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19th May 2023
His Excellency, Babajide Sanwoolu
Governor, Lagos State,
Secretariat,
Alausa, Lagos

Dear Mr. Governor,

OPEN LETTER ON COMMENCEMENT OF N1 TRILLION ISSUANCE PROGRAMME FOR BONDS AND OTHER OBLIGATIONS OF LAGOS STATE GOVERNMENT

Background

Last week, the Lagos State Government commenced implementation of its N1 trillion issuance programme of bonds and other obligations by offering the first tranche of N100bn in fixed rate debt. Subsequent issuances are expected to follow over time. Under the APC, Lagos State's outstanding debt rose from approximately N235 billion in 2011 to N1.2 trillion in 2021. This is the highest amount owed by any state. By comparison, it was almost 4 times the amount owed by the next highest state (Kaduna) and more than the total owed by the next 4 states combined (Kaduna, Rivers, Ogun and Cross River) in 2021.

Issues of Public concern:

1. Lagos continues to borrow substantially despite rapid growth in Tax Revenues

   Assessed by traditional measures that compare the existing level of debts and repayments owed by the State with the Size of the State's economy and the State Government's annual income, Lagos State's overall debt level is, for now, still considered sustainable. However, this debt is rising steadily and almost half of it (measured at official rates) is foreign currency borrowing, which carries additional risks.

   Lagos State's internally generated revenue (IGR), also the highest in the Federation, has risen from approximately N15bn in 1999 to approximately N570bn in 2021. The principal source of this IGR is the burden of taxes and levies borne by its residents and businesses that are productive, earning income and paying their taxes.

   The All Progressives Congress ("APC") Government frequently seeks to take credit for significantly increasing the IGR of the state. Beyond this however, the greater responsibility of Government is to demonstrate the benefits that residents have derived from this ever-increasing tax burden borne by them. This responsibility also extends to Government borrowing because the burden of repaying the Government debt will fall on current and future generations through their taxes.

2. LASG's expenditure and debt is substantial and growing, but lacks effectiveness

Effective governance is measured not by how much in taxes and fees have been levied and collected from the people, or by how much Government spends, but by how much the people's education, healthcare, transportation, housing, security, employment and other components of standard of living have improved, as a result of the expenditures and actions of their Government over time.

This is where, in my view, Lagos falls short. Over the past 24 years, LASG has massively deployed current and future societal wealth and increased its borrowing without substantial overall advancement in human development indices and living standards of the people.

Lagos has consistently remained near the bottom of the scale on independently compiled "quality of life" rankings of major cities of the world. For example, Lagos is in 171 position out of 172 cities ranked in the 2022 Global Liveability Index rankings of the Economist Intelligence Unit (EIU) which assesses cities on measures like infrastructure, education, health, culture and environment, stability etc.

Imperatives

Governments are defined by their commitment to institutions, rules and values as expressed through their actions. Inclusive governments foster growth and broad-based development while extractive governments produce deepening inequality and under-development and impoverish broad sections of society. Not surprisingly, extractive Governments also tend to borrow more.

In my opinion, the Government of Lagos State must transition from its existing, extractive model of governance. This means dealing decisively with its self-serving hegemony which some call "godfatherism", the activities of corrupt elements in public office and the civil service, pervasive conflicts of interest and dominant vested interests, all of which have created a wide gulf, over the last quarter-century, between Government's use of the people's resources and what the people of Lagos really need.

If we fail to do this, it is certain that our resources will continue to be misdirected, diverted and misused, our future will be mortgaged through ever-expanding Government borrowing, our development over the next generation will remain tragically stunted and poverty will be widespread.

Yours faithfully



Funso Doherty

Sources: *BudgiT- State of the States Report 2022, BudgiT - What we Know About Lagos State Finances Report - 2018, Agusto and Co. - LASG Issuer Rating Report 2022.*