Security as a Signal: Nigeria and Political Risk in African Capital Markets

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ABSTRACT: This review examines how Nigeria's regional security activism has shaped investor confidence from 2007 to the present. Investor confidence is measured through market and capital allocation indicators, including sovereign Eurobond yields and spreads, credit rating narratives, portfolio flows, and foreign direct investment. The article synthesizes two competing mechanisms. The signaling channel argues that credible security leadership and effective operations can strengthen perceptions of state capacity, reduce political risk premia, and support capital inflows. The burden and blowback channel argues that security activism can raise fiscal pressures, crowd out productive spending, or trigger retaliation, increasing perceived risk and discouraging long-term investment. Nigeria is the primary case, and the review evaluates whether security dynamics within Nigeria correspond with shifts in investor confidence over time. Within Nigeria, the review emphasizes maritime security in the Gulf of Guinea, where piracy trends and trade costs are well documented and closely watched by investors and insurers. The review finds a consistent association between the security environment and investor confidence, but the direction and magnitude depend on whether security gains are sustained, institutionally credible, and fiscally compatible. It concludes by summarizing the main implications for how security credibility, fiscal capacity, and risk perceptions shape political risk premia and investment in Nigeria.

KEYWORDS: Economics, Finance, Political Risk, Foreign Direct Investment, Nigerian Investor Behavior.

Introduction

The extent to which Nigeria's domestic stability and regional security posture contribute to the confidence of foreign and domestic investors in West Africa is significant and cannot be understated.[1] Nigeria, often referred to as the "Giant of Africa," is well-established in West Africa as a leader in security affairs. Nigeria has been involved in regional peacekeeping operations and has taken the lead in conflict resolution issues.[2] Nigeria is an especially important case because it is Africa's largest economy by output in some recent years, one of the continent's most systemically important investment destinations, and a pivotal state in West African security affairs. It is also a useful case because changes in Nigerian stability have implications not only for domestic investment outcomes but for regional trade, sovereign risk perceptions, and investor sentiment across West Africa. This "security activism" - Nigeria's pro-active role in regional peace-keeping operations, counter-terrorism coalitions, and maritime security initiatives - contributes significantly to the perception of Nigerian domestic and regional stability, and risk profiles. Confidence in Nigeria among investors generally reflects the ability of foreign and domestic investors to commit financial capital; this confidence is reflected in metrics including FDI inflows, portfolio investments, and sovereign bond yields. Despite a growing literature on political risk, insecurity, and investment in Nigeria, the existing scholarship is often fragmented across separate domains such as terrorism, piracy, foreign direct investment, sovereign risk, and regional security policy. What is less developed is a review that brings these strands together to explain how Nigeria's security performance operates as a political-risk signal across different categories of investors and market indicators. This review addresses that gap by synthesizing literature on security activism, political risk perception, and investment outcomes into a single analytical framework centered on Nigeria. It argues that security affects investor behavior through two competing channels: a signaling channel, in which credible security provision reduces perceived risk and supports capital inflows, and a burden channel, in which insecurity, fiscal strain, and policy inconsistency raise risk premia and weaken investment outcomes. The contribution of this review is both analytical and practical. Analytically, it brings together literatures that are usually treated separately, showing how security outcomes operate as political-risk signals across different classes of investors. Practically, the review highlights why sustained security improvement, fiscal credibility, and policy consistency matter not only for domestic stability but also for capital allocation, sovereign borrowing costs, and long-term development strategy in Nigeria.

Review Method and Scope

This article is a narrative review focused on the relationship between Nigerian security conditions, political risk, and investor behavior from 2007 to the present. The review synthesizes academic studies, policy research, and selected institutional reports relevant to four recurring themes: security activism, political risk perception, foreign direct investment, and capital-market responses. The 2007 starting point is used because it captures the period after Nigeria's earlier post-1999 democratic re-engagement and includes the major security and market episodes examined in this review, including the Niger Delta amnesty, Boko Haram insurgency, maritime anti-pira-

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cy efforts, and recent ECOWAS crises. Evidence is weighted primarily toward peer-reviewed and scholarly sources where available, while institutional and market reports are used selectively to illustrate recent events, market reactions, and policy developments. The review is not a systematic meta-analysis and does not attempt formal causal identification. Instead, it evaluates patterns of convergence across studies and indicators, especially FDI, portfolio flows, and sovereign spreads, to assess how security conditions shape investor confidence in Nigeria. These indicators are used because they capture distinct dimensions of investor behavior: FDI reflects long-term commitment, portfolio flows capture shorter-term market sentiment and liquidity, and sovereign spreads reflect how international lenders price Nigeria's political and macroeconomic risk. Methodologically, the article follows an exploratory qualitative approach based on secondary sources, combining scholarly literature with selected institutional and market data to identify recurring patterns in how security conditions shape investor behavior in Nigeria.

Discussion

Conceptual Framework:

Defining Regional Security Activism:

Within this particular scope, Nigeria's regional security activism is defined as actions taken to advance the regional and global security environment outside its territorial boundaries and/or across the wider West African region. These actions include, but are not limited to, deploying military forces to participate in regional peacekeeping operations, utilizing diplomatic and/or military intervention to address crises occurring in neighboring countries, participating in collective efforts to combat transnational threats such as piracy and terrorism, and influencing policy in multilateral organizations including the Economic Community of West African States (ECOWAS) and the African Union (AU).[1,2]

In the past, Nigeria has been perceived as a "regional policeman" for West Africa due to its interventions in Liberia and Sierra Leone during the 1990s and also in support of the democratic transition in The Gambia's 2017 post-election stalemate.[1] Following a period of national issues dominating Nigeria's policy agenda during the 2010s, Nigeria has recently begun positioning itself once again as a major actor in regional security under present-day leadership.[1,2]

Investor Confidence and Political Risk:

Investor confidence is an indicator of how investors perceive a nation's ability to grow economically in the long run and the perceived risk associated with investing in that country. As a result, it influences investors' willingness to invest or lend financial capital to the country. Investor confidence is also heavily tethered to political risk; i.e., the likelihood of events which can be created by political instability (e.g., terrorism, civil wars, coups d'état, changes in policy) occurring and negatively impacting investor returns. The relationship between high investor confidence and capital flows is positive, typically resulting in strong capital inflows through both longer-term FDI and shorter-term portfolio investment. Asset values also tend to stabilize or increase, and sovereign risk premia decrease (i.e, narrower bond spreads). Conversely, low investor confidence results in capital flight, sell-offs in markets, and wider bond spreads. Political risk in Nigeria takes many forms, including internal security risks stemming from insurgent groups and unrest, Nigeria's involvement in regional and international security engagements (which may lead to stabilization in the region or entanglement in conflict), and governance issues such as inconsistent policymaking and corruption. All of these factors contribute to composite risk indices and play a significant role in affecting investor decision-making. For example, Nigeria's persistent security challenges are frequently listed as one of the main impediments to sustainable investment in the country; a commonly cited aphorism is that "investment is a coward" that flees from insecurity.[3]

Empirical research has found that FDI generally tends to flow into countries with strong and stable political systems, and those that adhere strongly to the rule of law, as well as have strong property rights protections, and away from countries plagued by ongoing civil strife.[4,5] In turn, when a country can successfully manage and/or decrease its level of threat as a result of either successful domestic policy efforts or international cooperative efforts, this will likely increase the overall "predictability" of the investment environment, thus increasing investor confidence.[4]

Mechanisms Linking Security Activism to Investment:

1. Stability Signaling:

By taking active steps to resolve conflicts, e.g., deploying peacekeepers or leading anti-terror operations, Nigeria signals its commitment to a stable region. This can reassure investors that Nigeria is both capable and willing to preserve a peaceful environment for commerce and is receptive to investment. A reputation as a security provider can further enhance Nigeria's international standing and attractiveness to investors. For instance, Nigeria's leadership in ECOWAS peace missions has been credited with preventing wider instability in cases like The Gambia's constitutional crisis (2016–17), which prevented a potential conflict that could have spilled over economically.[1] Such outcomes reinforce the perception that Nigeria and its neighboring countries are becoming safer for long-term investments.

2. Regional Spillovers and Containment:

Regional disputes and crises can spread to other countries, affecting the flow of international trade and foreign investment between them. Nigeria's efforts to control various regional crises, such as the Boko Haram insurgency and political violence in neighboring countries, also help reduce the negative impact of these regional crises on Nigeria's own economy. Examples include the Nigerian government's efforts to coordinate efforts with its neighbors to combat the Boko Haram terrorist group and provide stabilization support to countries such as Mali and Sierra Leone to ensure that West African markets are not destabilized by chaos.[2] Regional security cooperation, if successful, reduces the collective risk premia for economic activity within the region.[6] However, failure or retreating from regional leadership creates an opportunity for conflicts to intensify, increasing investor perceptions of the level of regional risk. In addition, analysts have noted that Nigeria's decreased participation in regional affairs during the 2010s corresponded with an increase in conflict and coups throughout the Sahel, further illustrating how a lack of regional leadership can create opportunities for increased instability.[2]

3. Resource Diversion and Domestic Neglect:

On the other hand, there is a major potential trade-off that comes with regional leadership. Security activism requires significant resources – financial, military, and political attention – which could be diverted from domestic development needs. If Nigeria overextends in regional ventures while neglecting internal security or economic reforms, investor confidence could erode. An example is the strain of prolonged peacekeeping deployments or regional sanctions that might hurt Nigeria's own economy. Furthermore, involvement in conflicts can provoke retaliatory threats, as seen when regional counter-terror operations by Nigeria and allies led to terror attacks on Nigerian soil.[7] Such blowback can immediately sour market sentiment. Thus, investor confidence hinges on Nigeria striking a balance: providing security as a public good without overstretching or igniting new security risks.

4. Macroeconomic and Policy Linkages:

Macro-economic policy interacts with the condition of security to affect and influence how investors act. The existence of a stable security environment generally promotes more favorable economic outcomes, thereby improving the investment attractiveness of a country, as well as its creditworthiness and boosting investor confidence. Conversely, instability can hinder the revenue-generating capacity of governments. Pipeline vandalism, for instance, can decrease oil production, increase security costs, and reduce fiscal measures and debt, which investors track very closely. Nigeria's security activism may also create a "peace dividend," if it decreases piracy, reduces insurgency, and increases political stability, resulting in more stable financial outcomes and an improved climate for doing business in Nigeria. However, if conflicts wage on, they can have negative effects on the economy. Overall, the relationship between Nigeria's security activism and investor confidence is complex and occurs through two avenues: psychological (the perception of investor risk) and physical (trade, budgetary constraints, and economic growth). The next sections develop the theoretical base and then evaluate evidence from Nigeria's post- 2007 security and market record.

Political Risk and Investor Behavior Theory:

Investors are generally risk-sensitive, demanding higher returns or avoiding markets where political instability threatens their capital. Classic and contemporary research overwhelmingly supports the intuition that political risk inversely correlates with investment.[5] In a cross-country analysis of 83 developing nations, it was found that "government stability, the absence of internal conflict and ethnic tensions, basic democratic rights, and ensuring law and order are highly significant determinants of foreign investment inflows."[5] In other words, an improvement in governance and stability metrics tends to pull in more FDI, whereas outbreaks of violence or institutional breakdown repel investors. Political instability and violence – whether domestic or regional – "discourage multi-national corporations (MNCs) from investing in the host economy."[5] This reflects both the direct risks of asset destruction or expropriation and the indirect effects of uncertainty.

Risk-Return Tradeoff and Investor Segmentation:

Theory from traditional finance also suggests that investors will only take a greater amount of risk if there are higher amounts of expected returns. The same holds for countries where an unstable security environment increases the required risk premium that investors need to take on in order to invest in that country. Sovereign spread premia can act as a gauge to measure how much the price of political risk has increased, as premiums tend to increase as political risk escalates. Studies have shown empirically that reducing political risk can lead to lower sovereign spread premia and improved credit ratings.[8] However, it is important to note that not all investors react equally to different types of risk. Long-term investors such as MNCs investing in FDI are particularly vulnerable to instability as their investments are illiquid and based on their ability to function within the confines of the local environment. On the other hand, short-term investors such as those investing in equities or bonds may be willing to tolerate some level of risk as long as they perceive a potential opportunity for high returns in the short term, or if they believe they can withdraw from the market at any point if they sense potential bottlenecks arising. The difference in the response of various groups of investors was clearly demonstrated in Nigeria's experience; one study of the effects of the Boko Haram insurgency (2010-2016) found that FDI inflows into Nigeria were significantly adversely affected by the rise in terrorism-related casualties; however, the authors of the study did not find a statistically significant relationship between terrorist related deaths and portfolio investment inflows.[3]

The interpretation is that long-term investors were scared off by persistent insecurity in Nigeria's Northeast, whereas short-term capital was relatively indifferent, perhaps because it could seek quick profits and exit if needed. Such findings align with broader literature that FDI, which involves building factories, infrastructure, etc, requires a long-term horizon of peace, whereas bond or equity investors might weather short-term turbulence if fundamentals and yields are favorable.[4,9] However, extreme instability, i.e., all-out war or state collapse, can "severely undermine investor confidence" across the board – no investor type is spared when risks become existential.[4]

Information, Perceptions, and Risk Pricing:

Investors today use a wide variety of indicators to determine whether a country is safe for investment. Investors utilize ratings agencies, various forms of information provided by risk indices, and news to help them make decisions about where they will invest their financial capital. In addition, investors also rely upon their own experience to assess security condi-

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tions. Sometimes investor perceptions lag behind reality or overshoot it. For example, officials have stated that Nigeria recorded zero piracy incidents in its territorial waters for three consecutive years, though independent incident reporting suggests some incidents still occurred. This indicates that the threat of maritime insecurity had sharply diminished; however, global insurance companies still charged significant security-risk premiums as if the threat remained at prior extremes. The difference between what Nigeria's actual risk was, versus what those insurance companies assessed Nigeria's risk profile can be understood as a perception gap, where outside views lag behind current realities, and the country continues to face economic skepticism based on outdated concerns.

In addition to governments, investors are equally likely to hold onto old perceptions of risk as well as continue to demand high returns until they have been convinced by substantial and lasting evidence that the safety of their investment has improved. Thus, there is a policy dilemma: countries cannot only implement safety measures, but they must also informally convey to the financial community that such improvements have occurred. On the other hand, investors may also underestimate the risks facing emerging economies when there is a global "risk-on" environment. As an example, at the end of 2025, Nigeria successfully sold its first-ever Eurobond of $2.25 billion, and it was extremely oversubscribed, although there were credible threats from the United States of military intervention in Nigeria due to allegations of serious human rights abuses.[9] However, the fact that there was so much liquidity around the globe, and that Nigeria had implemented significant economic reforms, all contributed to the fact that investors were able to "shrug off" the politics surrounding Nigeria's debt sale and thus invested in Nigeria to earn a higher return on their investments.[9] In other words, capital flows to both stable and unstable emerging economies alike, with the hope of earning a greater return on their investments when the overall environment is conducive to investing in emerging economies. The nature of global markets is also cyclical, and therefore, the impact of political risk on investment decisions is contingent upon the environment or climate of the markets at the time of those investment decisions. Specifically, in periods where the overall climate of the markets is risk-averse, even minor instances of instability can result in capital flight, while in exuberant periods of market conditions, even significant risks will often be ignored by investors for long periods of time before being suddenly recognized and reassessed.

At the micro level, investors do not respond only to violence itself but to what insecurity implies about enforcement capacity, contract reliability, insurance costs, logistics risk, and the predictability of state decision-making. In that sense, institutional credibility mediates the effect of insecurity on investment behavior. Security problems become economically consequential when they alter expectations about whether firms can move goods safely, protect assets, repatriate profits, or rely on stable administrative and legal processes.

Application to Nigeria:

The theoretical insights suggest that Nigeria's ability to attract and retain investment depends substantially on its political-risk profile. A stable, secure Nigeria – actively preventing conflicts at home and contributing to peace abroad – should enjoy stronger investor confidence, all else equal. Research by Nigeria's Central Bank economists finds that insecurity, e.g., terrorism, political violence, and kidnapping, has significantly undermined Nigeria's FDI performance relative to its market size.[9,10] Surveys of multinational executives often cite security concerns among the top reasons for hesitancy in investing in Nigeria.[11] On the flip side, when Nigeria has managed to address security issues or project strength, investors have responded positively. The Niger Delta amnesty of 2009, which quelled militancy and revived oil production, helped restore growth and encouraged oil-sector investment as production bounced back to levels sustaining investor revenues.[12,13]

More recently, Nigeria's improvements in the ease of doing business and governance, coupled with relative success against maritime piracy by 2021–2022, contributed to modest increases in FDI and portfolio inflows, albeit from a low base as risk perceptions eased.[3] In sum, the theory and evidence both reinforce a core point: political-security conditions are a foundational driver of investor behavior. With this foundation, we now turn to the specifics of Nigeria's regional security role since 2007 and how markets have reacted in practice.

Nigeria's Security Role and Market Reactions (2007–Present):

Over the last 15+ years, Nigeria's security engagement with neighboring regions has experienced a number of ebb-and-flow changes that we can use to create a natural experiment that we can examine for associated market effects. Overall, Nigeria's history since 1999 can be generally categorized as follows: (a) a post-1999 democratic renaissance (President Obasanjo through 2007), during which time Nigeria was very proactive in Africa's security architecture; (b) a period of relative disengagement from Africa during the late 2000s to the 2010s (the Yar'Adua and Jonathan administrations) due to internal strife such as the Niger Delta insurgency and the Boko Haram insurgency pillaging the Northern region of Nigeria; and (c) renewed engagement in Africa's security architecture in the late 2010s to early 2020s (late Buhari administration through the Tinubu administration) including Nigeria's anti-piracy efforts and its reassertion of regional leadership in ECOWAS. We will focus on the latter two periods (2007 forward) and major events within those periods, as well as how investors reacted to them.

Late 2000s – Early 2010s: Balancing Internal and External Challenges:

Nigeria's level of international involvement was high in the early part of the 2000s. The Obasanjo administration (1999-2007) played an important role in many AU initiatives and peace missions.[2] Some analysts argue Nigeria's regional influence declined under former President Yar'Adua (2007-2010), as his administration prioritized domestic agendas and adopted a lower profile externally.[14] Yar'Adua was successful in ending the Niger Delta militancy through a comprehensive Amnesty Program in 2009.[15] The program resulted in an almost immediate increase in oil production, which had fallen to a 22-year low due to militant activity.[12] Higher oil revenues provided improved government revenue and also enhanced investor confidence in Nigeria. Additionally, the Nigerian Stock Exchange rebounded in 2010 following the global recessionary period, and domestic sovereign yields fell relative to 2009 as conditions stabilized.[16]

Although there was no large-scale flight of foreign investment out of Nigeria in response to Boko Haram's emergence as an insurgent group in 2009, data indicated a decrease in FDI in the Northern regions of Nigeria during the same time.[3] A time series study of Nigeria between 2010 and 2016 showed that as the number of Boko Haram-related fatalities increased, FDI inflows to Nigeria decreased, adjusting for all other variables.[3] Investors in areas such as tourism, agriculture, and service industries were becoming increasingly cautious about investing in Nigeria as violent incidents and kidnappings became more frequent.[3]

In contrast to private sector investments, however, Nigeria's sovereign bond and equity investors were much less affected in this time frame. This may have been due in part to the fact that the oil price was high enough to provide a buffer against the negative impacts of Boko Haram, but also due to the perception of Boko Haram's activities being localized. As a result, there was no statistically significant reduction in portfolio flows attributable to the insurgency.[3] By 2014, after the infamous Chibok schoolgirls' abduction of over 200 schoolgirls by Boko Haram, Nigeria's risk rankings worsened, and some investors postponed projects, highlighting that prolonged internal conflict was chipping away at confidence.[3]

Nigeria's involvement in regional conflict resolution during this time was somewhat limited; however, it continued to provide large numbers of troops for United Nations (UN) peacekeeping operations, e.g., Nigerian soldiers made up the majority of the UN Mission in Liberia force until 2018, which helped keep Nigeria's image as a peacekeeper in good standing and garnered praise from the UN.[17] Nigeria's involvement in stabilizing Liberia and Sierra Leone is often discussed as part of its regional security strategy; some analysts also argue that reduced conflict in the Mano River basin can indirectly support Nigeria's economic interests by lowering cross-border instability and enabling regional trade and investment.[18] This demonstrates how regional peace can indirectly contribute to increased investor confidence at home by eliminating factors that could potentially destabilize an economy.

Mid-2010s: Re-engagement amid Domestic Strains:

By the middle of the 2010s, Nigeria began cautiously re-entering regional conflicts. It participated in the African-led Support Mission in Mali (AFISMA) to contain the growing threat of jihadists in the Sahel region in 2013; in addition to this, Nigeria increased its collaboration with Chad, Niger, and Cameroon to combat Boko Haram through the Multinational Joint Task Force (MNJTF).[7] These developments demonstrated Nigeria's acceptance that regional threats require a collective response.

One significant positive note came in the form of The Gambia's 2016-2017 crisis, where the outgoing President would not relinquish power. ECOWAS, led by Nigeria and Senegal, used an Economic Community of West African States Monitoring Group (ECOMOG) force, along with diplomatic efforts, to enforce the outcome of the elections.[1] Although The Gambia has no significant size or economic impact on Nigeria, this event did have a very positive influence on regional attitudes - it reinforced ECOWAS's willingness to enforce electoral outcomes and helped reduce perceived risks of prolonged instability in the sub-region.[19,20]

Around the same time, Nigeria entered a recession in 2016, shaped by an oil price crash and resurgent Niger Delta sabotage.[21] Investor confidence hit a low; FDI inflows in 2016 hovered around $1 billion, low relative to Nigeria's size, and the naira's value plummeted.[22,23] While it is difficult to disentangle the downturn's drivers, political risk was part of the mix; reports explicitly discuss unrest in the Niger Delta as a macro risk that contributed to the recession.[21] The government's hardline approach to renewed Niger Delta militancy, as a 2016 ceasefire faltered, initially raised concerns among operators and investors.[24] Eventually, a combination of security operations and talks restored a fragile calm.[25] Markets reacted positively when oil output was restored in 2017 – Nigeria's Eurobond issuance in early 2017 was over-subscribed, as stated by the Nigerian Debt Management Office press release: the $1.0bn bond was over-subscribed with an order book over $7.8bn, and describes strong market appetite and confidence.[26]

Notably, despite pockets of violence, Nigeria was able to tap international capital markets repeatedly in 2017–2018 at yields around 7–8%, which indicated investor belief that Nigeria could manage its security issues.[9] Analysts pointed out that investors were encouraged by Nigeria's commitment to regional stability and domestic reform signals, even if risks remained.[9]

Late 2010s – 2020: Maritime Security Push and Image Building:

One of Nigeria's most consequential security initiatives in recent times has been in the maritime domain. By 2018–2019, the Gulf of Guinea (particularly Nigeria's coastal waters) had become the world's epicenter of piracy, with frequent attacks on oil tankers and kidnapping of crew for ransom.[27] This posed a direct economic threat: Nigeria's oil exports and port operations were at risk, shipping insurance costs skyrocketed, and foreign investors in trade, shipping, and offshore oil were alarmed. The situation was undermining investor confidence in Nigeria and its neighbors – a maritime security group's 2021 report estimated nearly $2 billion in direct and indirect costs from piracy in the Gulf of Guinea, noting that "some foreign investors are becoming discouraged to do business in the region" due to these security woes.[27]

Nigeria responded with a robust strategy: the Integrated Maritime Security "Deep Blue Project" launched in 2019 (operational by 2021), deployed naval assets, air surveillance,

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and new laws (the Suppression of Piracy and Other Maritime Offenses Act, 2019) to combat piracy.[27] The impact was dramatic – piracy incidents in Nigerian waters plummeted.[27] By mid-2021, the International Maritime Bureau was reporting quarter after quarter of zero piracy incidents in Nigeria's coastal zone, a stark improvement from the peak in 2018.[28,29] By 2022 and 2023, piracy in the Gulf of Guinea had fallen to the lowest levels in almost 30 years.[27]

From an investor confidence standpoint, this maritime security success yielded multiple benefits: lower risk for shipping and logistics companies, reduced insurance premiums (though, as noted, insurers were slower to adjust premiums), and a positive signal that Nigeria can effectively implement large-scale security programs. Trade and port activity began to recover, and major foreign-backed projects, i.e., the Lekki Deep Sea Port, continued to move forward, helped by a safer maritime environment in the Gulf of Guinea.[30,31]

The market viewed Nigeria's Deep Blue Project as a case where security activism (in this case, within its maritime domain, but affecting the whole region's shipping lanes) directly bolstered the economic environment.[32,33] By securing the Gulf of Guinea, Nigeria also helped its neighbors' economies (e.g., Ghana, Côte d'Ivoire, etc.) by reducing piracy risk, indirectly contributing to regional growth, which in turn benefits Nigeria as the regional economic hub. In capital markets, Nigeria's risk premiums modestly improved, with Eurobond spreads over U.S. Treasuries narrowing into late 2021 and 2022 as oil prices recovered and maritime risk eased, which supported a return to global debt markets on more manageable terms; consistent with this, Nigeria's Eurobond yield moved from double digit levels in mid 2020 to roughly 8 percent around the 2021 issuance, reflecting both global conditions and improved stability.[9]

2020s: ECOWAS Leadership and Coup Turmoil:

Nigeria has been placed at the center of regional turmoil due to an influx of coups in West Africa since the beginning of this decade; Mali in 2020, Guinea in 2021, Burkina Faso in 2022, Niger in 2023, and even potential threats in other countries have also occurred. Due to its role as the largest economy in the region and because it has historically supported democratic governance, Nigeria has attempted to reaffirm itself as a leader by supporting the elected government of Niger through both diplomacy and force during its 2023 ECOWAS chairmanship when a military coup overthrew the democratically elected government in Niger.[1] Initial reactions from markets included caution, as the threat of military action in Niger prompted concerns about a possible larger conflict that would negatively impact trade (because Niger is a key route for exporting Nigerian goods northward), and would draw Nigeria's attention away from implementing domestic economic reforms. Amid heightened regional uncertainty after the Niger coup, the naira remained under pressure in August 2023 as officials signaled new steps to stabilize currency markets.[34] Ultimately, however, Nigeria and ECOWAS chose to pursue sanctions and dialogue instead of immediate military intervention, thereby avoiding a full-scale war.[2] Nonetheless, Nigeria's strong stance evidenced a willingness to enforce norms, and that enforcement may be a deterrent to future coups and instability.

Commentary from policy experts suggests that Nigeria's credibility in regional security is crucial for the long-term investment climate of West Africa – if Nigeria can help curb the "coup contagion" and jihadist expansion, the region stands to gain in attractiveness to investors.[1,35] Conversely, if Nigeria's leadership falters, the region's slide into instability could hurt all economies (e.g., the blockade by militants in Mali in 2025 threatened to "suffocate" the Malian economy and potentially disrupt neighbors' commerce).[35] Recognizing this, Nigeria has backed new ECOWAS security initiatives, such as an updated Standby Force and early warning mechanisms.[1] While these moves are more diplomatic/security in nature, they have clear economic logic: a stable West Africa is far more likely to attract the infrastructure, energy, and technology investments that Nigeria and its neighbors seek.

In summary, market response to Nigerian security activism from 2007 to date has varied. When Nigeria has resolved a major security issue (e.g., Niger Delta amnesty, Deep Blue anti-piracy), investor confidence has appeared to improve through higher levels of FDI, lower bond spreads, and increasing portfolio flows. Conversely, when Nigeria experiences significant security deterioration (i.e., Boko Haram at its peak, emergence of new conflict(s), or an uncertain response by Nigeria to ongoing or emerging threats), investors exhibit anxiety - by pulling back investment, requesting risk premiums, or in extreme cases by abandoning investment altogether, e.g., evidenced by some recent divestitures. A striking example of this concern still existing for many foreign investors is illustrated by a UN report, which stated in 2022 that Nigeria experienced a negative net FDI of $-187 million due to "equity divestment" stemming from Nigeria's challenging operating environment.[36] Although currency and regulatory matters also contributed to these decisions, the instability of insecurity (banditry in the northwest, continued insurgency in parts) likely had a material impact on each decision. However, 2023 appears to have brought a rebound in FDI to positive territory as reforms kicked in and the security situation did not further unravel.[37,38]

As such, Nigeria's situation is consistent with the general theory that effective security systems are likely to create confidence among investors; on the other hand, a lack of control over insecurity creates loss of confidence. In addition to this general theoretical context, Nigeria's experience also suggests the importance of consistency; when there is intermittent activism regarding a problem followed by inactivity, investors receive conflicting signals. Having examined Nigeria in detail, we now turn to maritime security in the Gulf of Guinea as a market signal, before analyzing capital flows and sovereign risk pricing.

Maritime Security and Piracy Risk as a Market Signal:

Maritime security receives special attention in this review because it provides one of the clearest and most measurable channels through which insecurity affects investor behavior in Nigeria, influencing shipping costs, insurance premiums, port activity, offshore energy investment, and perceptions of state capacity in a strategically vital trade corridor. One of the clearest illustrations of security dynamics affecting investor confidence is the case of maritime security in the Gulf of Guinea. The Gulf of Guinea is a strategic maritime corridor for West and Central Africa, vital for Nigeria's oil exports and the region's trade. When piracy surged in this region in the 2010s, it not only threatened lives and commerce but also sent a negative signal to international markets about the safety of doing business around the West African coast. Piracy became, in effect, a bellwether for political risk in the region's maritime domain.

Piracy & Armed Robbery in the Gulf of Guinea in 2018-2020 increased to alarming levels. Tanker hijacking and crews being taken hostage for ransom were becoming common by this time. By 2020, there were 84 reported pirate incidents in the Gulf of Guinea alone, which is almost double that of 10 years prior.[27] The majority of the incidents could be linked back to either Nigerian waters or Nigerian organized crime syndicates that preyed upon weak law enforcement and desperate economics in the oil-rich Niger Delta and coastal areas.[39] Due to these high numbers, the global maritime industry began to become increasingly fearful of sailing through the Gulf of Guinea. To offset some of their fear, freight insurance companies categorized Nigerian ports as high risk. This forced them to demand that shippers pay very high war risk insurance premiums to ship into those ports. An example of how such underlying issues can affect investment decision-making is when an energy company considers building a floating oil platform (FPSO) off Nigeria's coast, it will have to factor in the additional costs of enhanced security; a logistics company deciding where to route cargo may choose to avoid Nigerian Ports because of the associated surcharge fees.

Nigeria's aggressive response through the Deep Blue Project (covered previously) made all the difference. The Deep Blue Project's deployment of naval assets, surveillance aircraft, and special courts to prosecute pirates under the new anti-piracy law (SPOMO Act) had begun to turn the tide by 2021.[27] Positive effects of the decline in incidents soon followed. Insurers started to take off the surcharge, but only slowly and unevenly, as evidenced by complaints in 2025 that higher premiums were still being charged despite improving conditions.[27] However, there was a changing narrative. Nigeria was hosting international maritime security exercises by late 2022 and showing the improvements in the Gulf of Guinea to potential foreign investors in ports and coastal industry. A Nigerian maritime think tank said it believed removing the war-risk premium would save Nigeria "over $1.5 billion over three years" in trade costs, and unlock greater investment in port infrastructure and logistics.[27]

In terms of signaling, Nigeria's success in combating piracy signals to investors that Nigeria has effective governance. The successful implementation of an integrated, technology-enabled maritime security strategy by Nigeria, with coordination between various agencies, and even regional cooperation with neighboring states (via the Yaoundé Code of Conduct), demonstrates that Nigeria can implement complex strategies to address threats to its maritime interests.[27,39] For an investor, this means that at least one risk associated with investing in Nigeria, specifically the risk of supply chain disruptions and attacks on assets located in the maritime space, is reduced. Sovereign credit analysts incorporate qualitative judgments about security and institutional capacity into their assessments, and Nigeria has publicly framed the Deep Blue Project as a major commitment to reducing maritime insecurity and reassuring commercial stakeholders in the Gulf of Guinea.[40]

Maritime security also has a regional public goods aspect. Nigeria's actions benefited all Gulf of Guinea nations by clamping down on a transnational threat. This collective benefit is a factor that multilateral lenders and investors in regional projects take into account. In Africa Investment Forum discussions convened by the African Development Bank (AfDB), the Abidjan-Lagos coastal corridor was positioned as a public private partnership intended to mobilize private and institutional capital, and the case for investment along the route has strengthened alongside improved maritime security in the Gulf of Guinea, where reported piracy incidents fell from 35 in 2021 to 19 in 2022.[41,42] Such significant linkages illustrate how one security vector (piracy) can influence a web of economic decisions.

Overall, maritime piracy in the Gulf of Guinea was a significant market indicator of risk; when piracy was at its peak, it loudly indicated to investors that there existed an extremely high level of risk (therefore, some deals were cancelled, increased costs occurred, and new investments were delayed). When Nigeria and partners reduced piracy, it indicated that security had improved, thereby stimulating renewed interest and lower costs. The piracy example illustrates the larger theme that tangible security concerns may cause material changes in investor behavior and that active security measures to combat such threats can lead to renewed confidence. The example also illustrates the importance of continued vigilance: analysts have warned that pirates could easily adjust their tactics, and therefore, only consistent improvement in governance would be able to prevent a resurgence in piracy.[39] Therefore, continuing to maintain maritime security will continue to be a key element in keeping Nigeria economically attractive. The next section will explore the ways in which this dynamic plays out through specific investment metrics – namely, capital flow (FDI vs. portfolio) and sovereign risk pricing (spreads) – by offering a quantitative perspective on the relationship between security and investment.

Portfolio Flows, FDI, and Sovereign Spreads:

Investor confidence ultimately becomes visible in measurable outcomes such as FDI inflows, foreign portfolio investment, sovereign spreads, and episodes of divestment, making these indicators useful for tracing how security conditions and institutional credibility shape capital allocation decisions. Here we examine Nigeria's experience across these measures, tying changes in these indicators to security developments.

Foreign Direct Investment (FDI):

FDI is typically "patient capital" betting on long-term prospects. Nigeria, as Africa's largest economy, has considerable

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FDI potential, but performance has lagged due in part to security issues. After the return to democracy in 1999, Nigeria enjoyed a wave of FDI, peaking around the late 2000s with investors drawn to telecoms, banking, and, of course, oil.[43,44] However, insecurity has been a persistent drag. The relationship is evident in regional data: despite Nigeria's market size, stable countries like Ethiopia often outpaced Nigeria in FDI during the 2020s, until Ethiopia's own conflict struck.[36]

Within Nigeria, the Boko Haram insurgency in the Northeast scared off many would-be investors in that region; some projects were relocated to safer areas or canceled. On a national level, studies by Nigeria's Central Bank found that terrorism and political violence have a statistically significant negative effect on FDI inflows.[10] The 2015–2016 period, when Boko Haram was at its most destructive, and Nigeria was simultaneously grappling with Niger Delta unrest, saw FDI inflows tumble to around \$1–\$1.5 billion per year – extremely low for an economy of Nigeria's scale.[36] Not only did new FDI slow, but in some cases existing investors divested: for example, in 2021–2022, several international oil companies began selling off Nigerian onshore assets, citing security and theft issues in the Delta as part of the reason (alongside the push toward offshore fields, which are easier to secure).[45,46] This contributed to the net negative FDI figure in 2022 noted earlier.[36]

By contrast, there are many means in which increased security measures have been shown to impact FDI positively. A useful illustration is Rwanda, which has leveraged a reputation for security and order to attract high FDI relative to its size.[47] The challenges facing Nigeria in terms of security affairs are larger than those of Rwanda; however, the same concept applies. Following Nigeria's 2009 use of amnesty to quell the militancy in the Niger Delta region, FDI experienced a large increase in 2010-11, largely due to the renewed confidence in Nigeria's oil heartland as a result of the increased stability in the region.[12,13] In the years following Nigeria's peaceful transfer of power in 2015 (Nigeria's first time an opposition party won a presidential election) and former President Buhari's early successes against Boko Haram, FDI experienced a moderate increase in 2016, indicating that improved political stability can somewhat counterbalance investor concern about risk.[48,49] More recently, President Tinubu's 2023 reform agenda, combined with a period of relative peace, caused FDI inflows to rise to approximately \$1.87 billion in 2023, compared to less than \$1 billion in the previous year.[37] This represents a cautious and tentative return to investing in Nigeria by investors who believe they may be able to invest in a more secure and reform-oriented nation. Officials have credited the increase in security operations, i.e., those in the Northwest of Nigeria, to combat banditry as one factor in their ability to reopen rural areas of the economy and attract agricultural investors once again.[11] The message here is quite clear: FDI is very dependent upon Nigeria's security situation, and will recede when the level of violence increases and will recover when Nigeria can restore or appear to be restoring stability.

Portfolio Flows (Equities and Bonds):

Portfolio investors – foreign buyers of Nigerian stocks, bonds, and money market instruments are influenced by their perceptions of many factors including: how much better or worse rates of return on their investments will be in Nigeria compared to in their own country; what will happen to the value of the Naira relative to their home currency; and the degree to which Nigeria is perceived as a risky place to invest. Foreigners have shown themselves to be both easily discouraged by the appearance of problems – pulling funds from Nigeria when there is an uprising – and tempted to ignore those same problems when they perceive high potential returns. For example, foreign participation in the equity market in Nigeria has been up and down based on changes in world risk appetite and developments locally.

During the COVID-19 pandemic and an incident of nationwide protests (#EndSARS) in 2020, foreign investors withdrew their money from Nigerian equities, and foreign equity holdings dropped sharply.[50] Although the protests were generally peaceful, they resulted in some unrest and violence. By 2022-2023, however, foreign investors began to trickle back into Nigerian markets as it was believed that oil prices would increase, and the currency would begin to correct.[51,52] Through the first quarter of 2024, after significant reforms to Nigeria's economy, foreign portfolio investment (FPI) into Nigerian markets increased by over two hundred percent to ₦852 billion (\$1.1-\$1.2 billion).[50] What was interesting about this increase was that the outflow of FPI also increased.[50] This suggests that, while some investors were bringing money into the market, others saw this as an opportunity to get out. Therefore, even though the overall investment flow was slightly positive, caution still existed in the marketplace. Analysts believe that one of the reasons for this cautiousness was due to the political risk premium that remained associated with investing in Nigeria.[50] These analysts felt that foreign investors needed to see continued political and security stability in Nigeria before they would commit large amounts of money to the marketplace.[50]

Short-term investors will often also keep an eye on event risk. One of the most significant event risks is election-related. For example, before both Nigeria's 2015 and 2019 elections, there were some portfolio outflows from Nigeria as investors feared violence and/or contested election results; however, after each election, when worst-case scenarios did not occur, there were portfolio inflows back into Nigeria.[53,54] Another example of short-term investors staying observant is the 2023 Niger Coup. Although Nigeria was not directly attacked, the July 2023 coup in Niger raised concerns about regional instability and potential spillovers, which increased risk sensitivity toward West African assets.[55] Nigeria's responsiveness to regional instability, such as threats of military intervention, demonstrates how quickly a large number of portfolio investors respond to security events, indicating that regional activism has the potential to cause volatility in markets for a short period of time if it creates the perception of future conflict.

It's worth noting that Nigeria maintains capital controls and an unconventional FX regime at times, which also influences portfolio flows independent of security. But even those pol-

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icy choices are sometimes driven by or connected to security spending (e.g., a large security budget can worsen fiscal balances, indirectly pressuring currency and inflation, which then affect interest rates that portfolio investors follow). Thus, the interplay is complex. In general, Nigeria's portfolio investors seem to adopt a "wait-and-see" mode during high uncertainty (security or political), but they are quick to return if high yields are on the table once risks appear to have quelled.

Sovereign Spreads and Credit Risk:

Sovereign bond yields represent an evaluation of how much Nigerian credit is valued by investors internationally. The ratings and associated spreads factor in security issues and the impact of security issues on both economic performance and the ability to repay obligations. As a result of this relationship, when security issues negatively affect the economy or the ability to pay back debts, it will increase the spread. For example, at the height of Boko Haram violence around 2014, as well as during the global oil price collapse, the spreads of Nigeria's Eurobonds versus those of the U.S. Treasury increased, indicating two major risks: decreasing oil revenue and increasing security-related expenses.[6] Similarly, in 2020, with the double shock of the COVID-19 pandemic and an oil plunge, Nigeria's spreads blew out to over 1000 basis points (10 percentage points) at times.[56] By 2021–2022, as some normalcy returned and Nigeria curbed piracy, spreads compressed significantly; in fact, by late 2025, JPMorgan data showed Nigeria was no longer among the few extremely high-spread emerging market issuers, as only four emerging countries had spreads above 1000 bps.[9] Nigeria's successful $2.25bn Eurobond in November 2025 was priced at yields of 8.625% and 9.125% for 10- and 20-year tranches, respectively, which were lower than initial guidance – a sign of strong investor appetite despite medium-term political risks.[9] The oversubscription was attributed to improved global conditions and Nigeria's policy reforms, but notably, it happened despite a widely reported episode in which U.S. President Donald Trump publicly suggested forceful action over alleged anti-Christian violence in Nigeria.[9] That suggests that by late 2025, investors viewed Nigeria's security/political situation as challenging but manageable, with greater concern on economic policy consistency.

However, political risk is still priced into African issuers. An IMF research paper issued in 2023 identified a "premium" in terms of perceptions of risk of Sub-Saharan African sovereign states; that is, they often are forced to pay more than their fundamentals and credit rating suggest should be the case. This is most likely due to additional perceived political risks associated with investing in Sub-Saharan Africa, as well as the generally lower liquidity associated with African sovereign debt.6 In this regard, the author specifically cited South Africa as an example; South Africa has a credit rating comparable to that of Brazil, but pays a significantly higher yield on its bonds, which suggests that investors are charging an implicit premium for the risk of such things as social unrest or problems related to governance in South Africa.[6] While Nigeria's yields on Eurobonds have been improving, there remains a level of caution reflected in them; a comparison of Nigeria's yields with those of similarly-rated countries in Eastern Europe suggests that Nigeria continues to carry a level of risk premium related to its long history of conflict and instability. If Nigeria can establish and sustain peace and also continue to act as a stabilizing force in the region, one would expect that Nigeria's bond yields will narrow to those of its peer group. Conversely, if Nigeria were to experience an increase in levels of violence or instability, it would be expected that Nigeria's bond yields would again begin to widen. Credit rating agencies have explicitly flagged Nigeria's security challenges as a constraint on sovereign creditworthiness, since insecurity can weaken growth and revenues while increasing fiscal pressure.[57]

In summary, FDI has behaved much like an unreliable "fair-weather" friend, only consistently investing when it's "clear skies" (or secure) - and then rapidly decreasing its investment if conflict breaks out - only returning when there are clearly demonstrated tangible security improvements. Portfolio flows behave similarly to opportunistic "hot-money," being willing to invest in situations where high returns exist, but quickly retreating at the first sign of trouble - and often even before the trouble occurs (and thereby front-running the event). Sovereign spreads provide a continuous barometer - tightening (i.e., decreasing spread) when security activism and stability improve Nigeria's risk profile, and expanding (i.e., increasing spread) when security issues arise and cause alarm. Thus, all three measures have, over the last decade, reinforced the idea that investor confidence in Nigeria is very heavily dependent upon security in the country. Nigeria has paid the price of low investor confidence due to the multiple years of insecurity; however, Nigeria's growing stability in some areas of the country and its renewed role in regional leadership offer a potential way to reverse that trend.

■ Conclusion

Nigeria is at a crossroads, where prudent security advocacy at home and abroad has the potential to lead to increased investor confidence and optimism. The country's efforts to combat piracy and advocate for principles in regional politics have already led to a decrease in the perception of risk for investors. A credible improvement in security outcomes, combined with fiscal and institutional credibility, can support a positive feedback loop in which reduced risk premia encourage investment and investment expands the state's capacity to sustain security. Eventually, the ultimate goal should be to make Nigeria (and West Africa) into a region where the "security discount" on investments is at a minimum – Where investors look at the region with the same level of confidence as they do any emerging market with strong fundamentals. To achieve this, there needs to be consistency in policy and action: consistently addressing threats, consistently communicating progress, and consistently enforcing the rule of law. With sustained implementation and credible institutions, this outcome is achievable over the medium term. The benefits of achieving this are substantial: long-term economic growth, jobs, and national prosperity, making getting the security-investment nexus correct for Nigeria a clear policy imperative. More broadly, this review suggests that

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security conditions shape investor behavior not only through immediate violence risks, but through what they signal about state capacity, policy credibility, and long-term economic predictability. This matters for policymakers trying to attract capital, for investors assessing political-risk premia, and for scholars studying how security and institutional credibility affect investment outcomes. This review also has limitations. Because security shocks often occur alongside exchange-rate pressures, oil-price changes, and policy reforms, it is difficult to isolate security as the sole cause of changes in investor behavior. In addition, FDI, portfolio flows, and sovereign spreads capture different dimensions of confidence and may respond at different speeds. Future research could test these relationships more directly through event studies, subnational analysis, or comparative work across African countries facing similar security and governance challenges.

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