



## KADUNA STATE GOVERNMENT'S DEBT ANALYSIS

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### Abstract

Subnational debt in Nigeria has risen significantly as state governments seek to finance infrastructure and service delivery amid declining revenues and volatile federal allocations. This study examines the debt profile, fiscal transparency, and sustainability of Kaduna State, which, as of June 30, 2025, ranked second among Nigerian states in total debt stock at approximately ₦1.03 trillion. The findings reveal an overwhelming dominance of external obligations, which account for 97.5% of total debt, amounting to roughly \$658.71 million (₦1.01 trillion). This heavy reliance on foreign-denominated debt has heightened the state's exposure to exchange rate volatility and naira depreciation. Furthermore, the analysis indicates mounting fiscal strain, with debt-servicing costs increasingly crowding out development priorities. In 2024, approximately 32.06% (₦51.2 billion) of Kaduna's gross federal allocations were deducted at source for debt servicing, one of the highest ratios in the country. With a debt-to-revenue ratio estimated at 199.29%, the state's liabilities far exceed its current revenue-raising capacity, limiting investments in education, healthcare, and infrastructure. To safeguard its developmental trajectory, the study recommends that Kaduna State prioritise domestic revenue mobilisation, enhance transparency around debt, and implement robust currency risk management strategies.

**Keywords:** Subnational Debt, Fiscal Sustainability, Debt Servicing, External Debt, Revenue Mobilisation.

### Introduction

Subnational debt in Nigeria has risen markedly as state governments increasingly resort to both domestic and external borrowing to finance infrastructure, service delivery, and recurrent expenditures. This trend reflects broader fiscal pressures arising from declining real revenues, volatility in Federal Account Allocation Committee (FAAC) disbursements, and a constrained base of internally generated revenue (IGR).<sup>1</sup> As external borrowing by subnational governments has climbed, total state external obligations have contributed significantly to Nigeria's overall debt stock, even as some states have attempted partial repayments to manage risk. In the first half of 2025 alone, 26 Nigerian states added a combined \$239

<sup>1</sup> Agesan, B. (2025, November 16). Kaduna Govt proposes ₦985.9b 2026 budget, to spend ₦80.2b on debt servicing. *BusinessDay NG*.  
<https://businessday.ng/news/article/kaduna-govt-proposes-n985-9b-2026-budget-to-spend-n80-2b-on-debt-servicing/>

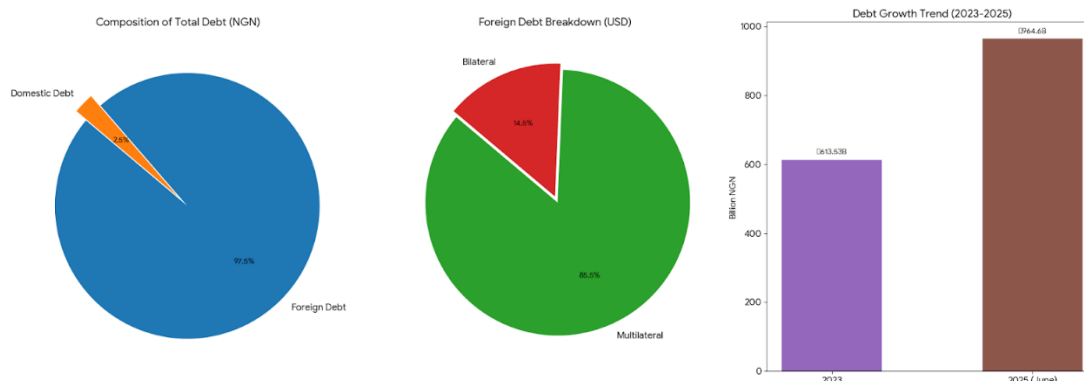
million to their external debt portfolios, with Kaduna among the top contributors to the increase, highlighting how states balance development imperatives against fiscal sustainability concerns.<sup>2</sup>

Kaduna State, situated in the North-West geopolitical zone and home to one of Nigeria’s most diverse economies, embodies these dynamics. Its large population, strategic location as a transportation and commercial hub, and significant agricultural and industrial potential make it a pivotal actor in national growth strategies.<sup>3</sup> Kaduna’s debt profile showed persistent fiscal management challenges.<sup>4</sup> While external finance has been tapped to fund development initiatives, heavy servicing obligations and high deductions from FAAC disbursements have constrained budgetary flexibility. In 2024, for example, the Nigeria Extractive Industries Transparency Initiative (NEITI) reported that over ₦51.2 billion, nearly one-third of Kaduna’s gross federal allocation, was deducted for debt servicing, far exceeding the relative burden in many other states.<sup>5</sup>

The problem of external loans in Kaduna’s debt structure, mirroring patterns in several other high-debt states, has heightened exposure to foreign exchange volatility and fiscal risk. This aspect of the state’s budgetary framework has drawn attention from ratings agencies and policy analysts alike, who have highlighted the implications for long-term debt sustainability, development planning, and the efficient use of public funds.<sup>6</sup> Against this backdrop, understanding the composition, drivers, and consequences of Kaduna’s debt is essential for policymakers, civil society, and investors seeking to promote transparency, accountability, and sustainable development outcomes.

### Kaduna State’s Debt Profile

**Figure 1: Total Debt Stock**



Sources: (Debt Management Office Nigeria, 2025; BudgIT, 2025)

2 The Sun Newspaper (2025). 26 states raise external debts to \$239m in H1

. <https://thesun.ng/26-states-raise-external-debts-to-239m-in-h1-2/>

3 All Africa (2024). Nigeria: Kaduna Records Highest Debt Deduction From FAAC in 2024 – Neiti.

<https://allafrica.com/stories/202508120140.html>

4 Intelpoint. (2025, October 5). 26 Nigerian states added a combined \$239m to their external debt in H1 2025. <https://intelpoint.co/insights/26-nigerian-states-added-a-combined-239m-to-their-external-debt-in-h1-2025/>

5 Ibid

6 The Punch. (2025, August 11). States hit by 68% spike in foreign debt payments. *Punch Newspapers*. <https://punchng.com/states-hit-by-68-spike-in-foreign-debt-payments/>

According to data released by the Debt Management Office (DMO) and reported by Nairametrics, as of June 30, 2025, Kaduna State's total debt stock, comprising both external (foreign) and domestic (local) liabilities, was approximately ₦1.03 trillion, making it the second most indebted state in Nigeria after Lagos State.<sup>7</sup> Kaduna's position reflects not only the scale of its borrowings but also the relative fiscal dynamics of Nigeria's subnational debt landscape.<sup>8</sup>

A defining feature of Kaduna State's debt profile is the overwhelming dominance of external obligations. As of mid-2025, the state's external debt stood at about \$658.71 million, which translated to roughly ₦1.01 trillion at the prevailing exchange rates used in official reporting. This places Kaduna among a small group of Nigerian states with substantial exposure to foreign creditors, including multilateral development institutions and bilateral partners.<sup>9</sup> While such loans are often accessed on relatively concessional terms and targeted at capital and development projects, their sheer size makes Kaduna's fiscal position susceptible to movements in the foreign exchange market. Persistent depreciation of the naira has therefore significantly inflated the naira value of these obligations, even where the underlying dollar amounts have remained unchanged.

In contrast, Kaduna State's domestic debt has remained comparatively low. As of June 2025, domestic liabilities were estimated at ₦24.09 billion, a modest figure compared with the scale of its external debt.<sup>10</sup> This relatively limited reliance on local borrowing instruments, such as bonds and bank loans, suggests a deliberate preference for external financing over domestic debt accumulation. However, it also implies that the state has fewer naira-denominated liabilities that naturally align with its revenue streams, thereby reducing its flexibility to manage debt servicing pressures through internally generated or federally allocated revenues.

Within Nigeria's subnational debt landscape, Kaduna's debt stock accounts for a significant share of total state liabilities. As of the same period, the combined external debt of all 36 states and the Federal Capital Territory was estimated at \$4.81 billion, while total domestic debt stood at approximately ₦3.96 trillion. Kaduna's position near the top of both absolute debt rankings and external debt exposure highlights its importance in national debates on fiscal sustainability and subnational borrowing practices. The state's debt profile illustrates the trade-off many Nigerian states face in leveraging external finance to meet development needs while simultaneously confronting heightened fiscal risks from currency volatility, constrained revenues, and rising debt service obligations.

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7 Nairametrics (2025). Nigeria's most indebted states as of June 2025 by total debt stock. <https://nairametrics.com/2025/10/14/nigerias-most-indebted-states-as-of-june-2025-by-total-debt-stock/>

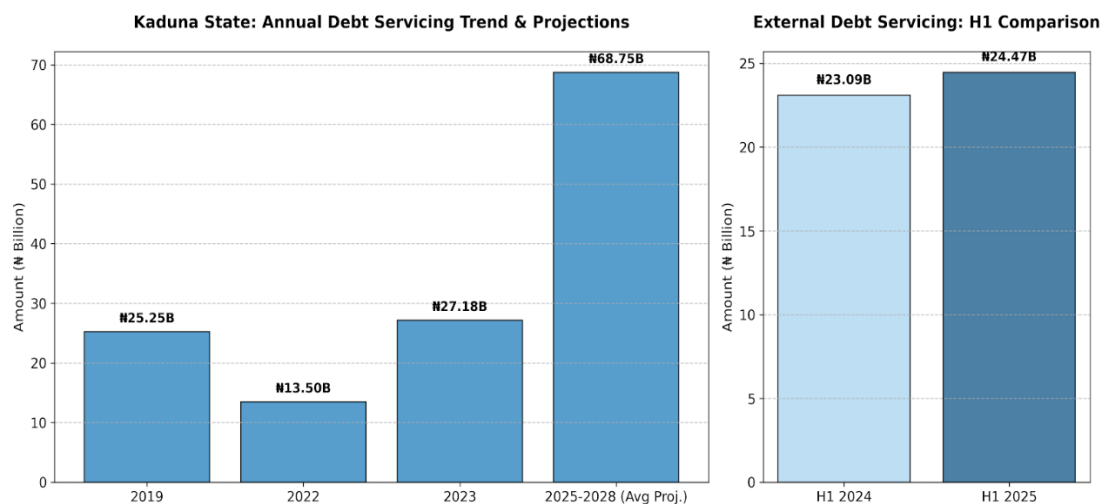
8 The Punch. (2025, August 11). States hit by 68% spike in foreign debt payments. *Punch Newspapers*. <https://punchng.com/states-hit-by-68-spike-in-foreign-debt-payments/>

9 Ibid

10 Ibid

## Debt Servicing Expenditures and Fiscal Sustainability in Kaduna State

**Figure 2: Debt Servicing Trends**



Sources: DMO, 2024; Kaduna State Government, 2024; NEITI, 2025

Debt servicing, the payment of interest and principal on borrowed funds, has increasingly consumed a significant proportion of Kaduna State’s public revenues, placing pressure on fiscal space available for development priorities. In the first half of 2025, Kaduna State spent approximately ₦24.47 billion on external debt servicing, marking an approximate 6 per cent year-on-year increase from the ₦23.09 billion paid in the first half of 2024; in this period, the state ranked third among Nigeria’s 36 states in external debt servicing costs, showing the growing burden of foreign obligations on its budget.<sup>11</sup>

The impact of these servicing costs is further reflected in monthly federal allocation deductions. Reports from the Nigeria Extractive Industries Transparency Initiative (NEITI) indicate that Kaduna State experienced one of the highest debt deductions from its Federation Account Allocation Committee (FAAC) disbursements in 2024, with an estimated ₦51.2 billion, or roughly 32.06 per cent of its ₦159.7 billion gross allocation, seized at source to meet debt obligations.<sup>12</sup> This ratio was among the highest in the country, substantially above the average state deduction, and highlighted how debt service obligations can erode resources earmarked for essential services and infrastructure at the grassroots level. The heavy reliance on external borrowing and the attendant servicing costs have also affected broader fiscal sustainability metrics. According to the Budget State of States Report 2025, Kaduna’s debt-to-revenue ratio was estimated at approximately 199.29 per cent, indicating that total debt obligations were nearly double the combined internally generated revenue (IGR) and federal allocation inflows for the reference period.<sup>13</sup> This ratio sits well above commonly recommended thresholds for subnational fiscal sustainability, suggesting that the state’s debt liabilities far outstrip its revenue-raising capacity. In

11 The Punch News (2025). States hit by 68% spike in foreign debt payments. <https://punchng.com/states-hit-by-68-spike-in-foreign-debt-payments/>

12 Ibid

13 Budget (2025). A Decade Subnational Fiscal Analysis. <https://budget.org/wp-content/uploads/2025/10/StateofStates2025SEIIWEB.pdf>

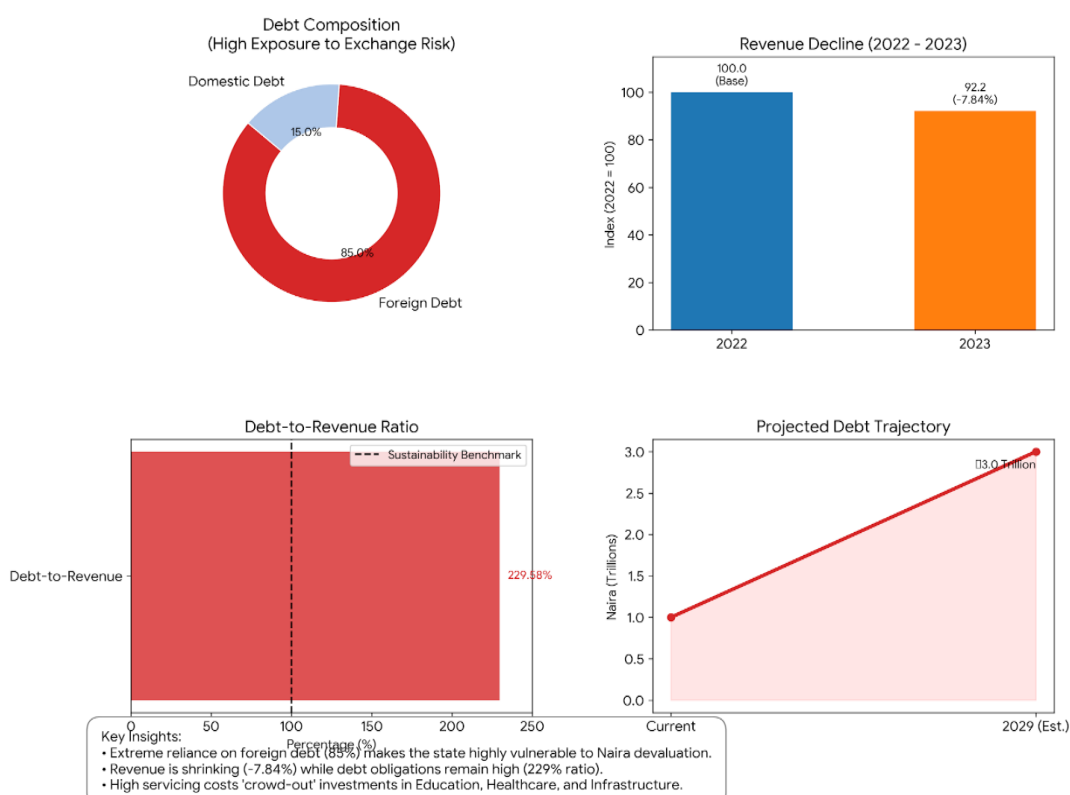
addition to a high debt-to-revenue ratio, Kaduna’s debt service-to-revenue ratio also exceeded prudent benchmarks, signifying that a sizable share of the state’s annual revenues is consumed by debt obligations rather than developmental expenditure. While specific figures for the service-to-revenue ratio were detailed in state fiscal reports, the broader pattern of rising servicing costs and high debt-related revenue deductions shows the state’s constrained fiscal flexibility. When a large share of recurring inflows is devoted to servicing debt, fewer resources remain for capital projects, social programs, and improvements in public services.<sup>14</sup>

These trends in debt service expenditures and fiscal ratios indicate mounting fiscal strain for Kaduna State. The rising cost of servicing external debt, compounded by significant deductions from FAAC allocations and high relative debt ratios, limits the state’s ability to invest in critical infrastructure, public services, and human capital development. These pressures emphasise the importance of enhanced revenue mobilisation, improved debt management practices, and prudent borrowing strategies to ensure long-term fiscal sustainability.<sup>15</sup>

### Impact on State Development

**Figure 3: Impact of Debt on Kaduna State Development**

Impact of Debt on Kaduna State Development: Fiscal Vulnerability Analysis



Source: (BudGIT, 2024; Debt Management Office Nigeria, 2023; Kaduna State Government, 2021).

<sup>14</sup> Ibid

<sup>15</sup> Tunji S. (2025). States hit by 68% spike in foreign debt payments. <https://punchng.com/states-hit-by-68-spike-in-foreign-debt-payments/>

The fiscal burden of debt servicing in Kaduna State has had tangible consequences for the government's ability to finance essential public services and long-term development initiatives. A significant portion of federally allocated revenues, particularly from the Federation Account Allocation Committee (FAAC), is being deducted at source to meet debt obligations before the state legislature or executive can appropriate these funds for development spending. In 2024, Kaduna recorded the highest ratio of deduction among Nigerian states, with 32.06 per cent of its ₦159.7 billion gross allocations (₦51.2 billion) diverted directly to debt servicing.<sup>16</sup> This far exceeds the amounts retained for capital projects and social-sector investments, underscoring how servicing requirements erode the fiscal space available for grassroots infrastructure and service delivery.

This pattern of high deduction ratios is part of a broader trend identified in NEITI's policy analysis, which shows that many states are losing between 10 per cent and 30 per cent of their FAAC receipts to debt obligations.<sup>17</sup> Such high levels of diversion effectively crowd out funding for priority sectors such as education, healthcare, security, and rural infrastructure development. With federal allocations accounting for a substantial share of subnational budgets, these deductions constrain states' ability to invest in poverty-reduction and human capital development programs, despite the original intent of borrowing to enhance economic growth and public service delivery.

Nigeria's broader macroeconomic environment exacerbates the crowding-out effect, particularly sustained naira depreciation, which increases the local-currency cost of servicing foreign-denominated debt. Because most of Kaduna's external borrowings are denominated in foreign currencies, worsening exchange rates inflate the naira equivalent that must be repaid even when the dollar value of the debt remains unchanged. These dynamic forces the state to allocate an even larger share of its limited fiscal resources to meet external obligations, thereby intensifying the reduction in funds available for socioeconomic programs. Recent national reporting indicates that many states have experienced sharp increases in foreign debt servicing costs, rising by as much as 68 per cent in the first half of 2025 compared with the previous year, highlighting the systemic pressures subnational governments face amid currency volatility and rising global interest rates.<sup>18</sup>

The diversion of funds from development allocations to debt servicing in Kaduna has measurable implications. While some externally financed projects are intended to build essential infrastructure, the heavy servicing burden reduces the state's capacity to complete and maintain these projects effectively. Inadequate funding for execution, coupled with reduced capital budgets, often results in delayed or abandoned infrastructure works, diminishing the developmental impact of the borrowed funds. In the social sectors, constrained budgets have translated to limited expansion of schooling facilities, healthcare services, and security infrastructure, reinforcing existing inequalities and impeding improvements in quality of life. Without sufficient budgetary room to address recurring and capital needs simultaneously, states like Kaduna may struggle to make progress toward sustainable development goals and long-term economic resilience.

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<sup>16</sup> Etuka S. (2025). High Debt Servicing in States Choking Grassroots Development -NEITI Warns.

<sup>17</sup> Ibid

<sup>18</sup> Ibid

Economically, the heavy debt burden and associated servicing costs weaken fiscal buffers, leaving the state more vulnerable to macroeconomic shocks, including fluctuations in federal allocations, downturns in aggregate revenue, or spikes in borrowing costs. The reduction in discretionary spending capacity also limits fiscal autonomy, making it harder for Kaduna to address local priorities without resorting to additional borrowing, which could further compound future liabilities. Analysts have warned that if such fiscal pressures continue, the state's debt obligations could increasingly crowd out essential expenditure, creating a cycle of borrowing and servicing that undermines both economic stability and human development outcomes.

These dynamics show the multi-dimensional impact of debt servicing on Kaduna's development trajectory. High servicing costs not only reduce the available funds for infrastructure and social services but also constrain strategic investments that could strengthen the state's economy, improve public welfare, and enhance resilience to economic shocks. Addressing these challenges requires improved debt management, revenue diversification, and a focus on leveraging borrowed funds for high-impact projects that generate economic returns, thereby mitigating the adverse effects highlighted in this study.

### **Conclusion**

Kaduna State's debt profile reflects the broader fiscal challenges confronting subnational governments in Nigeria, particularly the tension between financing development needs and maintaining fiscal transparency and sustainability in a volatile macroeconomic environment. While borrowing remains a legitimate tool for bridging infrastructure gaps and stimulating growth, the state's high debt-to-revenue ratio, heavy reliance on external debt, and rising servicing costs highlight the risks of unsustainable borrowing. Persistent deductions from FAAC allocations, exposure to exchange-rate shocks, and constrained fiscal space for social and capital expenditure threaten long-term development outcomes.

This study showed the need to adopt a transparent debt management strategy grounded in enhanced domestic revenue mobilisation, greater transparency, effective risk management, and disciplined project financing. Without such reforms, Kaduna risks entering a cycle in which an increasing share of public revenue is absorbed by debt servicing, thereby undermining investments in education, healthcare, infrastructure, and economic resilience. Strengthening fiscal governance frameworks and aligning borrowing decisions with sustainable development objectives are therefore essential to safeguarding the state's developmental trajectory and public welfare.

### **Policy Recommendations**

- I. Enhancing fiscal transparency and sustainability in Kaduna State requires a deliberate focus on fiscal responsibility, including prudent budgeting, sound debt management, and revenue optimisation to avoid overburdening future generations. This shift should prioritise strengthening domestic revenue mobilisation, as excessive dependence on external borrowing has heightened fiscal vulnerability.
- II. Reforms aimed at broadening the tax base, digitising tax administration, reducing leakages, and improving compliance, particularly in land-use charges, informal-sector taxation, and service-based levies, must incorporate measures to improve efficiency and reduce corruption.

- Digitisation, for instance, can streamline processes, minimise human intervention in collections, and enable real-time monitoring to curb embezzlement. These steps would reduce the state's reliance on foreign loans and enhance fiscal autonomy.
- III. Improved debt transparency and institutional oversight are critical for fiscal management, with a strong focus on fiscal responsibility and reducing corruption through enhanced accountability mechanisms. While Kaduna publishes budget documents, detailed disclosures on loan terms, amortisation schedules, and contingent liabilities remain limited in publicly accessible formats. NEITI has repeatedly warned that weak transparency in subnational borrowing obscures fiscal risks and undermines accountability, particularly when large portions of FAAC allocations are deducted at source for debt servicing without sufficient legislative or public scrutiny, as reported by NEITI's 2024 study.<sup>19</sup>
  - IV. Given the dominance of foreign-currency debt in Kaduna's portfolio, effective risk management strategies are essential to mitigate exchange-rate exposure, emphasising operational efficiency and fiscal responsibility in borrowing decisions.
  - V. Borrowing decisions must be based on clear developmental and economic returns, with a heightened emphasis on fiscal responsibility by ensuring that loans yield tangible benefits without escalating debt burdens. External loans should be prioritised for high-impact projects that generate measurable economic benefits, such as revenue-yielding infrastructure, agro-industrial value chains, and productivity-enhancing investments.
  - VI. To improve efficiency in public expenditure and resource allocation, Kaduna State should implement comprehensive reforms to administrative processes, including adopting performance budgeting and digital procurement systems. These measures would optimise resource use, eliminate redundancies, and ensure that funds are directed toward high-priority areas such as education, healthcare, and infrastructure. By fostering efficiency, the state can achieve more with existing revenues, reducing the need for additional borrowing and enhancing overall fiscal health.
  - VII. Reducing corruption requires dedicated institutional reforms, such as strengthening the Kaduna State Anti-Corruption Commission with enhanced investigative powers, mandating asset declarations for public officials, and partnering with federal bodies such as the Economic and Financial Crimes Commission (EFCC). Transparent tender processes and regular public reporting on fund utilisation would minimise opportunities for graft, particularly in debt-financed projects.
  - VIII. Improving the tax base through private-sector investment in the solid minerals sector represents a strategic opportunity for Kaduna State, given its rich deposits of gold, tin, and gemstones. Policies should incentivise investments via tax holidays, streamlined licensing, and public-private partnerships to develop mining infrastructure. This would expand the tax base by generating royalties, corporate taxes, and employment-related revenues.

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<sup>19</sup> Ibid

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