oil and gas revenues have historically been a very important yet volatile source of government revenue in Nigeria. In 2023, oil revenue accounted for 29% of the country total revenue. After deducting the constitutionally mandated 13 percent derivation for oil-producing states, the remaining revenues are shared vertically across the three tiers of government through the Federation Account Allocation Committee (FAAC). Local governments receive 20.6 percent of net Federation Account revenues and 35 percent of net Value Added Tax (VAT) collections. The allocation of revenues among local governments is determined by state-level distribution mechanisms, which are not governed by a unified national formula and tend to vary by state. Local governments also benefit indirectly

from oil and gas revenues through their share of pooled FAAC distributions, which are highly dependent on the size and volatility of national oil earnings.

Local government debt in Nigeria is low, accounting for 0.02% of GDP in 2022 and only 0.06% of public debt. The low local government borrowing in Nigeria can be explained by both a lack of demand and supply. As it pertains to the demand for borrowing, local governments fiscal management system is undeveloped given the long-term fiscal dependency of local governments on central government transfers and shared taxes and extremely low autonomy to raise own revenue (IGR revenue accounted for only 3% or total local revenue in 2023- See Figure 2).[25] While a low debt to revenue ratio (Figure 1) implies greater capacity to borrow[26] and growing urbanization will likely increase demand for investments and borrowing, an increase in transfers from the central government might reduce borrowing needs. It is important to note that while borrowing has been decreasing, transfers from the Federal Government and shared taxes (value added tax) have been increasing, potentially decreasing demand for borrowing (Figure 2). From a supply standpoint, according to the IMF Financial Development Index, Nigeria's financial development is low with a combined score of 0.22 (range from 0 to 1). Lowest scores are in the depth of financial institutions and markets and the efficiency of financial markets, suggesting that the financial sector in Nigeria is not very developed. An underdeveloped financial market limits the ability of financial intermediaries to play a significant role in the economy. Furthermore, the small size of the financial sector means that changes in lending conditions by banks may not have a significant impact on overall economic growth, inflation, and demand.

It is also prudent to note that while borrowing frameworks with defined limits and restrictions have been established to promote fiscal discipline, in practice these frameworks are not always followed. Political dynamics and evolving economic conditions often pose challenges to consistent adherence.

Figure 2: Local governments revenue composition ratios



Sources: Central Bank of Nigeria

Subnational government finances: key ratios (2022)				
Level of government	***Total liabilities, % of total revenue***	***Borrowing (loans & bonds), % of total liabilities***	***Debt service, % of total expenditures***	***Operating surplus, % of total revenue***
Local (municipalities)	1.4%	Not reported	Not reported	9%
All sub-national governments (municipalities + states)	94%	Not reported	Not reported	-6%

Source: World Bank Group: City Creditworthiness Initiative – Local Government Borrowing Database

***Recent initiatives related to subnational government access to debt finance*:** In 2023, the Federal Government implemented major macrofiscal reforms, including the removal of the petrol subsidy and the unification of the exchange rate regime. These measures increased the Federation's revenue base and resulted in higher transfers across all levels of government, including local governments.[27]

Development partners have continued to support subnational governments, particularly states, through initiatives such as the State Fiscal Transparency, Accountability and Sustainability (SFTAS) program. This included performance based grants and technical assistance aimed at strengthening public financial management. Although SFTAS primarily targeted states, the experience has highlighted capacity gaps that also exist at the local government level.[28]

Main legal provisions	
Approved lenders:	Government/public banks, private financial institutions, International Development Banks
Instruments:	Loans, other deferred payment schemes
Central govt guarantee:	Approval by the Senate based on municipal payment capacity rating system (CAPAG).
Revenue intercept:	Currently not allowed, but the Senate is considering allowing subnational governments to commit future resources to access private credit, including borrowing backed by future collection of debt arrears.[29]
Insolvency framework:	Specific framework exists only for states
Accounting basis:	Accrual accounting based on International Public Sector Accounting Standards (IPSAS)
Credit ratings requirements:	Not required by law
Debt stock limit:	120% of net current revenues
New Credit limit:	16% of net current revenues
Debt service limit:	11.5% of net current revenues
Reporting of contingent liabilities:	Nigeria's government uses IPSAS Accounting Standards which require the disclosure of contingent liabilities in the notes to financial statements if the possibility of the payment is not remote

Significant legal and regulatory instruments	
The Constitution of the Federal Republic of Nigeria, (1999)	
The Debt Management Office Act, (2003)	The Debt Management Office Act (2003) gives powers to the DMO to maintain a reliable database of all loans taken or guaranteed by the federal or State governments or any of their agencies and also stipulates that all banks and financial institutions requiring lending money to the Federal, State and Local Governments or any of their agencies, shall obtain the prior approval of the Minister of Finance" in accordance with Section 24 of the DMO Act, 2003, and the Fiscal Responsibility Act, and shall state the purpose of borrowing and the tenor. The monthly debt service ratio of a sub-national, which includes the commercial bank loan being contemplated, should not exceed 40% of its monthly federation allocation of the preceding 12 months.
Investments and Securities Act (2007)	
Fiscal Responsibility Act (2007)	The Fiscal Responsibility Act, 2007 requires the President subject to approval by the National Assembly, to set overall limits for the amounts of consolidated debt of the federal and subnational governments. These limits are set by the federal DMO as part of the annual budget exercise.
National Debt Management Framework (as Revised, 2020)	The federal and the 36 State governments and FCT approved a National Debt Management Framework agreement which provided additional guidelines for external and domestic borrowing
The Constitution of the Federal Republic of Nigeria, (1999)	The 1999 Constitution vests the National Assembly with the powers to make laws with respect to any matter that concerns domestic and external loans for the purposes of the federation or of any subnational government
The Debt Management Office Act, (2003)	
Investments and Securities Act (2007)	The Investments and Securities Act (2007) also includes some prudential restrictions on State and local government borrowing. These sub-national governments are allowed to issue securities only if the total amount of loans outstanding at any time, including the proposed loan, does not exceed 50 percent of the actual revenue of the sub-national concerned for the preceding year.
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Organizational roles and responsibilities: debt	
National govt. regulatory & process	
The National Assembly (NASS)	The National Assembly (NASS) performs four (4) specific activities in the borrowing process. These activities are: 1. Approval of the Medium-Term External Borrowing Plan submitted by the Executive (DMO Act, 2003) 2. Approval by Resolution of the Terms and Conditions of External Loans. (DMO Act, 2003) 3. Approval of overall limits, for the amounts of consolidated debt of the Federal, States and FCT, to be set by the President on the advice of the Minister. (FRA, 2007) 4. Prior authorization in the Appropriation Act or other Laws for the purpose for which Borrowing is to be utilized. (FRA, 2007)
Debt Management Office (DMO)	The DMO was established on 4th October 2000 to centrally coordinate the management of Nigeria's debt. The DMO publishes subnational governments guidelines for borrowing and statistical data on state government debt.
Central Bank of Nigeria (CBN)	The Central Bank of Nigeria produces public finance statistics in the Financial Statistics Unit of its Research Department on local government finance and outstanding debt.

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Notes

[1] CCI-LGBD examines borrowing at the local government level. In most countries, this can be broken up into regional governments and local governments. In Nigeria's case, "local governments" includes all 774 local governments authorities and 6 area councils.
[2] CPI adjusted numbers with 2016 as base year: www.worldbank.org/en/research/brief/inflation-database
[3] Own calculation. The CPI adjustment to 2016 base was calculated using local government debt data from the Central Bank of Nigeria (CBN) and the Consumer Price Index (2010 = 100) from the International Monetary Fund (IMF).

[4] WB, 2019
[5] WB, 2019
[6] IMF, 2023
[7] WB, 2019
[8] World Bank, 2025
[9] OECD/UCLG, 2022
[10] WB, 2019
[11] the FAA distribution split approximately as follows: federal government 52.7%, state government 26.7%, and local government 20.6%
[12] WB,2019
[13] OECD/UCLG, 2022
[14] Razlog, et al.,2019.
[15] Limiting FGN deficits to 3% of national GDP
[16] Razlog, et al.,2019.
[17] 'Government shall ensure that the level of public debt as a proportion of national income is held at a sustainable level as prescribed by the national Assembly from time to time on the advice of the Minister' (FRA 2007, section 41 (b)).
[18] No State, Local Government, or Federal Agency shall, on its own, borrow externally
[19] Including the servicing of the proposed debt issuance being contemplated.
[20] The Finance Act 2021 amended the FRA 2007 and established a distinction between "concessional terms" and "relatively low interest rate" borrowing.
[21] Including the servicing of the proposed debt issuance being contemplated.
[22] US Department of State, 2022
[23] Commonwealth Local Government Forum, 2019
[24] Okafor, 2010
[25] OECD/UCLG, 2022
[26] Increased revenues from an. increasingly wealthy population and growing economy would also increase borrowing capacity.
[27] World Bank, 2025
[28] World Bank, 2022
[29] See Senate draft law 204/2016

This country profile and accompanying database is a joint global knowledge product of the World Bank Group's City Creditworthiness Initiative, managed by the Urban, Disaster Risk Management & Land global department and the IFC Cities team.

The full database and country profiles along with methodological details are available on the following link: www.citycred.org/database

Representation

The country profiles and database provide information on the prevailing situation and enabling environment for municipal and local government entities for accessing debt financing in selected developing countries. They are based on publicly accessible information including government statistics.

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