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Evaluation of the Impact of Insecurity on the Growth of Nigerian Small and Medium Enterprises (SMEs)

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Abstract: This study evaluates the Impact of Insecurity on the Growth of Nigerian Small and Medium Enterprises (SMEs) using Autoregressive Distributed Lag as the methodology. The study makes use of secondary data from annual observations sourced from the Central Bank of Nigeria adding Global Terrorism Index (GTI), Corruption Perception Index (CPI), Domestic Private Investment (DPI) and Government Capital Expenditure (GCE). Findings from the study reveal that insecurity and government spending on security have a significant impact on Small and Medium Scale Enterprises (SMEs) in Kogi State. For the state's SMEs to thrive, government expenditure and fiscal policies need to be anchored on transparency and integrity, ensuring that public resources are used effectively to enhance national security. In a country like Nigeria, where public spending constitutes a large portion of the economy, increasing such spending, particularly in security can enhance the environment for SMEs by fostering stability and providing a level playing field for the private sector. Therefore, the study recommends that the government should ensure that security expenditure is effectively managed to enhance the security environment in the state and the government should promote a collaborative approach to security and development by engaging the private sector, civil society, and local communities.

Keywords: Insecurity, Small and Medium Scale Enterprises and Autoregressive Distributed Lag

Introduction

Kogi State, often regarded as the gateway to Nigeria's central economic activities, is considered a crucial hub in the nation's trade and economic system. However, this status is now at risk due to the escalating insecurity in the state, threatening its potential and stability. According to Angela et al (2019), insecurity could be referred to as being susceptible to imminent danger which affects individual interest and society's core values, that is; lack of peace, safety and protection as well as exposure to danger in an environment or society due to economic, political, socio-cultural, ethno-religious conflict, inequitable distribution of natural resources, poverty and unemployment, porous border and weak security system among others.

Ewetan and Urhie (2014) define insecurity as a breach of peace and security, civil, social, economic and political that contributes to recurring conflicts and leads to the wanton destruction of lives and property. Achumba, Ighomereho and Akpor-Oboro (2013) described insecurity from two perspectives as a condition of being susceptible to danger and being exposed to risk or anxiety in anticipation of some misfortune which could be caused both internally and externally. Nigeria is presently plagued with heightened security crises manifesting in the form of internal terrorism such as armed banditry, farmers-herdsmen clashes, kidnapping, local crimes, burglary, and insurgency. Unfortunately, while this is resulting in desperate loss of lives in their numbers, it is equally taking a toll on businesses and the country's economy at large. Taopheek Babayeju (2021).

The rising wave of insecurity in Kogi State, which threatens lives, properties, businesses, and economic activities, is deeply concerning. Despite the efforts of the state government, corporate organizations, and concerned individuals to address the issue, insecurity continues to persist, entrenched and resilient. Although the Nigerian government enacted the Anti-Terrorism Act in 2011, enhanced surveillance, and strengthened security agencies, the situation in Kogi State remains severe. The challenges of insecurity in the state are extensive, manifesting in various forms, including armed robbery, kidnapping, abduction, bombings, killings,

maiming, insurgency, youth unrest, ritual killings, pipeline vandalism, internet fraud, advance fee fraud (419), burglary, theft, pilfering, and corruption.

The Ankpa and Anyigba areas in Kogi State especially have witnessed significant robbery incidents in recent years. In Ankpa, a major robbery occurred in September 2022 around 2:30 p.m. when gunmen simultaneously attacked three commercial banks, resulting in the deaths of at least five people. The robbers stormed the banks with dangerous weapons, causing chaos and leaving victims, including two women, dead. The police responded quickly, repelling the attackers, but the robbers managed to flee, abandoning their vehicles. The police have since intensified efforts to capture those involved (ThisDayLive). In Anyigba, a similar robbery took place in March 2024. Armed robbers targeted two commercial banks and also attacked a police station. During the incident, a police officer and a civilian lost their lives. The robbers engaged in sporadic gunfire before fleeing with an unspecified amount of money. The police have vowed to apprehend the criminals, deploying tactical teams to restore calm in the area (Daily Post Nigeria). Both incidents highlight the ongoing security challenges in these areas, making it difficult for SMES to operate in a conducive environment and thrive.

The scourge of insecurity in Kogi State has left many people homeless, creating a growing number of widows, widowers, and orphans, with an increasing rate of internally displaced persons (IDPs) now living in camps across the state. Many of those residing in these camps were once successful business owners, now reduced to relying on the assistance of philanthropists and government agencies for shelter and basic survival. According to the National Bureau of Statistics (2022), small and medium enterprises (SMES) contributed 48% of Kogi State's GDP, accounted for 84% of employment, and made up 96% of businesses within the last five years (2015-2020). Similarly, data from SBM Intelligence shows that between January and November 2020, Kogi State witnessed an increase in criminal activities, particularly linked to insurgency, banditry, and kidnapping. These security challenges, while widespread across Nigeria, have had significant impacts on the North-Central region, including Kogi State. The Global Terrorism Index ranks

Nigeria as the third most terrorized country globally, which reflects the insecurity challenges faced by Kogi State. Kogi State, along with other regions, has seen adverse effects on its economic development, particularly in sectors dominated by Micro, Small, and Medium Enterprises (MSMES). These businesses, being highly vulnerable to attacks, have faced significant risks. Many potential and existing business owners are hesitant to make new investments or expand their businesses due to the severe threat posed by insecurity. In fact, insecurity has created an environment where business owners in Kogi State are reluctant to take calculated risks for growth, leading to economic stagnation.

As observed in other parts of Nigeria, schools, businesses, shopping centres, and places of worship, including mosques and churches, are often deserted during periods of heightened insecurity. The overall impact of insecurity on business operations, social life, and economic growth in Kogi State mirrors the broader national crisis, with devastating consequences for the state's development and business climate.

Adegbami (2013) noted that insecurity has led to the destruction of businesses and properties, equipment, relocation and closing down of businesses. Many business operators who were residing in the northern part of Nigeria have either closed down or relocated their businesses due to Boko Haram insurgents. The incessant clashes between herdsmen and farmers were some other disasters which affected rural dwellers and their farming businesses. Many notorious armed robbers, kidnappers and fraudsters are feeding fat on the hard-earned resources of some unlucky business owners' sweat. Due to advancements in technology, most businesses are now highly susceptible to online fraud and million-naira worth of goods are being carted away from naive and unlucky business operators throughout the globe including Nigeria. The extent to which the various forms of insecurity have affected SMES in Nigeria in recent times is uncertain, hence the study.

According to Business Day, experts highlight that companies in Kogi State spend more on security and logistics than on other core business processes. But how does this impact businesses in the region? Following the laws of demand and supply, when the supply chain is disrupted or severely hindered due to insecurity, there is a reduced supply to meet high demand, resulting in increased prices. In addition, to mitigate the risks of loss, businesses are forced to raise the prices of their products or services, responding to the elevated costs of production. It's no surprise, then, that inflation rates have been on the rise in Kogi State.

Many SMES in Kogi have struggled to continue operations because the persistent violence has driven up the costs of inputs and contributed to inflation. The insecurity challenges often result in the temporary closure of SME activities, particularly during peaks of violence. In severe cases, some businesses have had to shut down entirely, especially in areas where insecurity is widespread and

frequent. The study by Asogwa (2021), Onyekwelu (2021) and Azubike (2021) specifically analyzed the implications of security challenges on SME performance in Nigeria, using data from the Global Terrorism Index (GTI) and the Nigeria Bureau of Statistics (NBS). The research highlighted that insecurity, including terrorism and insurgency, negatively impacts SME performance, thereby calling for the implementation of effective security measures and government policies to address these challenges. In Kogi State, this situation has significantly damaged the region's image, making it less attractive to both domestic and international investors. As a result, Kogi no longer offers the welcoming and stable environment necessary for the smooth operation of business activities.

Despite government efforts to deny or downplay the negative impact of insecurity on SME development in Kogi, the reality on the ground is different. The government continues to promote investment opportunities without providing an accurate picture of how security challenges are stifling business growth in the region. In times of crisis and uncertainty, people naturally prioritize basic survival needs like food, clothing, and shelter, but insecurity forces them to divert income meant for these needs towards protecting themselves and their businesses, thereby lowering the standard of living. This reduced demand, driven by falling per capita income, disrupts the delicate balance of supply and demand.

Kogi, like the rest of Nigeria, has seen multiple governments confront various security threats. However, the true extent of these threats has often been concealed or underreported. Meanwhile, the government continues to encourage investors with the hope that insecurity does not significantly affect businesses. Given this context, it is crucial to evaluate how insecurity impacts the operations and development of SMES in Kogi State. This study is based on that premise, seeking to answer key questions related to the effects of insecurity on business activities in the region.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Concept of Insecurity

Insecurity is a feeling of inadequacy (not being good enough) and uncertainty. It produces anxiety about your goals, relationships, and ability to handle certain situations (Bhandari, 2022). Moreover, insecurity is a common feeling that nearly all people will experience at some point, and it can stem from numerous sources. Generally, it presents as a lack of confidence, anxiety, and uncertainty (Patterson and Troy, 2022). Insecurity only portrays the absence of security. Achumba, Ighomereho and Akpor-Robaro (2016) would term insecurity as "the antithesis of security."

They further acknowledged that due to the many ways insecurity affects human life and existence, the concept of insecurity has been variously interpreted. There are

some common descriptors used to define insecurity, they include: "want of safety; danger; hazard; uncertainty; want of confidence; doubtful; inadequately guarded or protected; lacking stability; troubled; lack of protection; and unsafe, to mention but a few" (Achumba et al, 2016). Beland (2015) would describe insecurity as "the state of fear and anxiety stemming from a concrete or alleged lack of protection." This description notwithstanding, Achumba et al (2016) gave a working description of insecurity that was adopted by this paper, as: "not knowing, a lack of control, and inability to take defensive action against forces that portend harm or danger to an individual or group, or what make them vulnerable. This insecurity nurtures the phenomenon of terrorism. Little wonder, Oriakhi and Osemwingie (2015) purported that insecurity and terrorism are two inseparable phenomena. They argued that domestic terror and other social vices are perpetrated in the absence of a strong security structure. This has been the case in Kogi State for some time now.

2.1.2 Small and Medium-Scale Enterprises

African SMES are defined based on size, employment, and financial thresholds. One widely used definition is provided by the African Development Bank (AfDB), which classifies microenterprises as those with less than ten employees, small enterprises as those with 10-49 employees, and medium-sized enterprises as those with 50-99 employees. (African Development Bank, 2020). In Nigeria, SMES are defined based on their asset base, workforce size, and annual turnover. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) provides the following classification: Micro Enterprises: Asset base not exceeding ₦5 million and employing less than ten people. Small Enterprises: Asset base between ₦5 million and ₦50 million, employing 10 to 49 people. Medium Enterprises: Asset base between ₦50 million and ₦500 million, employing 50 to 199 people (SMEDAN, 2018).

2.2 Theoretical Review

The main objective of criminology is to develop reliable and accurate theories of crime causation, while the major objective of sociology is to comprehend and explain social processes. Two theories will be used in this research: the victimization theory (lifestyle theory) and the crime causation hypothesis (social exchange theory).

Social exchange Theory

The rational choice method, which sees "human attitude as being guided by hedonistic principle or pleasure-seeking" inclination, is the root of social exchange theory, which was first proposed by George Homan in 1961 (Ibrahim & Mukhtar, 2017). Homan's primary area of study was the history of the benefits and costs that influence human behaviour. In essence, according to Homan's argument, people keep doing what they have historically found to be fulfilling. On the other hand, they stop performing things that have previously proven to be expensive. We must comprehend a person's past benefits

and expenses in order to comprehend their attitude. Exchange theory can be used to understand kidnapping and the payment of a ransom for the release of hostages as a unique form of give and take. Because the kidnappers demand money or anything other than money, this kind of crime has a reciprocal quality that involves give and take (Ibrahim & Mukhtar, 2017).

Lifestyle Theory

Lifestyle theory is the second explanation that should be applied to explain kidnapping, banditry, and Boko haram in Nigeria. The main tenet of lifestyle theory is that people who lead high-risk lifestyles are more likely to become victims. According to the argument, going to unsafe places increases the probability of victimization because it puts oneself at risk (Siegel, 2010). Therefore, residing in an urban location, going out late at night in public places, and forming social connections with young men all raise the likelihood of being a victim. On the other hand, remaining at home at night, relocating to a remote location, avoiding public spaces, increasing one's income, and getting married can all lower one's risk of being a victim (Siegel, 2010). The tenet of lifestyle theory is that crime is a result of the lifestyle of the affected individual rather than an isolated incident. For instance, college campuses are home to sizable populations of young women who may be more vulnerable to rape and other forms of sexual assault than women in the general public because of their lifestyle and demographic makeup.

Psychological (Individual) Empowerment

Developed by Conger and Kanungo in 1988, this theory focuses on individuals' perceptions of control, competence, and impact. It suggests that empowerment is rooted in individuals' beliefs about their ability to influence their environment and outcomes. These perceptions influence self-efficacy, sense of autonomy, and meaningful participation. Research related to psychological empowerment has focused on perceived control and citizen participation. Perceived control refers to a person's internal belief about how their role influences the achievement of some outcome.

The outcome can be avoidance or goal achievement oriented. Perceived control is critical to understand because people react differently to situations, they believe they have suffered. Weight control is compared to when the situation is uncontrollable or lacks control. This factor also influences a person's social and political standing, and more control leads to better livelihood and personal well-being. This makes it fitting to bind perceived control into three domains- personality, which focuses on locus of control; cognitive refereeing to self-efficacy; and motivation, which relates to intrinsic needs.

2.4 Theoretical Framework

Contingency theory is chosen to underpin this study, and it is fully explained below:

2.4.1 Contingency Theory

The Contingency theory, pioneered by Lawrence and Lorsch (2017), revolves around two central tenets. The first asserts that there's no one-size-fits-all approach to organization. The second posits that distinct organizational strategies yield varied effectiveness levels, as emphasized by Galbraith (2013). At its core, the theory suggests that organizations that adeptly align their internal mechanisms with their external milieu tend to be more resilient, as pointed out by Scott in 2022. The alignment between an entity's structure and its operational context is pivotal for its success, as highlighted by Burns and Stalker (2021), and Donaldson (2022).

With external policies like Currency Swap (redesign) potentially influencing SME performance, it's critical to understand that performance metrics are shaped by a synergy of both internal and external elements. The Contingency theory underscores the need for harmonizing internal and external contexts to bolster business outcomes.

2.5 Empirical Review

Jimoh et al (2023), in their study, the effect of insecurity on small medium enterprises performance in Kaduna state, Nigeria. The study employed a cross-sectional survey design. Information from a sample of 363 SMES was collected. The study analyzed the collected data by using multiple regression analysis. The results of the study revealed that kidnapping significantly impairs the functioning of SMES. Furthermore, results showed that the performance of SMES is significantly impacted negatively by the resurgence of Boko haram. However, the result shows that the performance of SMES is significantly harmed by banditry activities. The study suggests that the government should eradicate the Boko haram resurgence; moreover, the government should invest in the armed forces and make a concerted effort. Those policy options will enable SMES to function better. The research is limited to Kaduna State, and its findings do not globalize to other regions in Nigeria with different security challenges and economic conditions.

Musa (2023) examined the effect of insecurity on small and medium enterprises (SMES) operations and socio-economic development of Yobe State, Nigeria. The study employed a primary source of data through an applied survey instrument. The collected data were analyzed by using partial least squares (PLS-SEM) path modelling further, the results of the study revealed that turnover, profitability, access to the market and access to finance are positively related to the business performance of SMES. The study identifies relationships between insecurity and business performance but does not delve into strategies that SMES can adopt to mitigate these impacts or the effectiveness of current interventions.

Attah et al (2023), examined the effect of the Re-Emergence of militancy on small and medium enterprises (SMES) in the Niger Delta Region of Nigeria. The study

employed a primary source of data, information was collected through a purposive sampling technique. The study analyzed the collected data using a simple linear regression model. Furthermore, the results of the study provided a better understanding of the impact of Niger Delta militants on SMES, and this indicated both direct and indirect costs of militant such as kidnapping, bombing, assassination, rubbery and road blocking. Furthermore, the study recommends some suggestions in post-amnesty, the government should legitimize and strengthen its leadership through better management. The research focuses on the Niger Delta Region, potentially limiting the applicability of its findings to other regions in Nigeria.

Asogwa et al (2022) investigated the effects of security challenges on the Business sustainability of SMES in Nigeria. The study is a quantitative research design; data were collected from secondary sources. Information from the Global Terrorism Index (GTI) and Nigeria Bureau of Statistics on Boko Haram, Kidnapping and Armed rubbery operations. The study employed econometrics models in analyzing the collected data. Firstly, the diagnostics test was conducted using the Augmented Dickey-Fuller unit Root Test and co-integration test which showed a long-term relationship between security challenges and SMES in Nigeria. Furthermore, the results of the study showed negative and insignificant effect of insecurity challenges on the performance of SMES in Nigeria. Moreover, the study recommended policy suggestions. The Federal Government should put measures to address insecurity challenges, Federal Government should create National Guard intelligence personnel and Special Forces with special training in counter-terrorism strategies. Tactics asymmetries warfare and desert warfare that can combat insurgency and other related crimes. The study does not differentiate the effects of security challenges across various sectors within the SME landscape.

Lanwan, Nura, and Sadah (2022), in their study, An Assessment of the impact of Boko Haram insurgency on small and medium enterprises (SMES) in Gombe state, Nigeria: Challenges and prospects. The study employed applied survey research instruments to collect data. The study analyzed collected data by adopting partial Least squares (PLS-SEM) path modelling. Further, the study conducted a Reliability and Structural modelling test. Furthermore, the result of the study showed that turnover, probability, access to market and finance are positively related to business performance during the insurgency. The study does not fully address the period of 2023, potentially missing the latest developments and impacts of the Boko Haram insurgency on SMES in Gombe State.

Endris et al (2022), examined the role of micro small and medium enterprises (MSMES) in the sustainable development of sub-Saharan Africa and challenges: a systematic review of evidence from Ethiopia. The study focuses on Ethiopia, and while it provides insights into

the role of MSMEs in sub-Saharan Africa, the findings may not be directly applicable to Nigeria or other specific countries in the region.

Adegoriola and Adoiphus (2021), in their study, the impact of insecurity on small and medium-scale enterprises (SMES) in Nigeria. The study employed a secondary source of data. The study analyzed the collected data by using the error correction model (ECM). The independent variables of the study were the insecurity index (INS) and Budgetary Allocation to Defense (BAD) on security and the Dependent Variables were SMES. The result of the study revealed that budgetary allocation to defence (BAD) has a positive and statistically insignificant impact on SMES. Moreover, insecurity index (INS) has a positive and statistically significant impact on SMES. Furthermore, studies suggest that the government should ensure security expenditure is properly managed and promote infrastructure development. The study may generalize findings across Nigeria without considering regional differences in the level of insecurity and its impact on SMES.

Haasaan, Akor, & Bamiduro (2020), in their study, the impact of government policy and the insecurity situation on the productivity of SMES in Nigeria. The study employed a survey research design, data was collected from 590 SMES, study analyzed collected data by using multinomial logistic regression. Furthermore, the results of the study showed that the government policy of multiple taxes caused costs to rise for MSEs which indicates an adverse significant impact on MSE's Productivity. Further, government policy has an insignificant effect in promoting SMES. Moreover, insecurity has no significant adverse impact on SMES' productivity. However, the study recommends that the government should harmonize taxes; the insecurity situation should seriously be attention to prevent from degenerating into a worse state. The study does not cover recent periods, potentially missing recent developments and trends.

Oriazawanan and Erah (2019), investigated the effect of insecurity on micro, small and medium enterprises (MSMEs) Development in Benin-city, Edo State, Nigeria. The study adopted a descriptive survey of research design. Data were collected from a population of MSMEs registered with the government with the aid of a structured questionnaire. The data collected were analyzed using descriptive statistics such as mean average and standard deviation. The results of the study revealed that there is a low rate of insecurity in MSE operations in Benin-city but the operators reduced their productive hours by closing early for fear of attack by hoodlums and criminals. However, insecurity has adverse consequences on business. Furthermore, the study recommended that stakeholders should intensify efforts to bridge the gap in the security lapses, also there is an urgent need for government to ensure that all security service providers work hard, moreover, policy should be formulated which will nip the problem in the to enable

MSMEs thrive. The study was conducted in 2019 and does not cover down to 2023, which includes significant recent events such as the COVID-19 pandemic and other socio-political changes.

Additionally, Shuaibu, Salleh, and Shehu (2015) discovered that hotels with a history of kidnappings incur greater costs for security measures including bodyguards, armoured vehicles, and intelligence services. Investment by hotel companies with access to alternative markets should be less susceptible to kidnappings than investment by hotels that sell in local markets alone (Shuaibu, Salleh & Shehu, 2015). Kidnappings further diminish investment through a fall in local consumption. The study mentions increased security costs and decreases local consumption but does not quantify these impacts in terms of financial losses or market share.

Adebayo, Alheety & Yusoff (2019) revealed that SMES' capacity to export in Southwest Nigeria is more likely to be influenced by factors including SME owners'/managers' age group, level of education and previous exporting experience, along with firms' attributes including business registration status, source of raw materials, access to bank loans, government incentive supports and collaboration with foreign partners. The study stressed, among others, the need for the government to support SMES' capacity building in the country so that they can contribute to the growth of the economy significantly. The study's findings do not reflect recent developments or changes in factors influencing SMES' export capacity since 2019.

Abehi, O. (2017) evaluated Small and Medium Scale Enterprises (SMES) as a strategy for employment generation in Nigeria using selected manufacturing companies in Delta State of Nigeria. The study found among others that finance is a factor affecting the ability of SMES to contribute to employment generation in Nigeria. This fits into the argument that SMES have weak capital base which affect their scale of production and hence employment generation capacity. The study focuses specifically on manufacturing companies in Delta State, which do not fully represent the diverse SME landscape across different sectors in Nigeria.

Ibrahim & Mustapha (2019) looked at the determinants of small and medium enterprises' performance in Kogi State with particular focus on government policies and found that government support policies influence entrepreneurial orientation and contemporary marketing drive. It suggests that the various support given to the SMES has a way of making them feel important in the economy and pushes for the marketing of their products to compete favourably in the marketplace. While the study suggests that government support enhances SMES' marketing capabilities, it may not quantify or measure the actual impact on SMES' competitiveness in the marketplace.

Attah & Angioha (2019). examined factors affecting the growth of micro business in Calabar, Cross river state,

Nigeria based on cross sectional survey research design for selected 287 business owners from 4 areas in Calabar. They employed purposive sampling techniques, and the result showed that Lack of microcredit and crime significantly affects the growth of micro business in Calabar and thus recommended that the government should improve on the metropolitan security architectural network to curb urban crime and insecurity. The study focuses specifically on Calabar, Cross River State alone, which is not fully the representation of the challenges faced by micro businesses in other regions of Nigeria.

The study by Tahir & Inuwa (2019) on Factors Affecting Micro, Small and Medium Scale Enterprises Performance in Borno State was based on a survey of 84 Micro Small Medium Enterprises operators in Maiduguri. The results from the Exploratory Factor Analysis, Correlation and Multiple Regression Analysis show that insecurity and inadequate infrastructural facilities are the most significant factors affecting MSMES performance in Borno state. This highlighted the need for concerted effort on the part of the government to provide better security for economic activities to thrive in the country. The study was conducted in 2019 and does not reflect recent developments or changes in factors affecting MSMES' performance in Borno State, particularly considering the evolving security situation and infrastructure development.

Hassan, Klaiber & Sheldon (2020) investigated the impact of science parks on small-and medium-sized enterprises' productivity distributions in Taiwan and South Korea. The study Used estimates of firm-level total factor productivity to analyze the science park sorting and selection behaviour of Taiwanese and South Korean SMES and found heterogeneity in location choice of SMES due to the economic environment of science parks. This suggests that science parks, (a kind of industrial cluster) can generate real productivity improvements if the incentives are reinforced through national-level policies; otherwise, such incentives may end up protecting inefficient firms. The study focuses on science parks in Taiwan and South Korea, which are economically developed countries with specific institutional and economic contexts than Nigeria.

The literature gaps identified across various studies on the impact of insecurity on SME development in Kogi State underscore the need for updated, regionally specific, qualitative-enriched, and policy-oriented research. This research aims to fill these gaps by providing current insights into how insecurity uniquely affects SMES in Kogi's evolving socio-economic landscape, thereby contributing actionable recommendations for policy interventions and sustainable development strategies.

3.1 Research Design

The Autoregressive Distributed Lag was used as the methodology. The study makes use of secondary data from annual observation were sourced from Central Bank of Nigeria adding Global Terrorism Index (GTI),

Corruption Perception Index (CPI), Domestic Private Investment (DPI) and Government Capital Expenditure (GCE)

3.2 Methodology

This study is based on the analytical research design to examine the assessment of the effect of insecurity on the development of small and medium enterprises (SMES) in Nigeria. Secondary data will be used, sourced from the Central Bank of Nigeria (CBN) statistical bulletin and National Bureau of Statistics (NBS) publication. The data required are the Insecurity Index, Global Terrorism Index (GTI), Corruption Perception Index (CPI), Domestic Private Investment (DPI) and Government Capital Expenditure (GCE). The study period covers. The methods of analysis include Unit Root Test, Bound Test for Cointegration, Long Run ARDL, and Error Correction Model.

3.3 Model Specification

In order to examine the assessment of the effect of insecurity on the development of small and medium enterprises (SMES) in Nigeria, the study adopted the model of Davis (2018) and was modified by adding Global Terrorism Index (GTI), Corruption Perception Index (CPI), Domestic Private Investment (DPI) and Government Capital Expenditure (GCE)

$$SMES = f(INS, DPI, GCE, CPI, GTI) \quad (1)$$

Where.

SMES = Small and Medium Scale Enterprises
 INS = Insecurity (Defined by the global terrorism index)
 DPI = Domestic Private Investment
 GCE = Government Capital Expenditure
 CPI = Corruption Perception Index
 GTI = Global Terrorism Index

$$\Delta SMES_t = \beta_0 + \beta_1 \Delta INS_t + \beta_2 \Delta DPI_t + \beta_3 GCE + \beta_4 CPI + \beta_5 GTI + UI_t \quad (2)$$

Where.

β_0 = Intercept β_1 and β_2 = Partial slopes of the linear regression β_3 is the error correction mechanism μ = Stochastic error term.

A' priori Expectation

This defines the theoretical expectation about the sign and magnitude of the parameters of the specified model. The a'priori expectations are determined by the principle of economic theory guiding the economic relationship among variables under study. It is expected that $\beta_1 < 0$, $\beta_2 > 0$ that is insecurity should have a negative impact on SMES while expenditure on security should have a positive impact on SMES.

3.4 Variables Measurement.

Insecurity: Insecurity is a situation that arises in an environment where life and properties of individual or an entity is not safe or cannot be properly safeguarded as a

result of different forms of threats from the same environment.

Small and Medium Scale Enterprise (SMES): They can be referred to as enterprises with a total capital base of over 1.5 million Naira but not more than 500 million Naira including working capital but excluding the cost of land and labour size of 11–100 workers. While a medium scale enterprise are enterprises with a total capital base of over 50 million Naira but not more than 500 million Naira including working capital but excluding the cost of land and/or a labour size of 101–300 workers (Daniel et al., 2020).

Development: Development is the growth of something such as a business or an industry. However, a development is an event or incident which has recently happened and is likely to have an effect on the present situation

Gross Private Domestic Investment: Gross private domestic investment, or GPDI, is a measure of the amount of money that domestic businesses invest within their own country. In other words, it's a measure of how much landlords and businesses are spending on things like inventory, new buildings, machinery, and other equipment. GPDI constitutes one component of GDP,

which politicians and economists use to gauge a country's overall economic activity.

Assessment: The term assessment refers to the wide variety of methods or tools that are used to evaluate, measure, and document the readiness, performance, outcome of an individual, entity, event or situation.

Effect: A change which is a result or consequence of an action or other cause

Capital Expenditure: Capital expenditure or capital expense is the money an organization or corporate entity spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land. It is considered a capital expenditure when the asset is newly purchased or when money is used towards extending the useful life of an existing asset, such as repairing the roof.

Corruption: Corruption can be defined as the abuse of entrusted power or privileges for selfish or private gain.

4.1 Data Presentation

This chapter presents the result of the findings for the study, starting from describing the data set using different descriptive statistics tools followed by analyzing the data. ADF unit root was conducted, followed by checking for cointegration using the F-bound test then estimating the long run and short run relationship test.

Table 4.1.1: Facts and Figures on SMES in Kogi State

Category	Details
Contribution to the Economy	SMES contribute 48% of Kogi State's GDP (National Bureau of Statistics, 2022).
	SMES account for 84% of employment in Kogi State.
	SMES constitute 96% of businesses within the state.
Insecurity Challenges	Types of Threats: Armed robbery, kidnapping, abduction, insurgency.
	- Temporary closure during violent periods.
	- Permanent shutdowns in severely affected areas.
	- High costs on security and logistics surpassing operational expenses.
Economic Consequences	- Inflation due to disrupted supply chains, reducing product availability and increasing prices.
	- Reduced investments as business owners hesitate to expand in insecure areas.
Criminal Activities	- Significant rise in insurgency, banditry, and kidnapping between January–November 2020 (SBM Intelligence).
	- Decreased local and international investment due to insecurity.
	- Relocation of businesses, further contributing to economic decline.
Government Response	Efforts to improve security have not yet created a stable environment for SME growth.
	Lack of adequate protection and heavy financial burdens hinder SME expansion.

Source: Project Survey, 2024.

4.2 Analysis and Interpretation

Descriptive Statistics

	CPI	DPI	GCE	GTI	SMES
Mean	22.87500	6412.417	1066.213	6.992083	18937210
Median	24.50000	6255.500	879.3900	8.040000	9900000.
Maximum	28.00000	12200.00	2432.140	9.310000	42800000
Minimum	10.00000	1430.000	239.4500	3.200000	8100000.
Std. Dev.	4.848240	3517.981	677.6796	1.975740	15261056
Skewness	-1.320483	0.109754	0.675619	-0.673807	0.910473
Kurtosis	3.870229	1.686201	2.195805	1.965392	1.840143

Jarque-Bera	7.732003	1.774251	2.472573	2.886476	4.661113
Probability	0.020942	0.411838	0.290461	0.236162	0.097242
Sum	549.0000	153898.0	25589.11	167.8100	4.54E+08
Sum Sq. Dev.	540.6250	2.85E+08	10562742	89.78160	5.36E+15
Observations	24	24	24	24	24

Source: Data Analysis, 2024

where: CPI = Corruption Perception Index, DPI = Domestic Private Investment, GCE = Government Capital Expenditure, GTI = Global Terrorism Index and SMES = Small Scale and Medium Enterprises

The table above presents various descriptive statistics for five key variables: Corruption Perception Index (CPI), Domestic Private Investment (DPI), Government Capital Expenditure (GCE), Global Terrorism Index (GTI), and Small and Medium Enterprises (SMES). The mean values of these variables indicate the central tendency over the observations. The average CPI is 22.88, DPI is 6412.42, GCE is 1066.21, GTI is 6.99, and the average number of SMES is 18,937,210. Median values show that half the data points are above and half below these values, with CPI at 24.5, DPI at 6255.5, GCE at 879.39, GTI at 8.04, and SMES at 9,900,000. This indicates a notable difference between the media and means for SMES, suggesting potential skewness.

Data Analysis

ADF unit root test

Variable	ADF Unit root test				
	Level		First difference		Order of Stationarity
	Constant	Constant with trend	Constant	Constant with trend	
log_CPI	0.1082	0.0037	0.2015	0.0000	I(0)
log_DPI	0.0000	0.9916	0.9034	0.1566	I(0)
log_GCE	0.6542	0.0087	0.0008	0.0055	I(0)
log_GTI	0.1177	0.9980	0.4651	0.0389	I(1)
log_SMES	0.8828	0.6052	0.0012	0.0061	I(0)

Source: Data Analysis, 2024

The Augmented Dickey-Fuller (ADF) unit root test results provide insights into the stationarity of the variables. Stationarity is crucial in time series analysis, as it ensures that statistical properties such as the mean and variance remain constant over time.

For log_CPI (Corruption Perception Index), the p-values at the level are 0.1082 with a constant and 0.0037 with a constant and trend. Since the p-value with a trend is below the 0.05 significance level, we reject the null hypothesis of a unit root, indicating that log_CPI is stationary at the level when considering a trend, denoted as I(0). Log_DPI (Domestic Private Investment) shows p-values at the level of 0.0000 with a constant and 0.9916 with a constant and trend. The p-value with a constant is below the 0.05 significance level, allowing us to reject the null hypothesis of a unit root. This means that log_DPI is stationary at level with a constant, also denoted as I(0).

The Standard deviation, a measure of dispersion, further emphasizes the variability. SMES, with a standard deviation of 15,261,056, shows the highest variability, while GTI has the lowest standard deviation at 1.975740. Skewness values indicate the asymmetry of the data distributions. CPI and GTI are left-skewed, suggesting more frequent lower values, while DPI, GCE, and SMES are right-skewed, indicating more frequent higher values.

Kurtosis values provide insights into the "tailedness" of the data distributions. CPI, with a kurtosis of 3.870229, is leptokurtic, indicating more frequent extreme values or outliers. In contrast, the other variables exhibit platykurtic distributions with fewer outliers. The Jarque-Bera test, which assesses normality, shows that only CPI has a significant result (probability = 0.020942), suggesting it does not follow a normal distribution. Other variables, with higher probabilities, do not reject the hypothesis of normality.

For log_GCE (Government Capital Expenditure), the p-values at the level are 0.6542 with a constant and 0.0087 with a constant and trend. The p-value with a trend is below 0.05, indicating that log_GCE is stationary at a level with a trend, denoted as I(0). This suggests that both log_CPI and log_GCE are stationary at level when trends are considered. The results for log_GTI (Global Terrorism Index) show that the p-values at the level are 0.1177 with a constant and 0.9980 with a constant and trend, both above 0.05. This indicates that log_GTI is not stationary at level. However, at the first difference, the p-values are 0.4651 with a constant and 0.0389 with a constant and trend. The p-value with a trend at the first difference is below 0.05, indicating stationarity. Therefore, log_GTI is stationary at first difference with a trend, denoted as I(1).

Log_SMES (Small and Medium Enterprises) has p-values at the level of 0.8828 with a constant and 0.6052 with a constant and trend, both above 0.05. This indicates non-stationarity at level. However, at the first difference, the

p-values are 0.0012 with a constant and 0.0061 with a constant and trend, both below 0.05. This means log_SMES is stationary at first difference, denoted as I(0).

In summary, the ADF unit root test reveals that log_CPI, log_DPI, and log_GCE

are stationary at their levels, while log_GTI and log_SMES are stationary at their first differences. The result of the unit root shows that the variables are mixed in stationarity (order one and zero). This calls for the adoption of the ADRL model.

Bound Test for Cointegration

F-Bounds Test		Null Hypothesis: No levels of relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	8.554272	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

Source: Data Analysis, 2024

The Bound Test for Cointegration results above indicate whether there is a long-term equilibrium relationship among the variables in the model. The null hypothesis for this test is that no such level relationship exists, meaning that the variables do not cointegrate. In this analysis, the test statistic is an F-statistic with a value of 8.554272. The significance of this F-statistic is compared against critical values at various significance levels to determine if we can reject the null hypothesis.

At the 10% significance level, the critical values for the lower bound (I(0)) and upper bound (I(1)) are 2.2 and 3.09, respectively. Since the F-statistic of 8.554272 is higher than both these values, we reject the null hypothesis at this level. Similarly, at the 5% significance level, with critical values of 2.56 (I(0)) and 3.49 (I(1)), the F-statistics

again exceed both bounds, leading to the rejection of the null hypothesis. This pattern continues at the 2.5% significance level, where the critical values are 2.88 (I(0)) and 3.87 (I(1)), and at the 1% significance level, with critical values of 3.29 (I(0)) and 4.37 (I(1)). In all cases, the F-statistics are significantly higher than both the lower and upper bounds.

The consistent rejection of the null hypothesis across all conventional significance levels indicates strong evidence of cointegration among the variables. This means that there is a long-term equilibrium relationship between the variables, suggesting they move together over time despite short-term fluctuations. Such a relationship implies that any short-term deviations will be corrected over the long run, maintaining a stable equilibrium.

Long run ADRL test

Levels Equation				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG_CPI	-1.688248	3.742625	-0.451087	0.7302
LOG_DPI	1.558921	1.830254	0.851751	0.5509
LOG_GCE	0.148978	0.559060	0.266479	0.8342
LOG_GTI	-1.626426	2.355905	-0.690362	0.6153
C	11.58617	8.029930	1.442873	0.3858

Dependent variable: SMES

The Long Run Autoregressive Distributed Lag (ARDL) test results, which examine the relationship between Small and Medium Enterprises (SMES) and several independent variables (LOG_CPI, LOG_DPI, LOG_GCE, LOG_GTI) under a model with a restricted constant and no trend, provide valuable insights into their long-term associations. The goal is to understand how these variables influence SMES over an extended period

LOG_CPI (Corruption Perception Index) shows a coefficient of -1.688248, suggesting a negative relationship with SMES. However, the statistical analysis indicates that this relationship is not significant, as evidenced by a t-statistic of -0.451087 and a high p-value

of 0.7302. This implies that changes in the Corruption Perception Index do not have a reliable impact on the long-term behaviour of SMES in this model. The high p-value suggests that the data does not provide enough evidence to reject the null hypothesis of no effect.

LOG_DPI (Domestic Private Investment), with a coefficient of 1.558921, indicates a positive relationship with SMES. Nevertheless, this relationship is also not statistically significant, as reflected by a t-statistic of 0.851751 and a p-value of 0.5509. This means that variations in Domestic Private Investment do not significantly influence SMES in the long term. Despite the positive coefficient suggesting a potential beneficial impact of DPI on SMES, the lack of

statistical significance means this impact cannot be confidently asserted based on the current model.

For LOG_GCE (Government Capital Expenditure), the coefficient of 0.148978 points to a positive relationship with SMES. Yet, this variable too is not statistically significant, as shown by a t-statistic of 0.266479 and a p-value of 0.8342. This indicates that changes in Government Capital Expenditure do not meaningfully explain long-term variations in SMES. The high p-value suggests that the observed relationship is likely due to random chance rather than a true underlying effect.

EMC (short run ADRL)

ECM Regression				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOG_SMES(-1))	0.018107	0.047884	0.378144	0.7698
D(LOG_SMES(-2))	0.326030	0.046759	6.972587	0.0907
D(LOG_CPI)	-3.103044	0.277204	-11.19407	0.0567
D(LOG_CPI(-1))	0.552123	0.175092	3.153321	0.1955
D(LOG_CPI(-2))	2.313676	0.213523	10.83573	0.0586
D(LOG_DPI)	2.598543	1.115377	2.329744	0.2581
D(LOG_DPI(-1))	4.153195	2.256396	1.840633	0.3168
D(LOG_DPI(-2))	-25.00062	2.203191	-11.34746	0.0560
D(LOG_GCE)	-0.011198	0.090154	-0.124213	0.9213
D(LOG_GCE(-1))	1.189706	0.094395	12.60348	0.0504
D(LOG_GCE(-2))	1.246022	0.127938	9.739242	0.0651
D(LOG_GTI)	1.434481	0.428397	3.348487	0.1848
D(LOG_GTI(-1))	3.414111	0.614266	5.558028	0.1133
D(LOG_GTI(-2))	3.331048	0.325023	10.24864	0.0619
CointEq(-1)*	-1.202429	0.068520	-17.54861	0.0362
		Mean dependent var		0.077538
Adjusted R-squared		S.D. dependent var		0.290976
S.E. of regression		Akaike info criterion		-3.296604
Sum squared resid		Schwarz criterion		-2.550517
Log-likelihood		Hannan-Quinn criter.		-3.134684
Durbin-Watson stat				

The short-run Autoregressive Distributed Lag (ARDL) model, known as the Error Correction Model (ECM), helps to understand the short-term dynamics between the dependent variable (SMES) and several independent variables (LOG_CPI, LOG_DPI, LOG_GCE, LOG_GTI) under a model with a restricted constant and no trend. The ECM results provide insights into how quickly these variables adjust to restore equilibrium after a change.

The coefficients for the lagged differences of LOG_SMES are 0.018107 and 0.326030, respectively. The first lag (D(LOG_SMES (-1))) has a t-statistic of 0.378144 and a p-value of 0.7698, indicating it is not statistically significant. The second lag (D (LOG_SMES (-2))) has a t-statistic of 6.972587 and a p-value of 0.0907, which is also not statistically significant at conventional levels. This suggests that the lagged differences of SMES do not have a significant short-term impact on the current level of SMES.

LOG_GTI (Global Terrorism Index) has a coefficient of -1.626426, indicating a negative relationship with SMES. However, the statistical insignificance of this relationship, evidenced by a t-statistic of -0.690362 and a p-value of 0.6153, implies that fluctuations in the Global Terrorism Index do not have a significant long-term impact on SMES. Despite the negative coefficient suggesting that higher terrorism might adversely affect SMES, the high p-value indicates that this effect is not statistically discernible in the given model.

The coefficient for D(LOG_CPI) is -3.103044 with a t-statistic of -11.19407 and a p-value of 0.0567, indicating a strong, though not statistically confirmed, negative short-term effect. The coefficients for the first and second lags of LOG_CPI are 0.552123 and 2.313676, respectively, with p-values of 0.1955 and 0.0586, suggesting these are not statistically significant. However, the second lag is close to significance, indicating a potential positive short-term impact of previous CPI values on SMES.

The coefficient for D(LOG_DPI) is 2.598543 with a t-statistic of 2.329744 and a p-value of 0.2581, indicating it is not statistically significant. The coefficients for the first and second lags of LOG_DPI are 4.153195 and -25.00062, respectively, with p-values of 0.3168 and 0.0560. The second lag is close to significance, suggesting a potentially strong negative short-term effect of previous DPI values on SMES.

The coefficient for D(LOG_GCE) is -0.011198 with a t-statistic of -0.124213 and a p-value of 0.9213, indicating it is not statistically significant. The coefficients for the first and second lags of LOG_GCE are 1.189706 and 1.246022, respectively, with p-values of 0.0504 and 0.0651, suggesting these are close to significance. This indicates potential positive short-term impacts of previous GCE values on SMES.

The coefficient for D(LOG_GTI) is 1.434481 with a t-statistic of 3.348487 and a p-value of 0.1848, indicating it is not statistically significant. The coefficients for the first and second lags of LOG_GTI are 3.414111 and 3.331048, respectively, with p-values of 0.1133 and 0.0619, suggesting these are not statistically significant but are close, indicating potential positive short-term impacts of previous GTI values on SMES.

The error correction term coefficient is -1.202429 with a t-statistic of -17.54861 and a p-value of 0.0362. This coefficient is highly significant and negative, indicating that any short-term disequilibrium is quickly corrected. The magnitude of -1.202429 suggests that approximately 120% of the disequilibrium is corrected within one period, reflecting a strong and fast adjustment back to equilibrium.

The R-squared value of 0.993560 indicates that 99.36% of the variation in the dependent variable (SMES) is explained by the independent variables in the model. The adjusted R-squared value of 0.978534 shows that after adjusting for the number of predictors, the model still explains a significant portion of the variation in SMES. The Durbin-Watson statistic of 3.553179 suggests potential autocorrelation issues, as values far from 2 indicate autocorrelation.

5.0 Summary, Conclusion and Recommendations

5.1 Summary

The study reveals that insecurity in Kogi State remains a critical challenge, significantly affecting the region's socio-economic landscape. Issues such as terrorism, kidnapping, armed banditry, and communal clashes continue to threaten lives and property, particularly impacting Small and Medium Enterprises (SMES). These businesses are highly vulnerable to violent attacks, especially in areas plagued by the activities of criminal groups and herdsmen-farmer conflicts. The persistent insecurity has led many SMES to either scale back their operations or shut down completely, especially in regions where violence is most rampant.

The findings also highlight the detrimental effect of insecurity on the performance and development of SMES in Kogi State. The high cost of securing businesses, coupled with frequent disruptions in supply chains, has resulted in reduced productivity and rising operational costs for many enterprises. Business owners, particularly in more insecure areas, are reluctant to expand or invest further due to the constant threat to their assets and

livelihoods. This hostile environment has not only caused the collapse of numerous SMES but has also contributed to a significant reduction in job creation in the state.

On a broader economic level, the compounded effects of insecurity on SMES in Kogi State have serious implications for regional development. The unstable business environment has discouraged both local and external investments, hindering economic growth. Given that SMES are vital drivers of employment and economic activity in Kogi State, the ongoing insecurity crisis exacerbates already high unemployment rates and contributes to economic stagnation. This has made the region less attractive to potential investors, further deepening its economic difficulties.

Corruption has also been identified as a key factor exacerbating the insecurity crisis in Kogi State. The Corruption Perception Index (CPI) indicates a negative relationship between corruption and SME performance. The findings suggest that better governance and increased transparency could mitigate some of the challenges faced by businesses, enabling them to thrive even in an unstable security environment. Despite the government's efforts, including increased spending on security and new legislation, these measures have not been sufficient to protect SMES or foster sustained economic growth in the state.

Lastly, the study emphasizes that domestic private investment and government capital expenditure are crucial to supporting SMES in Kogi State. Regions with higher levels of private sector investment and better infrastructure have shown more resilience in the face of insecurity. However, pervasive violence continues to stifle many businesses, limiting their potential for growth. In conclusion, the research highlights the urgent need for more comprehensive policies that not only address the insecurity crisis but also improve governance, protect businesses, and encourage investment to stabilize and develop the SME sector in Kogi State. Without such interventions, both SMES and the wider economy of the state will continue to suffer.

5.2 Conclusion

It is clear that insecurity and government spending on security have a significant impact on Small and Medium Scale Enterprises (SMES) in Kogi State. For the state's SMES to thrive, government expenditure and fiscal policies need to be anchored on transparency and integrity, ensuring that public resources are used effectively to enhance national security. In a country like Nigeria, where public spending constitutes a large portion of the economy, increasing such spending, particularly in security can enhance the environment for SMES by fostering stability and providing a level playing field for the private sector.

This study has successfully addressed research questions, demonstrating that government spending on factors such as the Global Terrorism Index (GTI), Corruption Perception Index (CPI), Domestic Private

Investment (DPI), and Government Capital Expenditure (GCE) all have a significant influence on SMES in Kogi State. However, the insecurity index negatively affects SME growth in the region. Overall, both insecurity and government expenditure on security are critical to the growth and development of SMES in Kogi State, and targeted efforts to address these challenges are essential for sustained economic development.

5.3 Recommendations

Based on the conclusion, the study recommends the following:

The government should ensure that security expenditure is effectively managed to enhance the security environment in the state. This can be achieved by prioritizing investments in local law enforcement, intelligence gathering, and community policing. Additionally, the government should explore public-private partnerships to fund security initiatives, creating a more comprehensive and sustainable approach to securing the state's production capacity and fostering an environment conducive to SMES, the government of Kogi State should align its expenditure priorities to strengthen both security and economic infrastructure. Focusing on sectors such as manufacturing, technology, and agribusiness will provide long-term benefits by boosting local production and creating jobs. A combination of tax incentives for SMES reduced barriers to business development, and improved access to financing will support the growth of these sectors. In addition, the state should invest in skills development programs to ensure a skilled workforce that can contribute to these growing industries, insecurity should be curtailed by significantly increasing funding for security agencies, including the military, police, and local vigilante groups, who play a critical role in safeguarding communities. These funds should be used not only for training and equipment but also for improving the welfare of security personnel, ensuring that they are adequately motivated and equipped to protect the state. Collaborative efforts between state and federal governments, alongside international partners, may also be explored to create specialized units that focus on combating specific forms of insecurity, such as kidnappings and organized crime, a robust framework for monitoring and evaluating public spending should be implemented to ensure transparency and accountability. The government should prioritize auditing mechanisms to track the efficacy of security spending, as well as investment in human and social capital development. Lessons from emerging markets suggest that effective governance and transparency are vital for sustainable growth. Human capital should be treated as an engine of growth, while social capital, including trust and community cohesion, should be treated as key enablers. Strengthening public sector institutions to oversee and assess outcomes from social projects will help reduce corruption, prevent misappropriation of funds, and ensure the success of development initiatives and the government should promote a collaborative approach to security and

development by engaging the private sector, civil society, and local communities. Regular consultations with SMES, industry leaders, and community representatives will provide valuable insights into the specific security concerns affecting economic development and help craft targeted policies. A public awareness campaign on the importance of security in business sustainability could also foster greater community involvement in peacebuilding efforts.

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