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**BARRISTERS, SOLICITORS,
ARBITRATORS AND SPECIALIST IN OIL & GAS**

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Delivered By
Chief Richard Akinjide, CON, SAN, FCI Arb. (U.K)

GOOD GOVERNANCE, OIL & GAS, AND NATIONAL DEVELOPMENT

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He represented **Nigeria** as the **Co-Agent** and a **Counsel** in the case **Cameroon v Nigeria** at **The World Court, The Hague** for **about 8 (eight**) years involving **International Boundary Dispute** from **Lake Chad** to **The Atlantic Ocean**. He was a member for **four (4) years** of the team of **International Jurists** that drafted **The Law of The Sea-Convention** otherwise known as **"The Constitution of The Sea"** which is the **biggest Convention** ever sponsored by the **United Nations (UN)**. **Chief Richard Akinjide** signed that **Convention** and **The Final Act** on behalf of **Nigeria at Montego-Bay, Jamaica**. **Publications** of **AKINJIDE & CO** series which started with **"Advocacy, Ethics and The Bar"** have now reached **24 (twenty-four)** issues and circulates world-wide. **Chief Richard Akinjide** established trusts in the **Universities of Ibadan**, **Jos and Cambridge (England)** for **Annual Prizes** in **Law**. **Five (5) of his children read law**. **Chief Richard Akinjide** was the **President** of the **Nigeria Bar Association (NBA) 1970-1973** and past **Chairman** of the **Nigerian Body of Benchers** and the past **Member of the Council of Legal Education. Visiting Lecturer** for the **LL.M Programme** in the **Alternative Dispute Resolution, International Commercial Arbitration etc, University of Ibadan. Awarded Commander of the Order of the Niger (CON) in 2002. Distinguished Fellow of the Nigerian Law School**.

GOOD GOVERNANCE, OIL & GAS, AND NATIONAL DEVELOPMENT:

The three names that make indelible imprimatur on **our system of Government** and **Constitution in Nigeria** are:

- **(a)** **Lord Scarbrough, Chairman of the Royal Niger Company who was the Head of the privatised colonialism in Nigeria;**
- **(b)** **Lord Lewis Harcourt, the then Minister with responsibility for the Colonies; and**
- **(c)** **F.D. Lugard who, as army Captain, was employed by the East India Company and posted to India, then to East Africa before coming to "Nigeria."**

The good and the evil they did, whether **political or economic,** were the genesis of our problems in **Nigeria today**.

Following the **Berlin Conference of 1884**, **Lugard,** then **a Captain**, paid his first visit to "**Nigeria"** to organise troops on behalf of **the Royal Niger Company** – (note: not on behalf of **the British Government),** to **subjugate** and extract **"treaties"** from the **Chiefs or Leaders** of the various **tribes** and **communities**. The various groups, in what was latter called "**Nigeria",** had no idea that **Britain** was trying to **amalgamate** them in the **commercial interests** of **the Royal Niger Company**.

The European scramble for Africa and for her resources was in full swing. **George Goldie** attended the **Berlin Conference of 1884-5** as a delegate. The **"treaties" Lugard** extracted were used to support **British claims of effective control of the Niger Delta, and other parts, at the 1884-5 Berlin Conference where Africa was shared out among the European powers.** Much of the **Delta** was declared **Oil Rivers Protectorate by the British**. **Karl Maier** wrote in his book: "**This House Has Fallen" (Penguin Books):**

> **"The chiefs who signed treaties with Goldie and the British Consul of the day, Major Edward Hewett, often did not understand that they were effectively surrendering their sovereignty to the British Crown. Sometimes their signature or marks were forged or obtained under duress. Other time, the British simply lied to them."**

When **Treaties** with **identical** wording were sent by **Consul Hewett to King Jaja of Opobo, King Jaja refused to sign but asked the Consul to explain what the British Government meant** by **"Protectorate**". In a letter of **July 1, 1884**, **Consul Hewett** wrote to **King Jaja**:

"Dear Sir,

I write as you request, with reference to the word protectorate as used in the proposed treaty that the Queen does not want to take your country or your markets but at the same time is anxious no other nation should take them. She undertakes to extend her gracious favour and protection which will leave your Country still under your Government. She has no wish to disturb your rule, although she is anxious to see your Country get up as well as the Countries of the other tribes with whom her people have so long been trading.
Faithfully yours,

(sgd) Edward Hyde Hewett, Consul."

Also, in a **British cabinet paper** of **January 3, 1885**, **Lord Selborne, the Lord Chancellor, Britain's highest legal authority, with reference to international law,** explained **the difference** between **"annexation**" and "**protectorate"** as follows:

"The Law Officers do not expressly advert to the distinction, which I think important (and which appears to me to be well elucidated by Sir E. Hertslet's Memorandum of the 24th April 1883) between annexation and Protectorate. Annexation is the direct assumption of territorial sovereignty. Protectorate is the recognition of the right of the aboriginal or other actual inhabitants, to their own country, with no further assumption of territorial rights than is necessary to maintain the paramount authority and discharge the duties of the protecting power."

Thus, in the case of **Annexation**, that is, a **Crown colony**, the **Radical Title to the Territory** was vested **in the Crown** but in the case of **a Protectorate**, **the radical title remained vested in the original owners and inhabitants of the territory**. **In London, the British Government** ran the **affairs of their overseas interests** as follows:

Colonies	**Colonial Office**
Protectorates	**Foreign Office**
India	**India Office**

While the **Colony of Lagos (since 1861)** was run from the **Colonial Office**, that of the **Oil Rivers Protectorate** was run from the **Foreign Office**. It was a foreign country.

In 1886, George Goldie received his coveted Royal Charter from the **British Government which gave Lord Scarbrough's Royal Niger Company political authority over the Chiefs** with which **Goldie** had concluded treaties.

The **Charter specifically ruled out the establishment of a trade monopoly in the region, but Goldie ignored this stipulation and deliberately sabotaged the business dealings of independent African merchants**. The **British Government** turned a blind eye to those sabotage.
Communities that remained outside the Charter's authority, like **Brass,** were forced by **Goldie to pay exorbitant duties for the privilege of engaging in palm oil trade in their own country**. African traders operating within the area covered by **the Charter** had to **accept miserly prices for their products** or they were undercut altogether by using company boats traveling up-river to make purchases at the source in the interior. **Stronger Chiefs who resisted were King Jaja and Chief Nana. Chief Nana was deported by Goldie to the Gold Coast (Ghana), King Jaja was exiled to the West Indies until 1891. He died (murdered?) on the way home when he was released.**

Major Lugard moved from Akassa up the Niger River into the interior. By **1903, Lugard's West African Frontier Force** subjugated **Kano and Sokoto**, **killing the Caliph. The British abolished the "Caliphate" replacing it with the title of "Sultan". The policy of indirect rule in the North, both marked the subordination to an alien power and effectively handed them control of areas in the Middle Belt that they had never been able to conquer.**

June 1849: **Britain** appointed **Consul** for the **Bights of Benin** and **Biafra**.

1853: **Britain** created separate **Consular Districts** for:
(a) Lagos and Bight of Benin
(b) Bight of Biafra.

1862: **Legislative Council established.**

July 23, 1884: Britain, through **Naval Commander Moore** signed **Treaty of "favour and protection"** with the **King, Chiefs** and the **People of Creek Town, Calabar.**

July 24, 1884: **Consul Hewett** acting for Britain, signed Treaty of **"favour and protection"** with the **Kings, Chiefs and People of Duke Town Calabar**.

September 1, 1884: **Britain** signed **Treaty** of "**favour and protection"** with the

Kings, Chiefs and the people of **Old Calabar**. It was signed by **Consul Hewett**.

1914: **Amalgamation of the North and South decreed.**

1922: **Sir Clifford's Constitution** promulgated and named after **Governor Sir Hugh Clifford**. This replaced the **Legislative Council of 1862 with an enlarged Council.**

1945: **Richard's Constitution**. It created a single legislature for **Nigeria** with the group of **Provinces in the North, West and East.**
In **March 1945,** the **Motion of Legislative Council** was moved by **Sir Gerald Whitely – the Secretary to the Government** and seconded by **Rev Effiong**. It was passed unanimously.
The **Richard's Constitution** was enacted. Unelected majorities for the centre and the provinces were established.

1951: **Macpherson's Constitution: This introduced political parties and the first elected legislature and government in Nigeria.**

1954: **Lyttleton's Constitution: Regional autonomy and self-government were introduced by installments.**

1960: **The Independence Constitution.**

Lord Lewis Harcourt stated the purpose of Amalgamation as follows:

> **"We have released Northern Nigeria from the leading strings of the treasury. The promising and well conducted youth is now on an allowance on his own and is about to affect an alliance with a southern lady of means. I have issued the special licence and Sir Frederick Lugard will perform the ceremony. May the union be fruitful and the couple constant."**

Before the **1914 amalgamation**, the colonial administration of **Northern Nigeria** was financed from the British treasury. Whereas the **South** was financially self-sufficient and viable: the North was financially bankrupt. Not economically viable. And Britain was unwilling to educate or develop the North. **The view of the British commercial and colonial interests was: educate the North and lose Nigeria. Lugard** was one of the greatest advocates of that policy.

Lugard's policies in the **North** were **disastrous**. **F. Nicholson, a British** expert on his colonial administration put **Lugard's failure** in the **North** as follows:

> **"Instead of administering "things" and developing "service", Lugard had been pre-occupied with the widespread extension of rule over "people" – an undertaking so unprofitable that it made the amalgamation of the viable South and the bankrupt North both far more urgent from the point of view of the home government and far more difficult than the joining of two viable administrations would have been. The immediate task was to free the home government from the expensive milestones which Lugard had fastened round its neck and to transfer the whole burden to a new amalgamated Nigeria."**

A top **Colonial Office Official, C. Strachey** minuted as follows in the **Colonial Office** file:

> **"Sir F. Lugard's proposals contemplated a state which is impossible to classify. It is not a unitary state, it is not a confederation of states. If adopted, his proposals can hardly be a permanent solution – the machinery may work possibly for sufficient time to enable the transition period to be left behind, by which time the answer to the problem – unitary state versus Federal States – will probably have become clear."**

How prophetic was Strachey!

As soon as the 1**914 Amalgamation** came into force, the British Government enacted as **Mineral Ordinance, 1914, investing all the minerals,** including **Oil and Gas**, in **Nigeria** in the **British Crown**. This was not amended until **1958** — **two years** to our **1960 independence**.

For the past **forty years, Nigeria** has been suffering from a **lethal disease** which, far from receding, has reached and firmly rooted in every stratum of government and society. The nature, profoundly negative social effects and appalling **economic consequences of this disease**, **I shall analyze in details later in this anniversary lecture**. What I shall begin with is a broader, international perspective: **that of the international oil market as it is oil and the large unearned rent that it generates which can be designated as the major cause of the appearance, dissemination and generalization of the disease in Nigeria.**

1. THE END OF OIL

Oil, it seems, will **not** last much longer. Nor will it **ever be cheap again**. If one refers to their intensive campaign in the world media, it appears that it is the conclusion reached by more and more among the major world oil corporations:

> **"The era of easy oil is over … when growing demand meets tighter supplies the result is more competition for the same resources."**

Such is the firm statement, widely disseminated by the international business press, made by **Mr. David J. O'Reilly, Chairman & Chief Executive Officer of Chevron Corporation.**

> **"Beyond Petroleum":** This is the new name with which **BP – British Petroleum** – has chosen recently **to advertise itself,** undoubtedly, to stress that the greatest challenge faced by the energy industry at the beginning of the 21st Century is to diversify away from oil before the world runs out of it.

Yet, none of this is a new verdict: it was already pronounced in the 1970s. But history proved it wrong. The **alarm bell** first rang at the end of 1973 when **OPEC raised oil prices from US$2 per barrel to 13**. It rang again and louder in 1979. Then OPEC helped by a panicky market rushing to purchase in anticipation of higher prices and thus pushing oil stocks to an unprecedented high level, **raised oil prices up again, this time to US$30.** If one remembers the business context of the 1970s, one still has in mind the too remarkably convergence of views that then existed among practically all world energy experts. Oil prices were destined to reach **US$100 per barrel** before the turn of the 20th century. One also remembers how wrong they could have been. These experts' no less remarkable predictive failure came to light when early in the 1980s oil prices began to fall, persisted downward to reach **as low as US$10 a barrel** and went through a long period of **fragile stability** before starting to rise again a couple of years ago. If it is true, as one is often told, that history repeats itself, then the current round of high oil prices should not attract such media attention. This is no more than business as usual. Prices will come and stay down!

Is that really so? My answer is no.

No, because **two new critical dimensions** have appeared which are radically transforming the context in which **today's world oil industry operates**:

The first is the state of the world's environment: the increasing risks that climatic changes create for lives, infrastructures and properties.

The second is a coincidental occurrence: that of the emergence of new economic powers, **China, India and Brazil** with a **voracious appetite for oil** (**China** is the **second largest** world oil consumer after the USA and China will soon be number one), precisely when the physical exhaustion of the world oil resource is in sight.

The degradation of the climate. It is now accepted by everyone **that earth's climate** is changing. **Scientists began to warn about global warming some twenty years ago but few listened**. They explained that its cause was the massive accumulation in the atmosphere of gas, carbon dioxide, which allows heat from the sun to penetrate the atmosphere but traps that heat and prevents it to escape back in outer space.
This is known as the greenhouse effect. Scientists added that this accumulation of gas occurred because **it is the residual of fossil fuel combustion**, mainly oil and coal, less so natural gas which humanity, mainly the industrialized part of it, **has been burning for about two and a half centuries and massively burning for the last one**. To fix the problem – if it ever gets fixed – will take a long time: long-term problems call for long-term solution. It will also require a radical change in the world's energy mix in favour of nuclear energy and of renewable, clean energy sources: energy from the sun, energy from the wind and hydrogen. In the meantime, we are told, climatic aberrations, especially the most damaging ones, will become more frequent with their unavoidable high material and human tolls. We are also told that the problem does remain solvable but the longer energy consumers – especially large energy consumers – delay remedial actions, the worst the likely consequences.

The exhaustion for the world oil resource**.** **Homo sapiens** took a long time to emerge from the mud. Yet when the emergence began, at each occurrence of humanity reaching a higher step on the ladder of technical and economic progress less time was required to get there than it had taken the previous step. Also, the scale of changes taking place in societies kept getting larger. An interesting historical study by **Angus Maddison** which spans from year 500 to 1970 (35 years ago) compares how long it took what are now the western economies **to triple** their economic output. **The first tripling took ten centuries: a thousand years spanning from 500 to 1500. Four and a half centuries later, in 1950, it took the same economies a mere 20 years to achieve a similar tripling in output**. As in 1950 these economies started from an incomparably higher base than in year 500, the growth achieved led to a vastly greater volume and a vastly higher quality of goods and services produced.

What such a succession of remarkable steps forward took was first the mastery of producing food and erecting shelters, then the ingenuity of substituting mechanical and electric slaves for less powerful and reliable animal and human ones. Once humanity could domesticate energy to produce heat and motion, all that was left to achieve was to make energy available in ever larger quantities and to improve process efficiencies.

First, the world burned coal and named it "king" because it fueled the industrial revolutions of the 18^{th} and 19^{th} centuries. Then the bulky steam engine fed by coal which had hitherto prospered progressively gave way to the compact combustion engine fed by oil. **From the end of the 19^{th} century to the first decades of the twentieth, "king coal" faced its decline**. **Oil** was discovered in increasing volumes and the usages one could make of it, once refined, and were many.
Transportation fuel, a major category in refined oil products, was cleaner, easier and more efficient to transport than coal because of its liquid form and of its substantially higher heat content per unit of mass. It was therefore this fuel, easily extracted from crude oil, which during **First World War** burnt in the **"Ford T"** cars which took **French soldiers** to their eastern borders to prevent **German invaders** to trespass. **It was again this fuel which in 1944 propelled the plane that delivered the atomic bomb to Japan**. After the **Second World War**, **oil was king**. Since the end of the 19^{th} century and for decades after, crude oil has been cheap, plentiful and used in ever increasing volumes. No sooner had a fraction of world oil reserves been used than new discoveries in larger, sometimes huge volumes were made and added to existing stocks. Even in the 1970s when prices began to bite, consumption and reserves continued to grow: the quantity of oil available for use never seemed to be an issue. **It is again oil that fueled world economic growth in the 1980s and 1990s, particularly that of the new giant Asian economies**. Since the end of the **19^{th} century**, the progression in world oil supply and demand has followed a **rapid exponential** trend with periods of even faster growth which mathematicians call **hyper-exponential**. It is important to realize what this means in terms of volumes. It means that, year after year, an increasingly larger volume of oil was added to the supply of the previous year to meet the world demand of the current year. **Such a progression is called exponential because it is characterised by a constant rate of increase**.

In the case of oil, in some periods, the rate at which world oil supply grew was even faster, no longer constant but increasing: **hyper-exponential.** This cumulative process went on for about 125 years. It became massive from the reconstruction period after the **Second World War in 1945/50**. Such a pace of growth, especially when applied to a limited resource, is not sustainable. It cannot last. Says **Mr. O'Reilly**, the **Chairman of Chevron Corporation** again:

> **"Demand is soaring like never before … It took us 125 years to use the first trillion barrels of oil. We'll use the next trillion in 30."**

In this statement, **Mr. O'Reilly** provides two interesting pieces of information. First, he tells us that from **1880 to 2005 – the last 125 years** – the world used a huge volume of oil: one trillion, that is, one million million barrels. Then he states that this same huge volume of oil is expected to be used again **but this time in only 30 years,** from 2005 to 2035.
The most interesting information, however, **Mr. O'Reilly** keeps for himself. At the scale of such a massive industry as the world oil industry, 2035 is just the day after tomorrow. So why does **Mr. O'Reilly** keep silent about what is likely to happen to world oil after 2035 especially as he explains later in his same statement:

> **"Whatever action we take we must look not just to next year but to the next 50 years."**

If **Mr. O'Reilly** has looked to the next 50 years (I am sure he has), has he looked up to year 2055? Why does he not tell us then what he saw happening to world oil between 2035 and 2055? I suspect he does not **because** he is afraid to create excessive concern among his world leadership by bluntly stating that after 2035 there will be little or no oil left for the world to burn. Yet, this is the implacable conclusion one reaches putting together what **Mr. O'Reilly** says concerning future world oil demand and what geologists say about the state of world oil reserves.

The key parameter in world oil supply is the fact that the decline of king oil has already started. It began quietly about 20 years ago. This is the period when for the first time in the history of the world oil industry – and in sharp contrast with the past – oil finds went and stayed below oil used. Since 1985 or so, persistently falling oil discoveries have coincided with a persistently increasing demand for oil: and unsustainable situation which should have been discouraged. Rather, it has been encouraged by the low oil prices of the 1980s and 1990s. Geologists estimate with a reasonable degree of accuracy how much oil remains trapped in earth's crust.

Their findings reveal that, in the course of the last century, the world has extracted and consumed about half the estimated reserves of extractable crude oil Mother Nature took millions of years to manufacture.
The logical implication of geological data coupled with Mr. O'Reilly's view of the dynamics of world oil demand is that the second half of the world estimated reserves of extractable crude oil will have been more or less exhausted by 2035.
The conjunction of such economic, technical and ecological factors which are as **unforgivable** as gravity makes the most probable future course for world oil supply to be a decline and therefore the most probable future course for oil prices

– in view of the anticipated world oil demand – to be an increase, perhaps a sharp increase. **When will prices really bite?** Opinions of course differ. **Some say as early as 2 or 3 years from now, some others say 2010, the most optimistic say 2020**. Whatever the best guess history will prove to have been, **all seem too close for the comfort of energy consumers**.

Yet, if critical situations give birth to alarming dangers they also offer unusual opportunities. It is therefore, one more time, the quality of their scientific research, the ingenuity of their technical innovations, their foresight and leadership, their ability to manage crisis situations *and the power they have to resort to conflict if required* which will make industrialized countries to overcome the energy challenge. Indeed, political and economic leaders in industrialized, oil – consuming countries cannot but draw two conclusions from the present world energy situation:

1. **That the development of oil substitutes must be urgently accelerated;**
2. **That in the meantime the security of oil supply must be ensured.**

The necessity to develop energy substitutes for oil, not unlike the occurrence of climatic changes, is a parameter that has been known to industrialized countries for about 30 years. **But little has been done about it. Why? Because industrialized countries worship the market. Unfortunately, the market is at best a myopic god and at worst a blind one. The market sets a price based on a short-term equilibrium: that of a present supply confronted to a present demand.** If it so happens that in 3, 5 or 10 years the supply of a given commodity is likely to be constrained by the exhaustion of its irreplaceable reserves, if it so happens that in 3, 5 or 10 years the needs such a commodity presently fulfils are likely to be as urgent as they today, **the market does not take such considerations into account**. The great **John Maynard Keynes,** Cambridge University Professor of Economics, himself said it: in the long range we are all dead. This may be true of us but it is not of our children.

With little simplification, one can regard the whole history of crude oil as the history of a constant struggle between, on one side, **strong consuming countries** also in control of oil extraction and trying to keep current prices as low as possible and, on the other side, **weak reserve owners** trying to raise prices as high as they possibly could. **Overall,** the **former won**. **Except for some notable exceptions, it is the market mechanism more than OPEC which has determined the price of oil**. Therefore, this price has remained much too low to encourage the development of substitutes at the required scale and in the required time frame. It is only now that current oil prices, at or above US$60 a barrel, make the economics of oil substitutes begin to look favourable.

The inescapable balance of the present world energy equation is therefore in four simple points:

1. the world is running out of oil;
2. there is presently nothing to replace oil at the scale oil needs to be replaced;
3. replacing oil will take time as well as costly investments. Such investments will only be made if a high and growing oil price renders such investments profitable; and
4. the need to replace oil would be no less urgent if the world had unlimited oil reserves unless one would let the environment suffer beyond repairs at a final cost much greater than that of developing oil substitutes.

The necessity to secure oil supply is as pressing a challenge as that of developing oil substitutes. It is one of a different nature which calls for different solutions, peaceful or otherwise. The invasion of Kuwait by Iraq and the consequent military intervention of the US and its allies in the gulf is one clear illustration of how far the West can go to secure oil supply. **If Mr. Sadam Hussein had been successful in annexing Kuwait and had prolonged his invasive journey to Saudi Arabia, he would have then controlled 2/3 of the world oil reserves and therefore its selling price: a clearly unacceptable state of affairs for the West.**

The present world energy situation is therefore tighter than ever and it would be profoundly unrealistic to assume that, whether to develop energy substitutes or to secure oil supply, industrialized countries which are presently so dependent on oil and energy to ensure their political leadership, world dominance and continued wealth will hesitate to implement even the most drastic options and policies to protect their interest and perpetuate their prosperity.

2. THE NIGERIAN DISEASE

The other side of the coin is the bright economic future guaranteed to countries that own oil **provided they are able to confront the associated political risks, manage the economic opportunity and extract the maximum return from it**.
Is Nigeria, one of such privileged countries? **On all fronts my answer is no**. Nigeria is **unlikely** to be able to confront the associated political risk which is already a reality at play as current developments in the **Niger Delta** demonstrate. **Nigeria is even less likely to be able to manage the economic opportunity**. Considering the myriad of them, this country’s successive governments have already missed and lost, considering the unrelenting progression of corruption, the persistence of bad, incompetent public decision-making and economic management, t**he odds cannot possibly be in our favour**. It is in fact

the firmly grounded opinion of more than a few qualified observers here and abroad that, ev**en if the price of oil were to reach a thousand US dollars per barrel, Nigeria would not fare any better**. Only waste, misappropriations of public funds and mass poverty would continue to grow as is abundantly illustrated by Nigeria's history in the past forty years, except the excellent reforms and crusades of the recent years by **President Olusegun Obasanjo** which are like fresh air in a much polluted atmosphere. Missing such a unique opportunity, however, would prove the worst loss of all.

Being the direct consequence of the end of the oil era, it may well be the last chance offered to Nigeria to source funds in the volume required to build a diversified economy and finally escape poverty. As a leading world oil and gas producer, Nigeria is selling large volumes of gas at a world price linked to that of oil and large volumes of oil at a price which, at the time of writing, approaches US$70 per barrel. Nigeria can reasonably expect that for several decades to come this price will rise, perhaps sharply. **Good governance is all that would be required of this country to extract the best out of this unique and perhaps last chance to establish sustained, durable and diversified economic development**.

Can we then blame an increasing proportion of our youth to try and seek any kind of salvation on foreign shores even if this is neither reliable nor honourable an option? Destination countries, those who are the targets of immigration fluxes but are not particularly keen on sharing their wealth and social benefits with imported strangers, have done their arithmetic. They have calculated that the present world population of 6.5 billion people will grow to reach 8 billion in 2025. They have assessed that a significant proportion of that population growth will be on account of Africa, the continent with the world highest rate of population growth, even with HIV-AIDS decimating populations in the horn of Africa. They have determined that in the next 20 years Africa will each year deliver 4 to 6 millions young adults to the continent's labour market – a total of 80 to 120 million people in the next 20 years. Such a volume, Africa is, and will continue to be incapable of absorbing. So destination countries have reached the firm conclusion that, in view of their own unemployment situation at home, they have no other choice but to vigorously reinforce immigration control as it is out of the question for rich countries to become an outlet for excess African labour supply beyond their limited requirements: a tough luck for would –be African immigrants.

I am afraid it is no solution to look for illusory salvation abroad as it is no solution to entertain pessimism. **I believe there is a domestic solution to our problem and I believe this solution must be implemented even if our problem is complex and the solution difficult and painful to put in place.**
Even more so as this solution, we know it. And even if some of us do not, a recent World Bank report is here to illuminate them. **What this report says is alarming**.
It says that our society is where it is and what it is because it has disintegrated and lost its cohesiveness. Disintegrated societies, societies without cohesion, the **World Bank** explains, do not thrive even in the midst of abundant material resources. **They regress and collapse**.

"Where is the wealth of nations? Measuring capital for the 21st century" is the title of this **World Bank** report which has been ably presented and summarized by our **PUNCH** newspaper's delivery of **December 23, 2005**. **The report's findings are devastating for Nigeria and clearly explain our failure to develop.**

To measure the wealth of nations, the World Bank determined the relative importance in such nations' balance sheet of **the three categories of capital**: **natural assets, produced assets** and **intangible assets** which, added, make this balance sheet, that is, national wealth. Natural assets are **a country's natural resources**, produced assets are a country's **accumulated productive capital** and intangible assets are **a country's human and institutional capabilities**.
The report concludes that it is <u>NOT</u> a country's tangible assets whether natural or produced; that it is <u>NOT</u> a country's mineral resources, agricultural land, forests, industrial equipment and infrastructure which make this country rich and prosperous. It is rather this country's intangible assets, the society's quality index.

What precisely are intangible assets? They are all **the qualitative components** of a human community:

- The skills and know-how embodied in the labour force;
- The ability of a nation to efficiently invest the rent extracted from the exploitation of exhaustible resources;
- The mutual trust which exists among members of a society,
- Their ability to work together for a common goal to which they strongly adhere and in which they firmly believe;
- The quality of formal and informal institutions;
- The saving and maintenance culture;
- The extent to which citizens have confidence in the laws of the land

and abide by them;

- Patriotism: both the extent to which citizens trust and support their government and the extent to which government trust and support its citizens.

On the same subject, **Martin Luther** has this to say:

> **"The prosperity of a country depends not on the abundance of its revenue, nor on the strength of its fortification, nor on the beauty of its public buildings, but it consists in the number of its cultivated citizens, in its men of education, enlightenment and character."**

In short, intangible assets are the policies, actions, values and attitudes which cement a society, make it efficient, make it deserve the right to be called a nation and allow her to attain prosperity.

> **"Rich countries are largely rich because of the skills of their population and the quality of the institutions supporting economic activity"**

So the **World Bank** report concludes.

How can a country develop and increase **intangible assets, those mostly responsible for its prosperity**? The World Bank's answer is limpid. Invest in **education**, **"Educated men are as superior to the uneducated as the living are to the dead"** said **Aristotle.** Invest in the functioning of the **justice system** and develop policies aimed at **attracting remittances**, **all of which are government's responsibility**: **rich countries are largely rich because they are well governed; poor countries are largely poor because of bad governance. Bernard Shaw in his "Everybody's Political What's What" advised:**

> **"If you want to rule a people in perpetuity, one thing you must not do. You must not educate them."**

One hundred and twenty countries have been scrutinized to reach the above conclusion. The five countries coming first are Switzerland, Denmark, Sweden, the USA and Germany. The Country coming last is Ethiopia. Regrettably but not surprisingly, Nigeria comes just before the last, just before Ethiopia. All these foreign badges of "honour" make our shames more glaring.

Take the rule of law index. This is an index on a scale from 1 to 100 used by the World Bank to measure the extent to which citizens have confidence in, and abide by the law of the land. **Switzerland scores 99 while Nigerian scores less than 5.**

Take wealth per capital. Thus is the average wealth per person in a given country. In year 2000, it was a little below US$650,000 per Swiss as compared to about US$2,750 only per Nigerian: the average Swiss was in 2000 more than 235 times richer than the average Nigerian.

Are you surprised that our young people's sweetest dream is to escape their land? Take the saving and maintenance culture. **The World Bank calculates that if Nigeria had sustained even a modest saving effort on her oil earnings of the past thirty years, a saving effect equivalent to, but not larger than that of the poorest countries in the world, her stock of produced capital would be five times larger than what it is today**.

The World Bank's **final ranking of the 120 countries** under scrutiny shows the contribution of each of the three capital components: **natural, produced** and **intangible,** in percentage form. In the total wealth of **Switzerland, the most prosperous country in the world with US$648,241 per capita**, natural capital contributes 1 percent, produced capital contributes 15 percent and **intangible capital contributes 84 percent.**

A particularly noticeable but unsurprising outcome of the World Bank report is **the fact that in rich countries intangible assets are by far the major contributor to wealth and prosperity whereas in poor countries intangibles often prove critical liabilities,** key factor of regression with high *negative* contribution to wealth. **Why is it so**? It is so because of the particular nature of intangible assets. Tangible assets (natural and produced capital), a country can either possess or not possess. If a country has them, tangible assets contribute positively to its prosperity; if a country does not have them, tangible assets do not make any contribution. The influence of tangible assets on prosperity can be positive or nil, not negative. In contrast, intangible assets can become intangible liabilities if skills are low or absent**, if inefficiency, incompetence, corruption, irresponsibility and bad management are the rule rather than the exception**. *The value of tangible assets is the value (positive or nil) of what a country owns. The value of intangible assets is the value (positive or negative) of a country's ability to turn its tangible assets into new wealth*.

This concept is so important that it is worth illustrating with an example. Assume an individual acquiring a fleet of 10 trucks to set up a transport business. Each vehicle costs 2.5 million Naira. The company also hires 10 drivers and begins operations. Assume that at the end of the first year the company has made a net profit of **10 Million Naira.**

What is, measured using the World Bank concept, the company's wealth at the end of the first year? It is **30 Million Naira**.

20 million Naira or 67% of the company's wealth is on account of its tangible assets: the 10 trucks which have been purchased for 25 million Naira and are assumed to have depreciated by 20%. The 10 million Naira profit or 33% of the company's wealth, is on account of its intangible assets: **good management and the drivers' professional competence.**

Assume now that in the second year of operations things get bad. The manager of the company steals company's money which encourages drivers to behave irresponsibly: they divert petrol, fail to maintain vehicles, stop driving carefully and used company's vehicles for their own purpose. As a result business goes down, several vehicles are involved in accidents and at the end of the second year, the company's profit has turned into a loss of 4 million Naira.

Again measured using the World Bank concept, the company's wealth has decreased from **30 Million Naira** at the end of the first year to **22 Million Naira** at the end of the second. Cumulative net profit has fallen from 10 to **6 Million Naira** and depreciation has reduced the net book value of the vehicles from **20** to **16 Million Naira**. The composition of the company's wealth has also changed. The contribution of tangible assets has increased from 67% to 73% while that of intangibles has fallen from 33% to 27%.
If this situation is allowed to persist over several years, cumulative profit will continue to fall to become a cumulative loss; the contribution of tangible assets to wealth will continue to increase to and perhaps beyond 100% as the contribution of intangible assets to wealth continues to fall to zero and perhaps turns negative.

What our example says is as old as the world: **bad management pulls efficiency down. It reduces profit generation, that is, it makes the contribution of intangible assets to wealth creation to decrease.** This contribution becomes negative if persistent mismanagement results in losses instead of profits. As profits fall, the relative contribution of tangible capital to wealth rises. When losses are recorded, tangible assets are the only positive contributor to the wealth of badly managed raw materials exporting countries.

Good management has the reverse effect. It pulls efficiency up, generates profit and by so doing reduces the relative role of tangible capital in wealth creation. **Intangible assets, which are the ability to use tangible assets efficiently to increase wealth, reduce the relative importance of tangibles in the process of wealth creation.**
Leading a country is not unlike running a transport business. **And bad leadership is a much worse liability than bad business leadership.** In 2000,

Nigeria's wealth per capita was US$2,748 and resulted for 147 percent of natural capital, for 24 percent of produced capital and for **negative 71 percent of intangible capital. In 2000, Nigeria's intangible liabilities cancelled half of the positive contribution of her natural capital: bad governance and the resulting social dislocation have had the same impact on Nigeria as removing half of its natural endowment.**

A myriad of example can be found to illustrate this. Here are some:

1. Just a few years ago Nigerian missed the chance of strengthening the international value of her currency. When central banks all over the world had increased their Euro holding from 14% of their total holdings in 2002 to 25% in 2005 to take advantage of the rapid appreciation of the Euro over the period, Nigeria continued to rely blindly on the US dollar thus loosing billions in reserves and potential productive investments. A stable Euro and a stronger dollar have now returned to the international currency market, removing the opportunity.

2. When supply of refined products worldwide got tight thus offering, and continuing to offer today, unusually favourable commercial opportunities to refiners, Nigeria proved incapable of turning this to her advantage as her refining capacity had long before collapsed. Worst, Nigeria became a substantial importer of refined products while being one of the leading crude oil producing countries. As a result, domestic fuel prices rose far above where they should now stand, even allowing for the removal of government subsidy, thereby increasing practically all costs in the economy and constraining economic growth and national development further.

3. **Since crude oil prices began to rise, Nigeria accumulated billions in passive, unproductive reserves and repeatedly expressed illusory concerns about the danger of overheating the economy. We dare speak of overheating the economy with excessive money supply when our infrastructure is deficient, when we are not able to supply electricity without any cut for more than a few days in a row, when millions of us live below poverty level, have no access to water, when thousands receive education without even a slim chance of later finding a job, when the education system itself – just like health care – has been for years the victim of deficient policies. Money supply is excessive only when one does not know how to use it efficiently**.

4. Nigeria now wishes to embark and invest into tourism at a time when high and growing oil prices are likely to make air transport increasingly

expensive therefore dampening tourism demand and reinforcing an already tight competition among many destinations already far better equipped than ours.

5. **Four or five years ago, Nigeria put in place a program to develop small and medium scale businesses and industries through a fund fed by private banks' profits and administered by them The programe is a failure.** There are today tens of billions of idle Naira in the fund and still not a trace of small scale industrial development.

Banks simply refuse to invest in small scale industrial development because the risk is not good enough for them, banks prefer to put money in what they know will bring profit. Banks accept to pay the penalty for not using the fund, for not financing small scale industries and by so doing preserve their profit for more lucrative usages. And Nigeria remains poor and backward. **Who is to blame**? **Not the banks of course**. Banks do their job and follow the logic of the private sector. **Government is to blame for telling the tale of the mighty private sector that can do all things better than government**, the tale that the private sector can and will resolve it all. **It is government that is to blame for passing the buck**, for escaping one of its major responsibility, that of assuming the risk of early – stage economic development so as to bring new private ventures to their threshold of profitability until such ventures are strong enough to assume their economic risk by themselves. **Then and only then profits will be generated and banks will accept to lend their funds**.

Forty years of oil and gas production would have done marvels in Nigeria if the rent obtained from the export of oil and gas had been correctly managed and efficiently invested. Natural capital would then have been efficiently transformed into other forms of capital: into productive investments (produced capital) aimed at developing the economy and into quality investments aimed at educating, protecting and cementing society (intangible assets). **If such had taken place, oil would today play a much smaller role in the Nigerian economy. A number of economic sectors would have emerged, benefited and developed and Nigeria would be a prosperous nation with a diversified economy, a solid infrastructure, a strong currency and jobs for everyone**.

But oil has done none of the above. Rather, it has exacerbated greed and raised unreasonably high expectations of private appropriations of the unearned rent (the national cake) to the point of strongly eroding personal, ethical and social values thereby dislocating the cohesiveness of society. Not only has oil been hijacked and its unearned rent misappropriated and

wasted but oil's ability to effortlessly generate such unearned rent has frozen Nigeria's incentive to build those intangible assets without which her access to economic prosperity remains an illusion.

And Nigeria has proved incapable of reforming the institutional system responsible for such an accumulation of intangible liabilities.

So the end of oil might perhaps prove a blessing for Nigeria as it will undoubtedly take the country back to square one. If the major task of reforming existing institutions remains out of our reach while we can rely on oil export money, it may be that the natural end of the cause (oil) through exhaustion, by suppressing resulting negative effects, by removing intangible liabilities, will rebuild social cohesiveness and will restore our capability to reform institutions and establish durable development. To verify the veracity or otherwise of this early diagnosis, we must wait. But not for too long: another 30 or 40 years perhaps when today's young Nigerian children have become mature adults. If my diagnosis proves right, the generation of Nigerians then in command will have it tough. They must be prepared to work hard, very hard indeed, to rebuild a cohesive and prosperous society as the benefit of accessing of oil money will then have gone for ever.

It would be so much simpler, so much easier to begin now.

It is **NICCOLO MACHIAVELLI (1469-1527)** who said:

> **"There is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage than the creation of a new order of things… Whenever his enemies have occasion to attack the innovator they do so with the passion of partisans, while the others defend him sluggishly so that the innovator and his party alike are vulnerable."**

Will Nigeria soon emerge from the Third World to the First World? The frightening "Ifs" accumulate in the answer.

I feel greatly honoured and I thank **Your Excellency, The Governor**, for inviting me to deliver this anniversary lecture.

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