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INSECURITY AND INVESTMENT IN NIGERIA: AN EXPLORATORY REVIEW

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Abstract
This abstract explores the multifaceted effects of insecurity on investment in Nigeria and highlights potential opportunities for mitigating its negative impact. Insecurity poses significant challenges to investment in Nigeria, impacting economic growth, investor confidence, and social stability. Furthermore, the reputational risks associated with insecurity deter potential investors, hindering the country's overall development. However, amidst these challenges, opportunities arise for policymakers, investors, and other stakeholders to address the issue proactively. Policymakers can prioritize security reforms, allocate resources to strengthen security infrastructure and foster public-private partnerships to enhance security measures. Policy reforms, including judicial and law enforcement reforms, can promote the rule of law and ensure accountability, thus creating a conducive investment environment. Corporate social responsibility initiatives can contribute to community development, promote stability, and indirectly mitigate security risks. Collaboration among stakeholders, including policymakers, investors, civil society organizations, and security agencies, is crucial. Promoting transparency, accountability, and good governance practices contributes to sustainable investment and economic growth. While insecurity remains a complex challenge, Nigeria's vast potential and emerging opportunities should not be overlooked. By addressing insecurity, stakeholders can unlock the country's immense economic potential, foster stability, and create an enabling environment for investment, thereby promoting inclusive growth and social development.

Key Words: Insecurity, Investment, Foreign Direct Investment (FDI), Domestic Investment, Reputational Risk

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SECTION 1
INTRODUCTION

1.1 Background to the study

Nigeria faces severe insecurity challenges that permeate all aspects of national life and breed grave concerns among its citizens (Stewart, 2004). These security issues, ranging from ethnic conflicts and kidnappings to religious extremism, militancy, and socio-political disturbances, have caused a decline in population and businesses, a surge in unemployment, and the exodus of foreign companies. Areas like the North East and Niger Delta regions are particularly affected, witnessing deserted regions, reduced investments, increased unemployment, and the emergence of Internally Displaced Persons (IDPs) camps. Despite the government's attempts to address the situation through increased security funding and anti-terrorism laws, Nigeria continues to rank low on the Global Peace Index, signaling that the current measures remain insufficient (GPI, 2022). The persistent insecurity, therefore, constitutes a significant obstacle to investment and business operations in the country, worsening the already critical economic recession.

1.2 STATEMENT OF THE PROBLEM

Rising insecurity in Nigeria, characterized by terrorism, insurgency, kidnappings, and communal clashes, severely strains the country's investment climate. This hostile environment deters both foreign and domestic investments, with investors concerned about personal safety, property damage, and potential business disruptions. This insecurity leads to a decline in Foreign Direct Investment (FDI), impeding capital flow, job creation, and economic growth. Domestic businesses also face significant challenges, including asset protection and operational continuity, escalating costs and stifling economic diversification. Moreover, Nigeria's perceived insecurity creates a reputational risk, potentially dissuading international partnerships and financial support. Thus, understanding the effect of insecurity on investments in Nigeria is essential (Olubunmi, 2018).

1.2 OBJECTIVE OF THE STUDY

The objective of the research on insecurity and investment in Nigeria is to investigate and analyze the relationship between insecurity and investment climate in the country. The research aims to achieve the following specific objectives:

1. Assess the impact of insecurity on foreign direct investment (FDI) in Nigeria.
2. Examine the effects of insecurity on domestic investment.
3. Investigate the reputational risk associated with insecurity.
4. Identify potential strategies to mitigate the impact of insecurity on investment.
5. Provide recommendations for policymakers, investors, and other stakeholders.

SECTION 2
REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

Concept of Security

The UNDP (1994) defines human security as protection from chronic threats like hunger, disease, and repression, and from abrupt disruptions in daily life. It identifies seven elements of human security: economic, food, health, environmental, personal, community, and political security. Inadequacy in these amounts to insecurity.

Concept of Insecurity

Insecurity, as defined by Beland (2005), involves lack of protection from crime and freedom from psychological harm. Those affected are often unable to protect themselves from unpredictable threats (Achumba and Ighomereho, 2013). Collier (2006) posits that countries with a substantial share of income from primary commodity exports are more prone to conflicts, particularly when education is scarce, population growth is rapid, and economic decline is evident, a perspective supported by Aderoju (2007). Insecurity manifests in various dimensions: Physical insecurity involves absence of personal safety; Social insecurity refers to societal instability due to factors like social unrest, political instability, and discrimination; Economic insecurity pertains to financial instability caused by factors like unemployment and poverty; Psychological insecurity relates to subjective feelings of fear, anxiety, and uncertainty, potentially affecting mental health and self-confidence.

Channels of Influence:

Insecurity influences investor risk perception, creates unfavorable legal and regulatory environments, and hampers the development of physical infrastructure, all discouraging investment. It can also undermine human capital through detrimental effects on education and healthcare, and disrupt market access, negatively impacting investment opportunities.

Patterns and Dimensions of Insecurity

Nigeria confronts a range of insecurities such as armed robbery, kidnappings, political assassinations, ethnic and religious tensions, terrorist attacks like Boko Haram, and violent and non-violent agitations for resource control and self-determination, respectively (Aderoju, 2007). Each presents distinct risks to the polity. High-profile kidnappings and the activities of groups like MEND, Ijaw Youth Council (IYC), Egbesu, and Movement for the Survival of Ogoni People (MOSOP) in the Niger Delta region are particularly notable. Aderoju (2007) links the militancy in the Niger Delta to the 'resource curse'. The root causes of these insecurities are varied and include over-dependence on oil, social inequality, state failure, human rights violations, and corruption, among others. Addressing these underlying issues is critical to tackling insecurity effectively.

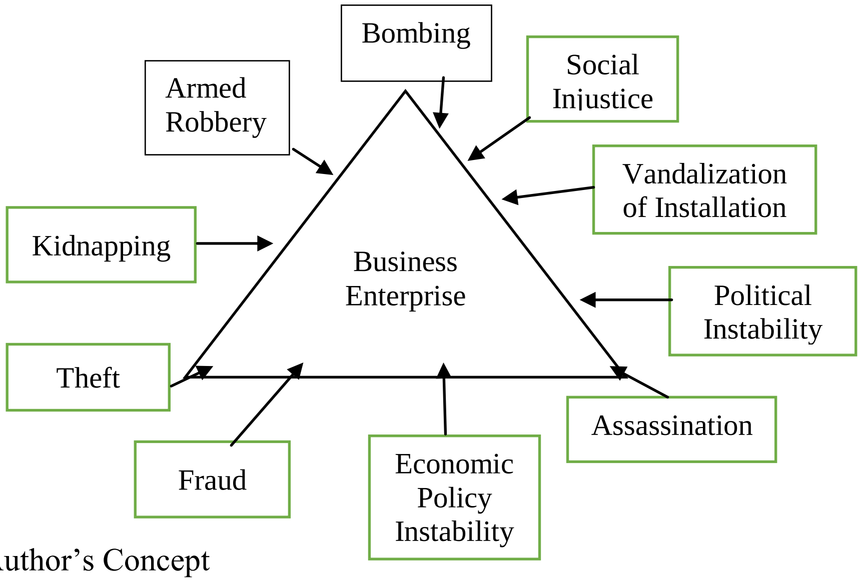
CAUSES OF INSECURITY IN NIGERIA

Nigeria's persistent insecurity, affecting socio-economic and national development, is fueled by both internal and external factors (Ali, 2013; Okorie, 2011; Jega, 2002; Salawu, 2010; Onyishi, 2011; Ezeoba, 2011; Lewis, 2002; Achumba and Akpor 2013). Internally, ethno-religious conflicts, primarily driven by distrust among diverse groups, are a significant insecurity source (Ibrahim and Igbuzor, 2002; Hazen and Horner, 2007; Salawu, 2010; Igbuzor, 2011; Achumba et al. 2013). Resource competitions, power struggles, and perceived marginalization fuel communal violence, further escalating security challenges. The situation is worsened by a weak security system, ill-equipped and ill-trained to address these crises (Achumba and Akpor 2013). Unemployment and poverty, particularly among youth, fuel violent crime (Adagba, et al, 2012; Nwagbosa, 2012). Porous borders allow cross-border crime, smuggling, and armed group infiltration (Hazen and Horner, 2007; Achumba et al. 2013; Edeko, 2011; Adeola and Oluyemi, 2012). Corruption, systemic and political, undermines security efforts, impedes economic growth, and hinders development (Iyare, 2008; Nwanegbo and Odigbo, 2013; Iduh 2011). This confluence of factors profoundly challenges Nigeria's investment climate.

The Insecurity Environment of Business in Nigeria

The insecurity environment of business in Nigeria, characterized by theft, armed robbery, kidnapping, social injustice, unemployment, and bombing, comprises factors affecting business performance but beyond direct control of enterprises. This complexity results in a challenging security environment. This is indicated in Figure 1 below:

Figure 1: The Insecurity Environment of Business

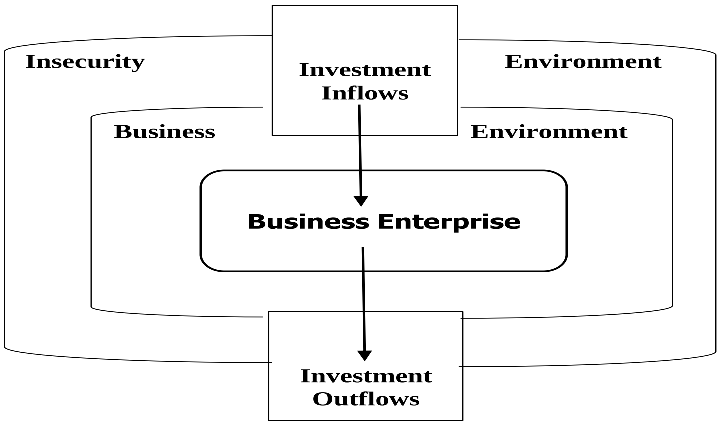


Source: Author's Concept

Insecurity and Investments in Nigeria

The implications of the Nigeria insecurity situation for organizations' business activities cannot be overemphasized. In this paper, we contend that when there is widespread insecurity, it could affect business investment, the entire business organization, or some aspects of its operations which include production, marketing, finance, and human resource (H/R). This is indicated in the figure below:

Figure 2: Impact of Insecurity on Business Activities



Source: Author's Concept

Insecurity significantly impacts investment in Nigeria by eroding investor confidence, disrupting business operations, increasing operational costs, limiting expansion opportunities, and damaging international reputation. The presence of insurgency, terrorism, and kidnapping deters foreign direct investment and discourages domestic investors. Business disruptions and additional security measures result in financial losses, decreased productivity, and reduced profitability. Insecurity restricts business expansion to new regions, hinders overall progress, and damages Nigeria's global image, making it difficult to attract foreign capital and expertise.

2.2 Theoretical framework

The relationship between insecurity and investment is explained by various theories: Rational Choice Theory (Downs, 1957) suggests investors will avoid investment when perceived risks outweigh benefits. Prospect Theory (Kahneman and Tversky, 1979) emphasizes the role of psychological factors and suggests risk aversion due to potential loss in insecure environments. Institutional Theory (Meyer and Rowan, 1977) highlights how a lack of robust institutions in insecure environments increases investment uncertainty. Political Economy Theory explores how political instability and weak governance can discourage investment. Dependency Theory posits that insecure regions face investment challenges due to global power imbalances. Social Capital Theory underscores the importance of social networks, trust, and cohesion for investment, all of which are eroded in insecure environments.

2.3 Empirical Review

Numerous studies have examined the correlation between insecurity and investment in Nigeria. Aderemi et al. (2018) found that increased spending on domestic security coincided with increased Foreign Direct Investment (FDI) inflows. Ukwueze et al. (2019) reported a negative impact of terrorism on FDI, indicating that conflict and military spending hinder FDI. Ebere et al. (2019) revealed a positive correlation between defense spending and FDI inflows, and a negligible one between domestic security spending and FDI inflows. Several other studies (Jelilov, Ozden, and Briggs, 2018; Okonkwo, Ndubuisi, and Anagbogu, 2015; Achumba, Ighomereho, and Akpor-Robaro, 2013; Danjuma, 2021; Abubakar, Tanko, and Mohammed, 2017; Obiekwe, 2018; Onime, 2018; Owolabi and Olumide, 2015; Essien, Tordee, Abuba, and Ogbara, 2015; Olubunmi, 2018; Nwagbala and Ani, 2022; Banigo, 2022; Olasehinde, 2022) identified a negative relationship between insecurity and FDI, emphasizing that insecurity poses a significant challenge to economic growth and investment in Nigeria. However, some studies like Olubunmi (2018) indicated that insecurity has not significantly impacted FDI in Nigeria.

A look at the literature reviewed reveals that the results have been mixed, pointing out that there has not been a consensus on the nature of the influence of insecurity on FDI inflow, plus the fact that the studies have always been on FDI. These create a research gap in the literature, which this study seeks to fill by studying the effect of insecurity on investments in Nigeria.

SECTION 3
METHODOLOGY

3.1 Research Design

The study adopted an exploratory method of study to examine the effect of insecurity on investment in Nigeria as well as the causes of insecurity in Nigeria and also proffer suggestive solutions to arrest the ugly menace.

3.2 Impact of Insecurity on foreign direct investment (FDI) in Nigeria

Insecurity in Nigeria, encompassing violence, terrorism, insurgency, and crime, profoundly impacts Foreign Direct Investment (FDI). It erodes investor confidence, leading to declines in FDI due to perceived risks to investment safety and personnel well-being. Insecurity disrupts business operations, hindering supply chains and increasing costs, thus deterring potential investors. It also impedes infrastructure development and political stability, both critical elements for attracting FDI. Insecurity's adverse effects extend to human capital development, as education and healthcare services become disrupted, producing a workforce less appealing to businesses. Furthermore, persistent insecurity tarnishes Nigeria's international reputation, making it seem a less viable investment option. Therefore, addressing security issues, including law enforcement improvement, counter-terrorism efforts, social cohesion promotion, and investment in infrastructure and human capital development, is vital for Nigeria to restore investor confidence and attract FDI.

3.3 Effects of Insecurity on domestic investment

Insecurity significantly impacts domestic investment in Nigeria. Reduced investor confidence due to instability and crime discourages both domestic and foreign capital commitment, reducing investment. The heightened risk in insecure areas results in higher risk premiums, making investments less attractive and increasing capital costs. Infrastructure development, vital for economic growth, is hindered by insecurity, resulting in a less competitive business environment. Supply chains and operations can be disrupted in insecure regions, escalating costs and reducing efficiency. The brain drain phenomenon, with skilled labor migrating to secure areas, diminishes the local talent pool, affecting productivity and dissuading businesses from investing. Reduced tourism and Foreign Direct Investment (FDI) due to perceived unsafe conditions further impact domestic investment negatively. Therefore, efforts to improve security measures, promote rule of law, and create stable business environments are critical to boost investor confidence and sustain domestic investment

3.4 Reputational risk associated with insecurity

Insecurity, especially concerning data and cybersecurity, can significantly impact an entity's reputation. Incidents like data breaches can lead to a loss of trust, damaging the entity's brand image. Such events often result in negative media coverage, public scrutiny, and backlash, reducing customer loyalty and sales. Additionally, these events can lead to direct financial implications through legal consequences, fines, and the cost of strengthening security measures. Insecurity can also influence stakeholder perception negatively, hindering the ability to attract investors, partners, and employees. Furthermore, organizations with a history of insecurity may face competitive disadvantages, legal and regulatory consequences, and the persistence of negative perception and mistrust. To mitigate these reputational risks, organizations should prioritize robust security measures, effective incident response plans, transparent communication, and continuous investment in cybersecurity awareness and training programs for employees.

3.5 Potential Strategies to Mitigate the Impact of Insecurity on Investment

Mitigating insecurity's impact on investment in Nigeria necessitates various strategies:

1, Political Engagement: Advocacy for enhanced security measures and stability with political leaders and policymakers is crucial.

2, Collaborate with Local Authorities: Form partnerships with local entities to enhance security on the ground, including supporting community policing initiatives.

3, Conduct Robust Due Diligence: Evaluate security risks thoroughly before investing and consult local experts when necessary.

4, Invest in Security Measures: Allocate resources for both physical and cybersecurity within investment projects.

5, Risk Diversification: Spread investments across different sectors, regions, or asset classes to minimize impact.

6, Engage in Public-Private Partnerships: Collaborate with government and private entities to improve security infrastructure and capacity building.

7, Invest in Human Capital: Support educational initiatives and skill development projects to address root causes of insecurity.

8, Support Local Communities: Engage in corporate social responsibility activities to address local community needs and enhance security indirectly.
9, Stay Informed: Monitor the security situation in Nigeria and adapt strategies accordingly.
10, Seek Professional Advice: Consult security experts, legal advisors, and local partners for valuable insights and guidance on managing security risks

3.6 CONCLUSION AND RECOMMENDATION

Conclusion

Security challenges pose threats to lives and properties, impede business activities, and discourage investment, hindering a country's economic growth and development. Hence, national security is crucial for any country's prosperity (Oladeji and Folorunso, 2007).

Recommendations

Addressing the impact of insecurity on investment in Nigeria necessitates strategic actions from policymakers, investors, and stakeholders:
1, Policymakers should enhance security infrastructure, implement policy reforms prioritizing security, encourage public-private partnerships, uphold the rule of law, and promote economic diversification.
2, Investors need to conduct thorough risk assessments, engage in due diligence, diversify investments, partner with local entities, and contribute to corporate social responsibility initiatives.
3, Stakeholders should promote collaboration and information sharing, advocate for security reforms, support capacity building, champion transparency and accountability, and share best practices.

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