

For Immediate Release

Tuesday, June 6, 2023

MESSAGE TO LAGOSIANS ON THE REMOVAL OF THE FUEL SUBSIDY

Once upon a time there was a great and noble Kingdom whose King and Queen both died leaving their son, the prince, and the wealth of their kingdom, in the care of regents, because the prince was not yet of age.

It came to pass that the regents were not faithful to the prince and diverted a great deal of the riches of the Kingdom to their own purposes, living lavish and riotous lifestyles while neglecting the orphan prince to the point of malnourishment and starvation.

The prince fell gravely ill and was in great pain continually. But the regents would neither repent nor relent. The only accommodation they made was to procure a painkiller to dull the pain of the prince.

In time, even that painkiller became scarce and very costly, as people of Neighboring kingdoms and some of the regents also conspired to divert some of painkiller for their own use.

Then all the regents took counsel amongst themselves saying: "the cost of the prince's painkiller has risen greatly. We can no longer sustain it together with other expenditure for the kingdom, and most especially, our expenses and purposes as regents. It is prudent for us to stop buying the painkiller so we can have resources for these other things".

So one day, the Chief Regent made a pronouncement that the painkiller would be stopped.

And a loud wail rent the air across the land and great fear arose of what would become of the prince...

Introduction

This letter is not about whether subsidy should be removed or not. Or even about how it should be removed. Much has already been said, and more still will be said by many others on this.

Rather, it aims to focus attention on the root causes of this perennial issue and suggest some direction for action going forward, particularly for Lagos State.

For the record however, I personally believe it should go, but not before implementing some well-considered relief measures to cushion the effects on the people.

The Root Causes

The underlying problem, in all of this, is underdevelopment and poverty. According to The Nigerian Bureau of Statistics, in 2022, approximately two-thirds of Nigerians were assessed as being multi-dimensionally poor. The past eight years in particular have witnessed a sharp decline, with real per capita incomes falling from \$3,201 in 2014 to \$2,066 in 2021 according to the World Bank. Inequality is also high and rising.

Over the years, the fuel subsidy has been a tool to temporarily cushion the effects of this failure of leadership and advancing poverty.

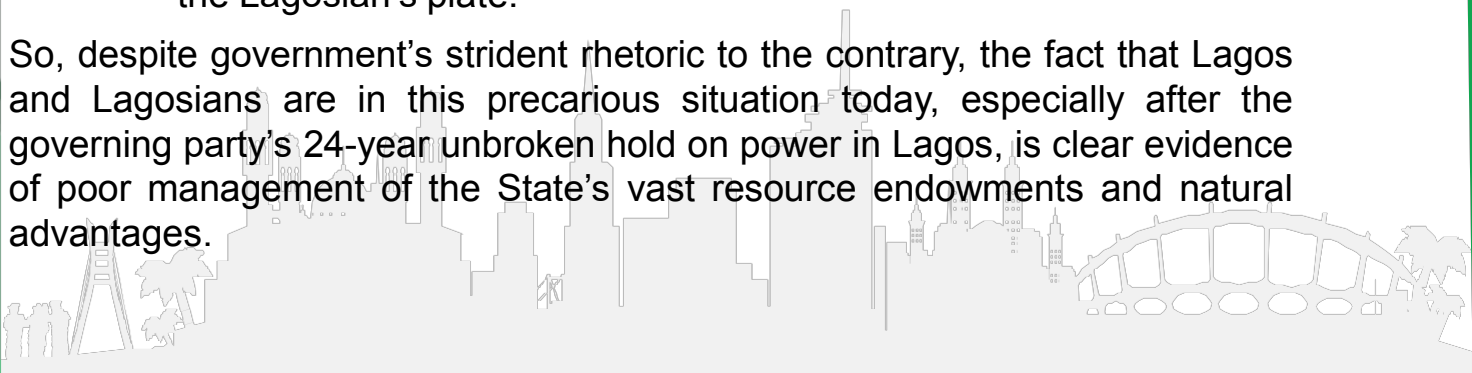
In my view, the more fundamental question is: When “subsidy is gone”, will the inept and corrupt governance that fueled this fire of poverty continue, or will we instead see better governance that progressively improves societal prosperity and well-being? Only time will tell, but based on decades of past experience, Nigerians are understandably very skeptical and troubled.

Lagos Will Likely be Hit Hardest

Despite having by far the highest revenues, expenditures, debt capacity and government borrowing, Lagos today is probably the most vulnerable to the harsh effects of subsidy removal for the following reasons:

1. We are a dense urban community with a large population, very many of whom commute daily for their means of livelihood.
2. There are very limited mass transit options in place, with near exclusive use of road transportation and minimal use of water and rail transportation.
3. The commuter light rail (the blue line) is not yet operational despite having been under development with substantial resources deployed continuously for well over a decade.
4. Traffic congestion and commute times in Lagos are legendary and remain among the highest in the world.
5. A high proportion of low-income commuters in Lagos are transported in small, privately-owned and operated commercial vehicles (the danfos, Koropes, Kekes etc) that run on petrol (PMS).
6. Lagos has an entrenched system of extortionate payments that are collected from these commercial operators daily - a multitude of informal levies, official and unofficial payments harvested through the so-called “agbero” network. This practice by itself already imposes a regressive burden that subjects low-income earners to high effective tax rates that are reflected in their transport fares. The fuel subsidy removal will compound this hardship.
7. Lagos is a massive net importer of food, much of which is transported into Lagos from all over the country mainly by road transportation with exposure to the increasing cost of fuel in certain segments of the supply chain between the source of the food and the Lagosian’s plate.

So, despite government’s strident rhetoric to the contrary, the fact that Lagos and Lagosians are in this precarious situation today, especially after the governing party’s 24-year unbroken hold on power in Lagos, is clear evidence of poor management of the State’s vast resource endowments and natural advantages.

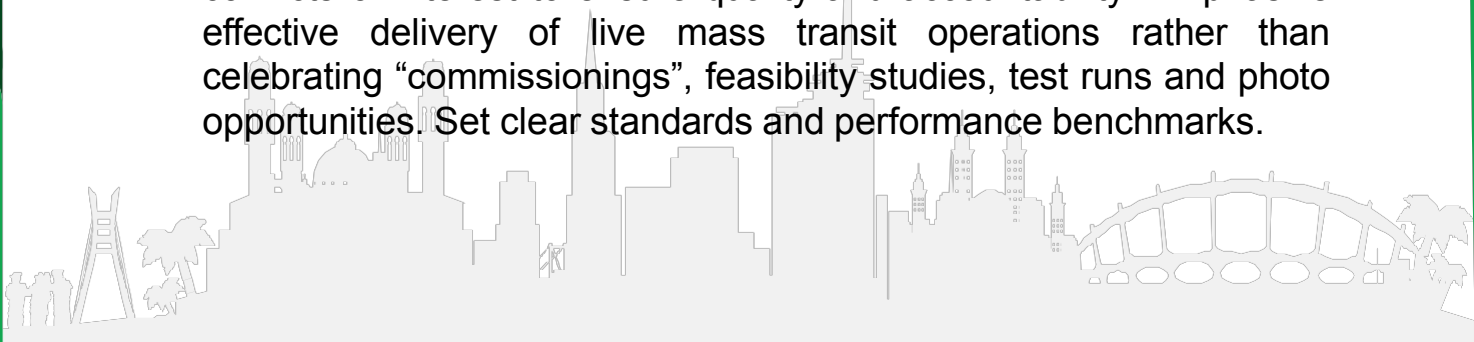


Imperatives for Lagos

In light of the fuel subsidy removal, LASG should consider taking the following steps as a matter of urgency:

- **Short Term Measures**

1. Introduce personal income tax relief for low-income earners. This does not require a federal tax law change and can be implemented at the state level in the form of rebates on the Personal Income Tax rates. This will raise the taxability threshold and provide relief for the most vulnerable taxpayers.
2. Implement a cost-of-living salary adjustment for Lagos State government workers prioritizing low-income earners and encourage private sector employers to consider doing the same. This should be a pre-cursor to a more comprehensive compensation review and Government reform agenda.
3. Dismantle the informal “agbero” system of levies and taxes. In doing this, as a practical matter, those individuals who are now engaged in that activity (especially as foot soldiers) should be redirected to manage social impact. License fees, permit fees and levies that disproportionately affect the poor should be significantly reduced and the multitude of charges borne by them should be consolidated. Collection of levies by runners accosting buses on the highways should be outlawed. Technology should be introduced to administer and enforce compliance.
4. Revisit and review the \$2 billion proposed 4th Mainland bridge project to confirm that it remains an appropriate use of capacity in the context of the heightened urgency to deliver effective multi-modal mass transit in Lagos over the next 10 years.
5. Scale-up ferry service on key water transport routes (e.g. Ikorodu to VI/Lagos Island/Lekki) introducing robust, safe and comfortable vessels on such high commuter traffic routes.
6. Review all existing Mass Transit PPP arrangements especially single-provider arrangements such as with the existing BRT operator. Eliminate the constraints to scaling up the BRT service and optimizing the use of the existing dedicated mass transit lanes. Subject contracts to competitive bidding at the earliest appropriate opportunity. This should extend to all existing and prospective mass transit operators including Eko Rail and the Sustainable Transport Initiative with Oando. Enforce arms-length contracting and eliminate conflicts of interest to ensure quality and accountability. Emphasize effective delivery of live mass transit operations rather than celebrating “commissionings”, feasibility studies, test runs and photo opportunities. Set clear standards and performance benchmarks.



- Longer-Term Measures

1. Ensure that within ten years, the Lagos Metropolitan Area is effectively served with efficient and cost-effective multi-modal mass transit. More rail lines should be introduced on an accelerated timeline. There must always be disciplined and rigorous procurement and contracting processes to guarantee accountability, value for money and consequences for breach and default.
2. New town planning and development efforts should be accelerated and should feature integrated mass transit, infrastructure and affordable housing plans in a coordinated way to achieve distributed and decentralized development of vibrant communities spread across the state.
3. Most importantly, Government must have an overall vision, an agenda and plans that direct effort and resources faithfully and effectively to achieve a broad-based, inclusive, productive and prosperous economy with improved incomes and living standards for residents across the socio-economic spectrum. This cannot just be on paper and must be measured by actual outcomes. It also will not happen in an environment of pervasive corruption. An outline of our Tiger Agenda for Lagos, which sets out our own approach to this, can be found at www.funsoherty.org/the-tiger-agenda

This is a defining time for Lagos State and Government has a paramount obligation to step up and make this city work for residents.

Our collective responsibility

Early in the morning of May 29, before the Inauguration, I tweeted the following quote from Lee Kuan Yew, the father of Modern Singapore, as a call to reflection:

"We cannot afford to forget that public order, personal security, economic and social progress, and prosperity are not the natural order of things, that they depend on ceaseless effort and attention from an honest and effective government that the people must elect."

The events following the inauguration, only serve to reinforce this message that, after all is said and done, the progress and well-being of our people will ultimately be determined by whether we elect Governments that are honest, effective and forthright and show clear understanding of the issues we face.

We must also guard against populism that seeks to exploit the plight of the poorest amongst us, while undermining their long-term interest. It is rather interesting that those who appear to have finally decided so resolutely on the subsidy removal, are on record as arguing against its removal while in opposition. And in a quarter-century of sub-national governance, they failed to create conducive conditions for subsidy removal.

We cannot, and must not, relent in our quest for good governance.



Funso Doherty
June 6, 2023

