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Insecurity and foreign Direct Investment in Nigeria: Is there a Link

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Abstract

The study assessed the impact of insecurity on the level of foreign direct investment in Nigeria. Over the last few years, the rising wave of insecurity in the country has tended to undermine the economic growth performance through its foreign direct investment channel. This resulted in unemployment and poverty, exacerbating the already strained security concerns. The research used the ARDL model using data spanning the years 2000 to 2023. The study indicated that insecurity adversely impacted FDI growth in Nigeria in both the short and long term. The research further revealed that gross domestic product, as a control variable, positively influenced foreign direct investment. The report advised that the government should develop policies and programs aimed at tackling the fundamental causes of insecurity, including ethno-religious strife, institutional and political corruption, and a deficient security apparatus in Nigeria. The government should adopt a proactive approach to address security issues and threats by implementing training, utilising modern intelligence gathering and sharing techniques, enhancing logistics, and deploying advanced technology to manage security challenges, thereby mitigating persistent bombings, robberies, kidnappings, and violent crimes perpetrated by criminals.

KeyWords: Insecurity, Foreign Direct Investment, ARDL Model, Nigeria.

1. Introduction

The central role played by foreign direct investment (FDI) in creating economic development through the provision of capital for investments and advanced knowledge has caused countries to compete fervently to attract FDI inflows, with both developing and developed countries showing increased interest (Ayoola, 2022). In Nigeria, the increased spread of insecurity has significantly disrupted the flow of FDI. Omoniyi et al. (2022) posited that while FDI is seen as the driver of development—by virtue of its provision of critical capital for investment, its role in the strengthening of the competitiveness of firms in host countries, and its provision for better profitability for the host firms through increased innovation and investments in physical and human capital—its expansion continues, however, to be hampered by widespread insecurity. Incoming investors are predisposed towards siting their businesses in areas free of such risks as those linked with lack of stability, insurgency, and violence. The increasing incidents of recent killings, kidnappings, assassinations, raging riots, and corruption are seen as injurious to the progress of development and are therefore antidotes (Gbenga, 2025). Alarming reports on acts of atrocity perpetrated on innocent civilians by masked attackers, among them Boko Haram Islamist terrorists, ISWAP, bandits, and, more recently, Lakaruwa terrorists, among

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other criminal gangs, have featured prominently in the narratives of the mass media and in public discourse.

In the study conducted by Madume and Owulo (2024), they noted that the Nigerian economy is faced with significant security issues, especially the activities in the North East by Boko Haram, inter-communal clashes, as well as criminal activities like kidnapping and banditry in many parts of the country. They posited that these factors have not only resulted in significant loss of lives and property but also nurtured an atmosphere of uncertainty and instability that has effectively discouraged foreign investment. In support of this point, Ayobami et al. (2022) claimed that the prevailing insecurity is a serious threat to the stability of the Nigerian economy, which results in significant losses in lives, property, and infrastructure that negatively impact FDI. Consequently, some economists have proposed that no business or enterprise can succeed in an insecure environment (Onime, 2018; Nusrat, 2022; Madume & Owulo, 2024). The killing of more than 40 students in Mubi, Adamawa State, in 2016, the deaths of 4 students at the University of Port Harcourt in Rivers State in 2017, the killing of over 30 students in Yobe State in 2016, as well as the bombing of the United Nations Building and the Police Headquarters in Abuja in 2010, were serious disincentives to foreign investors.

In modern times, areas like Kaduna, Jos, Maiduguri, Benue, and many other states in the northern region of Nigeria have become hotspots for both local and foreign investors, as well as tourists. The Plateau and Benue regions are currently facing an upsurge in violence. Anecdotal evidence suggests that the current insurgency with Boko Haram has resulted in about 40,000 fatalities since the crisis began about fifteen years ago. Studies reveal that more than 8,000 Nigerians have allegedly been killed in political, religious, and ethnic clashes during the post-election violence that has continued from 1999 to 2023 (Madume & Owulo, 2024). The unprecedented state of insecurity that pervades the country has made it necessary for a large chunk of the country's budget to be used in security endeavours (Achumba et al., 2013). The 1999 Constitution of the Federal Republic of Nigeria clearly stipulates that "The security and welfare of the people shall be the primary purpose of government." Sadly, the government has failed to guarantee a safe and secure environment for the people, property, and the conduct of commercial and economic activities. Increased insecurity in Nigeria has helped to increase crime rates and terrorist attacks in many regions of the country, resulting in negative impacts on the country's economy and commercial development.

As a response measure to the rising crime rates, the federal government signed into law the Anti-Terrorism Act in 2011, effectively criminalising acts of terrorism. Nevertheless, the widespread insecurity in the country has remained on the increase in worrying proportions, illustrated by Nigeria's negative ranking on the Global Peace Index, standing at 144 out of 163 countries in 2024 (Institute for Economics and Peace, 2024). This ranking indicates that Nigeria ranks among the least peaceful countries in the world, as the index considers domestic and global conflicts, internal and external military presence, and the level of militarisation in a given state. Failure by the government to provide a safe environment for the individual, the property, and commercial ventures has fostered frustration and dissatisfaction among investors, creating an environment conducive for communal violence, religious extremism, and criminal activities in different regions of the country, resulting in injuries and losses, interference with

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businesses and business operations, as well as stunting socio-economic progress and development in Nigeria (Okonkwo et al., 2015). Under such circumstances, domestic and foreign investors are in all probability not going to be willing to invest capital in a region fraught with peril and volatility.

Empirical studies have consistently shown a critical inverse relationship between FDI and insecurity in Nigeria. Insecurity, including terrorism, crime, and political instability, tends to deter FDI frequently. The underlying basis for this negative, which prevents FDI from coming in, lies in the belief by investors that more insecurity raises the corporate risks, thus leading to losses and business hassles. This research seeks to explore the effect of insecurity on FDI in Nigeria. The subsequent organisation of the paper involves the literature review in the second part, the methodology in the third part, the fourth part encompassing the analysis of the findings, and the fifth part with the concluding recommendations for adjustment in policies.

2. Literature Review

The definition of insecurity encompasses multiple interpretations, including a lack of security, the presence of threats, uncertainty, and inadequate protection, which can lead to a lack of safety. Beland (2005) defines insecurity as a state of fear or anxiety caused by either a perceived or actual lack of protection. This refers to a lack of a satisfactory level of freedom from harm. Achumba et al. (2013) outline insecurity from two angles. From the first stance, achieving a state of insecurity signifies a state of exposure or susceptibility to harm, further described as the possibility of suffering harm or injury. From the second stance, insecurity is linked to a state of exposure to danger or fear, with the understanding that fear refers to an indefinite, unpleasant feeling expected in the presence of possible adversity. These definitions for insecurity share a common characteristic: the entities or parties involved in insecurity, in addition to having doubt or unawareness towards possible circumstances, are also susceptible to threats and dangers as they surface. This understanding applies to parties involved in business, either directly or indirectly, in a bid to meet the insatiable desires of humans. Trade has therefore taken a central point in the existence of humans on a global and individual level.

On the other hand, FDI refers to the direct investment of capital by a foreign state or entity into productive assets in the domestic economy. Graham and Spaulding (1995) describe it as an institution in one state pursuing physical investment with a view to building a facility in a foreign state. With the rapid development in investment flows over the last decade, the definition has been extended to include the purchase of long-term management interests in a business or operation outside the domestic base of the host firm. Therefore, it may take different forms, such as the outright purchase of a foreign company, building operational facilities, or investment in joint ventures or strategic arrangements with domestic firms, entailing transfers of technology as well as the mobility of intellectual property. Odozi (1995) argues that FDI involves a form of loan or financing with equity participation, forming a mode of investment characterised by a mix of loan and equity financing. This involves the investment of resources, including capital, technology, management and marketing know-how, in the host country. These resources are set to improve the host country's productive potential. Direct investment, regardless of whether it constitutes portfolio investment, refers to the reallocation of resources from surplus territories to deficit regions with a view to reaping returns on investment resources with

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a profit motive. Resource flow can be deterred if the host country's political and socio-economic environment does not favour such investment.

Mohddeeb (2011) defines business as an economic activity involving the regular and systematic manufacture and distribution of goods and services for the purpose of satisfying human needs. Similarly, Henry (2011) defines business as an activity engaged in by persons, individually or in aggregation, to earn or to acquire financial resources by the exchange of commodities. Stephenson (2011) argues that business involves the ongoing manufacturing or procuring and selling of goods, with a view to generating profits and accumulating wealth, in response to human needs. FDI is defined as an investment to establish a lasting managerial interest (minimum 10% voting stock) and obtain at least 10% equity of a business operated outside the home country of the investor. Such investments can take the form of either 'greenfield' investments (i.e., capital expenditures on newly built facilities or plants) or mergers or acquisitions, depending on whether the investment results in the formation of new resources or merely a transfer between foreign and domestic enterprises (Mwilima, 2003). FDI refers to the inflow of capital by foreign investors into the domestic economy. This can lead to a change in ownership from domestic to foreign owners or be for the purpose of improving profit margins and capital investment in a country (Adelopo et al., 2010).

Adeleke (2010) defines it as an investment in physical capital, including tangible assets like the manufacturing industry, land, capital goods, businesses, and inventories. FDI is viewed as an engine of growth, providing necessary finance for investment, stimulating the competitiveness of the host country's firms, and allowing indigenous firms to increase profitability through the introduction of product innovation or investment in physical and human capital (Jelilov et al., 2018). Insecurity hurts the general welfare of the population, according to Adegbami (2013), destroying property, infrastructure, and displacing projects. Achumba et al. (2013) examine the consequences of insecurity on investment in Nigeria, showing that the insecurity issues are both massive and complex, thus hindering investment growth in the country. Ewetan and Urhie (2014) argue that insecurity discourages economic activities and scares off foreign and local investors. Ikpe and Nteegah (2014) posit that social insecurity has become a significant obstacle for Nigeria's states, as it is seen to be negatively related to FDI as well as to economic progress. Adopting the Cobb-Douglas production function as an analytical model for a time series spanning 1981-2010, it is established that social instability encourages the use of foreign technology instead of reducing its usage. This finding may be due to the use of combined data sets relating to the variables under review in the study of social insecurity challenges. Essien et al. (2015) evaluate the contribution of national security to FDI in Nigeria using data for the period 1999 to 2013. The study uses descriptive statistics and establishes that national security plays an important role in discouraging the expansion of FDI in Nigeria.

The effect of insecurity on FDI in the period 2003-2012 was investigated by Owolabi and Ayenakin (2015). Using the Ordinary Least Squares (OLS) approach, their findings depict a negative relationship between FDI and insecurity. Implications of this report highlight the need for practical policy actions to address insecurity in Nigeria, thereby enhancing the economy's attractiveness for FDI. Jelilov et al. (2018) examined the effect of insecurity on investment and socio-economic

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development in Nigeria in the period 2007-2017. With a model having the variables of terrorism index (measuring insecurity), FDI, and oil prices, the study illustrates a significant negative relationship between FDI and the variable of terrorism index (47.5%), as compared with a moderate 2.7% response towards oil price fluctuation. Onime (2018) estimated the effect of insecurity on Nigeria's economic development. Descriptive analysis, based upon secondary information, identifies insecurity as a hindrance to the progress of the economy by discouraging investment, enhancing the rate of unemployment, and lowering revenues for the government. Conclusions derived from the study recommend increased capital investment for internal security.

Ayoola (2022) used a qualitative and descriptive study methodology based on data spanning the period 1999-2014 to evaluate the effect of insecurity on FDI in Nigeria. Using primary data, the study used a purposively chosen sample of respondents, and the findings proved a statistically significant adverse effect of insecurity on FDI over the considered time period. Nusrat (2022), on the other hand, used primary data in addition to a sample of 130 respondents in the study of how far insecurity influences the flow of FDI and the effect on the economic performance in Afghanistan. Based on primary data, the study used a non-probabilistic analytical model. It concluded that insecurity has a profound adverse effect on FDI as well as the general economic performance in Afghanistan.

Omoniyi et al. (2022) used the ARDL approach and VAR methodology to investigate the influence of defence and security on FDI in Nigeria from 1994Q1 to 2019Q4. The findings indicated that FDI is significantly and negatively affected by fluctuations in insecurity and economic instabilityin both the short and long term. In contrast, it positively and significantly responds to changes in trade openness and growth in gross domestic product per capita. The research advised that the government promptly resolve insecurity to boost FDI inflows into Nigeria. Ayobami et al. (2022) evaluated the influence of terrorism on FDI in Nigeria for the period from 2010 to 2020. The research used the OLS method, and the results indicated a statistically significant relationship using a second-order polynomial regression model. The research stated that terrorism significantly adversely affects the economy, hence contributing to the present prevalence of transnational terrorism primarily by groups such as Boko Haram and ISWAP. The report thus advised that the government must use all efforts to eradicate the issue or minimise it to the lowest possible extent in Nigeria.

Madume and Owulo (2024) carried out an analysis on the effect of insecurity on FDI in Nigeria, using a dataset spanning from 2000 to 2022. The researchers used political instability, abduction, and terrorism as proxies for insecurity. Consequently, the authors measured how security perceptions affect investor confidence and the resultant decision-making processes. The authors found that the Ordinary Least Squares (OLS) model identified a significant negative relationship between abduction, political instability, insecurity, and terrorism with respect to FDI in Nigeria. The authors contended that government efforts towards putting in place transparent and credible governance, minimising corruption, enhancing the rule of law, fostering a favourable business environment, and improving the capabilities of security agencies to fight crime and insurgency would significantly enhance the entry of FDI into Nigeria.

Gbenga (2025), in a modern analysis, found that the negative impacts of insecurity on

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economic performance, more specifically on FDI, have undermined important macroeconomic indicators, such as unemployment, poverty, and state revenues. The study focused on the nexus between insecurity and FDI in Nigeria between 2002 and 2023. Using the Autoregressive Distributed Lag model, it was found that insecurity negatively affected the growth of FDI in Nigeria. Also, it was found that gross domestic product had a positive effect on FDI. Policy implications for state action underscore the need for taking a proactive approach towards solving security issues through practical training, improved information gathering and distribution regimes, logistical assistance, and the use of new technologies in security affairs management.

3. The Model

The autoregressive distributed lag (ARDL) model mainly aids in the enhancement of forecasts for short- and long-term periods. This model is deemed suitable for the given context since it supports the use of variables with different lag patterns, given the small sample size of the data, ranging between 2000 and 2023. The three-variable linear model can be written as:

$$FDI = f(NTI, GDP) \qquad (1)$$

In log stochastic term, equation 3.1 becomes:

$$InFDI = \beta_0 + \beta_1 InNTI + \beta_2 InGDP + \mu \qquad (2)$$

Where:
FDI = Foreign direct investment, NTI refers to Nigeria Terrorism Index, and GDP is gross domestic product (a control variable in the model). A negative correlation is expected between FDI and the terrorism index, while FDI is expected to respond positively to variations in GDP. Essentially, the ARDL long-run estimation developed by Pesaran *et al*. (2001) is presented as follows:

$$\Delta InFDI_t = \alpha_0 + \sum_{i=1}^{K} \alpha 1i \Delta InFDI_{t-1} + \sum_{i-1}^{K} \alpha 2i \Delta NTI_{t-1} + \sum_{i=1}^{K} \alpha 3i \Delta InGDP_{t-1} + \beta_1 InFDI_{t-1} + \beta_2 NTI_{t-1} + \beta_3 InGDP_{t-1} + \varepsilon t \qquad (3)$$

Pesaran et al. (2001) assert that when the F-statistic surpasses the upper limit of critical values,the series are cointegrated, indicating the presence of a long-run link. Conversely, if the F-statistic is below the lower limit, cointegration is, by definition, impossible. Nevertheless, the test will provide equivocal results if the F-statistic falls between the two thresholds. If the variables are cointegrated, an unconstrained error correction model will be calculated as follows.ws:

$$\Delta InFDI_t = \alpha_0 + \sum_{i=1}^{K} \alpha 1i \Delta InFDI_{t-1} + \sum_{i-1}^{K} \alpha 2i \Delta NTI_{t-1} + \sum_{i=1}^{K} \alpha 3i \Delta InGDP_{t-1} + \lambda ECT_{t-1} \qquad (4)$$

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In equation 4, λ represents the pace of adjustment, whereas ECTt−1 is the error correction term derived from the projected long-run equilibrium relationship. The coefficient of λ must be negative and statistically significant to confirm the existence of a long-run equilibrium connection between the dependent and independent variables..

4. Results and Discussion

Table 1: Result of Unit Root Test

Augmented Dickey Fuller Test				Phillips-Peron (PP) Test		
Variable	Level	First Diff	Order	Level	First Diff	Order
LGDP	-3.34	-7.19	1	-3.47	-22.3	1
LNTI	-4.10	-	0	-3.77	-	0
LFDI	-2.43	-6.89	1	-2.63	-7.25	1
C.V = 5%	-3.55	-3.56		-3.55	-3.56	

Source: Author's computation using Eview 12.0

Table 1 presents the unit root tests performed at a 5% significance level using the ADF and PP tests, indicating that the national terrorism index was stable at a level, whilst GDP and FDI inflows attained stationarity at first-order differencing. The ARDL model was estimated, and to avoid erroneous conclusions, a series of diagnostic tests was conducted on the data, and the results are provided in Table 2, with the p-values in parentheses. The findings clearly demonstrate that the model meets the diagnostic criteria, exhibiting normal distribution, serial independence, absence of heteroscedasticity, and lack of specification bias.

Table 2: Diagnostic Tests

Diagnostic Tests		Decision
Jarque-Bera (Normality) Test	0.47(0.89)	Normally distributed
Serial Correlation LM test	0.18(0.95)	No serial correlation
ARCH LM Test	0.54(0.67)	No heteroscedasticity
Ramsey Reset Test	0.23(0.88)	No misspecification

Source: Extracted from Eview 12

Likewise, Figs 1 and 2 demonstrated that the models exhibit stability, as the blue line remains within the two key thresholds of a +5 level of significance.

Fig 2: CUSUM Test of Stability

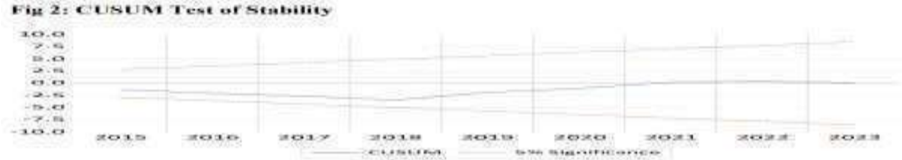

Fig 2: CUSUMSQ Test of Stability

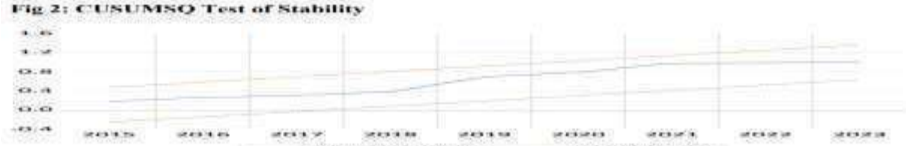

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Table 3 illustrates the bound co-integration test, revealing that the F-statistic of 5.31 surpasses the upper limit value of 3.49, thus indicating the presence of a long-term equilibrium connection between FDI and the explanatory variables.

Table 3: Bound co-integration test

F-Statistic	5% Level	
K	I(0)	I(1)
4	2.56	3.49
F-statistic = 5.31		

Source: Extracted from Eview 12

Table 4 presents the long-term and short-term assessments of the association between FDI and terrorism, serving as a proxy for insecurity. The model has a strong fit, since the R² is robust and explains 79% of the variance in FDI in Nigeria. Similarly, the DW statistic of 1.99 revealed the absence of serial correlation in the models, which supported the series of diagnostic tests. The long-term findings indicate that terrorism has had a substantial adverse impact on FDI in Nigeria. A 1% rise in NTI results in a 0.45% decrease in FDI. Nonetheless, previous levels of FDI and GDP have a positive and considerable impact on present FDI. This suggests that insecurity in Nigeria may hinder progress and must be addressed promptly. The adverse substantial impact of insecurity on FDI corroborates the results of Ayobami et al. (2022), Omoniyi et al. (2022), Madume and Owulo (2024), and Gbenga (2025).

Table 4: Estimation Model
Method: ARDL
Dependent Variable: FDI

Variable	Coefficient	t-statistics	Probability
	Long Run		
Constant	-47.11	-3.82	0.00
FDI(-1)	0.44	3.22	0.00
NTI(-1)	-0.45	-2.86	0.01
LGDP(-1)	4.32	4.25	0.00
	Short Run		
FDI(-2)	0.21	2.69	0.03
NTI(-1)	-0.55	-3.54	0.00
GDP(-1)	0.43	3.89	0.00
ECT(-1)	-0.56	-5.66	0.00
$R^2 = 0.79$			
DW = 1.99			

Source: Computed from Eview 12.0

The short-run results coincidentally reflect the long-run findings, indicating that insecurity negatively and significantly affects FDI. At the same time, GDP and previous FDI have a positive and significant influence on current FDI within the analysed time. The negative coefficient of ECT is appropriately signed and statistically significant, as anticipated in the presence of cointegration between the dependent variable and the regressors. The ECT indicates that a speed of roughly 56% per

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year is required to rectify any imbalance between the short and long runs.

5. Conclusion and Recommendations

The research analysed the effect of insecurity on FDI levels in Nigeria, emphasising that the increasing prevalence of insecurity undermines economic development via its influence on FDI. The research employed econometric methods, specifically the ARDL model, for analysis. The research revealed that insecurity adversely impacted FDI growth in Nigeria, whereas gross domestic product positively influenced FDI.

The results revealed that terrorism in Nigeria constitutes a significant issue and has adversely impacted the economy via its FDI channel. A significant number of foreign investors have departed Nigeria, particularly from the northeast, where the apprehension of Boko Haram prevails. Likewise, the actions of the Niger Delta insurgents have compelled some global oil corporations to leave the area. In the 2024 Global Terrorism Index, the International Criminal Court (ICC) ranked Nigeria as the third most terrorised nation globally for the fourth consecutive year. The country's ranking on the list is ascribed to the escalation of violence perpetrated by herder radicals, along with the many fatalities caused by the lethal terrorist organisation Boko Haram and banditry. The ICC characterized Boko Haram's actions as crimes against humanity, encompassing assaults on women and girls, as well as attacks on educational institutions, educators, and students, exemplified by the abduction of over 300 schoolgirls in Chibok in 2014 and the February 19, 2018 incident involving the kidnapping of 113 girls from the Government Girls' Science Technical College in Dapchi, Yobe State. The organisation subsequently freed 107 hostages, while five allegedly perished during the kidnapping, and one, Leah Sharibu, remains in captivity to date. The analysis indicated that Boko Haram was formerly the world's most lethal terrorist group and continues to be the most active terrorist organisation in Nigeria, as well as the deadliest terror cell in sub-Saharan Africa.

Based on the results, the research proposed the following suggestions. The government should develop and efficiently execute policies and programs that tackle the fundamental causes of insecurity in Nigeria, including ethno-religious strife, institutional and political corruption, and a frail security apparatus. Secondly, the government may create a more effective and results-driven agency to tackle the issues of extreme poverty and unemployment among the broader population, therefore reducing the incidence of crime and violence in the nation. Fourthly, the government must adopt a proactive approach to address security concerns and threats by implementing training, using contemporary intelligence-gathering techniques, facilitating information sharing, optimising logistics, and employing new technology to manage security difficulties. This would enhance the assessment of ongoing bombings, theft, abduction, and other crimes perpetrated by criminals throughout the nation. Ultimately, governments may include security management in the educational curriculum at all tiers of education in Nigeria. This would allow the kids to see the significance of security in a secular state such as Nigeria.

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