Nigeria’s Experiment With Welfarism Threatens Its Economic Future

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The Nigerian government recently launched the Social Investment Programme (SIP), a welfare scheme aimed at alleviating poverty. Through SIP, the government plans to feed 3.5 million schoolchildren, create jobs and offer loans to 1.6 million Nigerians. The program’s framework might seem noble and appealing, but its dependence on borrowing makes poverty eradication doubtful while increasing the country’s debt profile and general interest rate.

First, current levels of poverty in Nigeria are linked to debt incurred in the 1980s and 1990s. This debt has hindered each successive administration’s ability to spend on development projects to reduce poverty. Thus, borrowing to fund SIP will inflate the country’s already high debt profile, and negatively influence individual financial security as average income decreases while tax increases. These changes in financial strength will consequently affect savings and investment, which are prerequisites for poverty reduction.

While the government hopes the scheme will help drive entrepreneurship, SIP will do the opposite. If Nigeria’s creditors doubt the government’s inability to repay borrowed funds (likely considering the dwindling oil revenue), there will be higher demands on interest rates to counteract the risk, thereby upsetting general interest rates. This means potential entrepreneurs might get discouraged and existing businesses might not risk high interest loans to expand. This decrease in business growth and economic strength can possibly lead to more poverty.

Moreover, the government’s resolve to increase borrowing considering the present economic recession cast doubts on its capability to carry this scheme through. Already, there are vacuums in key sectors like transportation and security that the government is trying to fill, and balancing this spending with SIP will prove difficult.

Policymakers should realize that Nigerians are not poor because of a lack of resources but are poor because they are obstructed by corruption and bad legislations. Instead of initiating a welfare scheme, the government’s efforts should be heavily geared towards policies on business. It can review legislations to ease business and investment for the long-term or review policies on importation and taxes on the interim. The government should also focus on completing development projects that directly affects quality of life preferably in agriculture and education.

And since welfare schemes funded by borrowing are notorious for not eradicating poverty, building capacities and incentives is necessary. The government can assist by encouraging small businesses and supporting the vulnerable to identify individual talents for self-sustenance. This levies the emphasis on entrepreneurship, which is a better poverty vaccine than welfarism.

The administration must realise that the cause of poverty is often systemic and any attempt at a cure must be equally systemic and free of politics. Because SIP was
instrumental to its victory in the last election does not make it the best choice for the economic health of the country’s citizens. The government must thoroughly consider the grave consequences that will come with this welfare scheme.

The majority of Nigerians are poor and they have the right to pursue a more prosperous and dignified life. However, if the structure designed to pull people out of poverty will lead to further impoverishment, it is a risk not worth taking.

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