

**BECANS WORKING PAPER 1**



**The Security Factor in  
Business Environment  
across Nigerian States**



**AFRICAN INSTITUTE FOR APPLIED ECONOMICS**

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## The Security Factor in Business Environment across Nigerian States<sup>1</sup>

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<sup>1</sup> BECANS is acronym of Business Environment and Competitiveness across Nigerian States. BECANS is a flagship initiative of the African Institute for Applied Economics (AIAE). It is implemented in collaboration with government and private sector organizations. BECANS is designed to carry out research, survey and advocacy in support of business environment reforms at sub-national levels in Nigeria.

**BECANS WORKING PAPER SERIES**

**The Security Factor in Business Environment across Nigerian States**

***Published by***

**AFRICAN INSTITUTE FOR APPLIED ECONOMICS**

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FIRST PUBLISHED, 2006

© African Institute for Applied Economics

**ISSN 0975-3755**

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## **ABOUT BECANS WORKING PAPER SERIES**

BECANS Working Paper Series publishes the technical outputs from research, survey and analysis of the business environment and competitiveness across Nigerian states. The Series disseminates results and findings of the BECANS project. It is intended to stimulate evidence-based dialogue between government and the private sector for improved investment climate across Nigeria. The Papers provide up-to-date literature, statistics and empirical analysis to situate and enlighten business environment reforms by the three tiers of government in Nigeria.

Manuscripts considered for the Series are subjected to scientific review by independent examiners and revised accordingly prior to publication.

Papers in the Series bear the names of the authors and should be used and cited accordingly. The findings, conclusions and interpretations expressed by the papers are those of the authors and do not necessarily represent the views and policies of AIAE or of the collaborating organizations.

## **OVERVIEW**

This paper examines security as an important element of business environment across Nigerian states. Section one describes the role of security in shaping national investment climate and cost of doing business. Section two presents conceptual and theoretical perspectives on security. Section three reviews studies and analyses on security factor in business environment. Section four examines the evidence about security situation in Nigeria. Section five outlines the BECANS methodology framework for benchmarking and assessing the security situation across Nigerian States. Section six contains the conclusion and lessons.

### **1.0 SECURITY IS A VITAL ELEMENT OF BUSINESS ENVIRONMENT**

Security is not just an intrinsic aspect of development but also an essential precondition for sustainable development. Three types of connections exist between development and security (Stewart, 2003). Human security forms an important part of people's well-being and businesses, and is therefore an objective of development. Lack of human security has adverse consequences on economic growth and poverty and thereby on development. Lack of development or imbalanced development that involves sharp horizontal inequalities is an important cause of conflict and crime.

Under the threat of widespread crime and violence, businesses and social institutions cannot function effectively and efficiently, people cannot plan for the future and financiers cannot invest (Halle et al, 2004). Insecurity includes the possibility of economic vicissitudes, health crisis, and injury or death as a result of criminal or political violence. Crime has been identified as one of the major obstacles to development. On the other hand, imbalanced or inadequately planned development contributes to criminality and thereby constitutes a threat to good quality of life; security of life, property and businesses; democracy; good governance; the rule of law; and the free exercise of human rights (UNODC, 2005). According to the United Nations Office on Drugs and Crime (UNODC), investment levels in Africa are lower than they should be, and much of this is attributable to the perception that the rule of law does not prevail in the continent. Crime destroys economic, human and social capital and can have a far greater impact on the lives of citizens of poor countries than rich ones. Perhaps most importantly, crime and especially corruption, damages the relationship between citizens and the State, and thus undermines both democracy and the ability of the State to promote development.

The national economic reform agenda embodied in the National Economic Empowerment and Development Strategy (NEEDS) recognizes that security of life and property is a fundamental human right guaranteed under the constitution, and is a very vital transformational tool and a formidable instrument for improving the climate for social and economic life. NEEDS seeks to increase the level of security of life and property, reduce uncertainty, and improve the confidence in Nigeria by both Nigerians and investors. NEEDS plans to increase national security by increasing the effectiveness of the police, and the specific policies to achieve this include the following (NPC, 2004):

- ◆ Change the orientation of the police to improve the quality of service;
- ◆ Increase the use of scientific methods in policing (forensic science, lie detectors, psychologists, computerization of vital information) to enhance the quality of evidence and investigation;
- ◆ Introduce appropriate equipment (such as custom-built vehicles suitable for sandy or marshy areas) and develop an exclusive communication system to improve police effectiveness;
- ◆ Build capacity, train and retrain the police, and involve communities in policing;
- ◆ Use lethal weapons less often to control crowds;
- ◆ Pay all entitlements, especially call and duty allowances, in a timely manner.

Governments, citizens and businesses are stakeholders in the area of security whether at the national, state or local levels. Security of life and property is a fundamental component for ensuring the widest possible participation of key players (stakeholders) in the overall economic development and growth of any nation. Poor security infrastructures can cause stakeholders not to refrain from using unsafe and unlawful security options. The experience of citizens and businesses in terms of security incidents and their security awareness and behaviour can become a major obstacle to business development and growth.

Businesses are facing increasing security risks daily. National, sub-national, or community security is a prototypical public good. It is non-rival in consumption; each citizen enjoys the full amount of security produced, without restricting or excluding the consumption by other citizens (Bruck, 2004). Insecurity therefore imposes costs on people who are risk averse. According to Bruck, costs of insecurity are composed of three effects. First, the direct cost resulting from the underlying risky event itself; second, the indirect first-order costs induced by the agent's reaction to a threat; and finally, the indirect second-order costs that are caused by the policy responses to the event and to the agents' reactions. Direct effects of insecurity include losses in property rights, output, utility, health or lives resulting from events such as theft, fraud, computer viruses, power cuts, etc.

One important first-order indirect effect of insecurity is a rise in private sector security spending. Such a spending may express an underlying desire to protect production or to enhance a firm's product. As such, security spending may be voluntary or in response to market forces, or obligatory as result of new security legislation. In the first case, firms decide to spend money on security in the short term in order to minimize long-term cost that could arise from thieves, fires, robbery attacks, etc. Other indirect costs of insecurity include changes in demand for tourism services or in supply of foreign direct investment (Sandler and Enders, 2004); higher transportation costs of conducting business, including higher transport costs and higher transport insurance rates (Lenain et al., 2002); and undermining of investor confidence thereby reducing their willingness to commit to new projects. Over time, higher risk premiums increase required rates of returns on investments, reducing equity prices and biasing investment decisions against high risk, high return, long-term investments towards low-risk, low-return, short-term investments (Bruck, 2004). The cumulative effect of such portfolio adjustments is the reduction in overall investment and retardation of further economic growth.

Furthermore, government regulation can lead to second-order indirect effects in terms of policy reaction. Government regulation can cause insecurity in two ways. First, there may be an element of regulatory insecurity where an increasing density of regulation, though aimed at raising social welfare, increases uncertainty for firms operating in an environment of rising legal obligations. Second, certain types of regulation may trigger illegal responses thereby raising insecurity. The degree of government security regulations could be large in many economic sectors. For example, inspections and other security regulations create delays at borders, increase shipping times and reduce border permeability. This can induce a significant but perverse behavioural response, including illegal brewing, smuggling and organized crime.

Although handling risks (e.g. insecurity) is core part of any business, an enterprise that does this badly is unlikely to survive for a long time. On the other hand, any enterprise that does this well has a competitive edge over other enterprises. This must however be achieved at the expense of increasing costs. In other words, poor security increases cost of doing business, which can be the direct loss of goods or the costs of taking precaution such as hiring security guards, building fences, or installing alarm systems. These costs may not be sustainable in the long run and definitely can impede business development and progress with attendant negative consequences for employment and poverty alleviation. For instance, foreign firms will decline to invest, and domestic ones may flee the country for a more peaceful locale. This is why it is important for the government to ensure the availability of public security for businesses and citizens given the fact that these direct and indirect costs can pose a significant challenge to emerging businesses and those that operate on slim margins. Above all, the fear of crime restricts mobility which interferes with social and economic interaction among business agents.

## **2.0 CONCEPTUAL AND THEORETICAL ISSUES**

The concept of security, at all levels, is related to the basic concepts of human psychology (Kanji, 2003). If threatened, individuals and businesses will react and take necessary defensive measures. At the individual or business level, one or a business can sometimes ward off threats by exercising caution in his or her daily life. He or she may arrange additional security measures, such as alarm systems, weapons, or perhaps changing residences leading to very expensive business environment. It is very obvious that individual security is very closely and positively related to business security.

Security may be defined, at the simplest level, as “the quality or state of being secure,” “freedom from danger,” or “freedom from fear or anxiety” (Kanji, 2003). The concept of security has many dimensions including individual security, business security, group security, national security, regional security, global security, etc. Of all these dimensions of security, national security seems to be the most contentious and often examined definition of security. This is because nation-states often assume the role of guarantor for individual, business or socio-economic, political and group security. Since the effects of crime against businesses reverberate throughout

society, the boundaries between the business and public domains are far from discrete (Fisher, 1991; Cromie, 1993; Fisher and Looye, 2000). The non-governmental commercial sector is an instrumental contributor to domestic capital investment, employment growth, gross domestic product and economic well-being, and so, any assault on the business sector is therefore an assault on business viability, economic stability and, in some cases social well-being.

At the core of business security is the issue of human or individual security which highlights threats to physical safety and well-being as well as basic and civic freedom. The 1994 UNDP Human Development Report defines human security in relation to seven dimensions: personal, environmental, economic, political, community, health and food security. In its broadest sense, the UNDP defines human security as encompassing human rights, good governance, access to education and health care; while ensuring that each individual has opportunities and choices to fulfill his or her own individual or business potential. Only the security of individuals and businesses can be the rightful and meaningful objective of security (Bajpai, 2000). The objective of human security is to safeguard the vital core of all human lives from critical pervasive threats, in a way that is consistent with long-term human fulfillment (Alkire, 2003). Human security is a notion that spans sectors and provides an enabling environment for human and business development; it equally provides a template for assessing policy and practice for their effects on the safety of people and businesses (OAS, 1999).

Scores of direct and indirect threats to human security have been identified by the UNDP and Canadian human security schemas, and are shown by Table 1.

**Table 1: Direct and Indirect threats to Human Security**

Direct Violence	Indirect Violence
<ul style="list-style-type: none"> <li>◆ Violent Death/Disablement: victims of violent crime, killing of women and children, sexual assault, terrorism, inter-group riots/pogroms/genocide, killing and torture of dissidents, killing of government officials/agents, war casualties</li> <li>◆ Dehumanization: slavery and trafficking in women and children; use of child soldiers; physical abuse of women and children (in households); kidnapping, abduction, unlawful detention of political opponents plus rigged trials</li> <li>◆ Drugs: drug addiction</li> <li>◆ Discrimination and Domination: discriminatory laws/practices against minorities and women; banning/rigging elections; subversion of political institutions and the media</li> <li>◆ International disputes: inter-state tensions/crises (bilateral/regional) plus greater power tensions/crises</li> <li>◆ Most destructive weapons: the spread of weapons of mass destruction plus advanced conventional, small arms and landmines.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Deprivation: levels of basic needs and entitlements (food, safe drinking water, primary health care, primary education)</li> <li>◆ Disease: incidence of life-threatening illness (infectious, cardio-vascular, cancer)</li> <li>◆ Natural and man-made disasters</li> <li>◆ Underdevelopment: low levels of GNP/capita, low GNP growth, inflation, unemployment, inequality, population growth/decline, poverty, at the national level; and regional/global economic instability and stagnation plus demographic change</li> <li>◆ Population displacement (national, regional, global): refugees and migration</li> <li>◆ Environmental degradation (local, national, regional, global).</li> </ul>

Source: Bajpai Kanti (2000)

### 3.0 REVIEW OF THE LITERATURE

Felson (1996) classified types of crimes faced by businesses as either internally generated (offences committed by employees) or externally generated (offences committed by parties other than immediate employees and directed at businesses, employees, customers or clients.

Globally, numerous crime/security surveys have been carried out in the recent past. Some of these include (AIC, 2004):

- ◇ the 1996 international crime victims' survey of 130,000 randomly selected employees, aged 16 years and over, situated in 32 countries around the world;
- ◇ international crimes against businesses survey which was the first ICBS survey of commercial businesses' experience of fraud, corruption and other crimes and confined to the retail sector. Responses were sought on several dimension of crime, including levels of victimization, damages incurred and preventive measures employed. The sample of businesses examined was randomly generated and stratified according to industry and size dimensions for each nation;
- ◇ the KPMG survey in 1993 in which the consultancy firm, KPMG, carried out an international fraud survey of 5,500 large and medium-sized firms located in six countries;
- ◇ the British Crime Survey which is a nationally representative household survey conducted approximately every two years;
- ◇ Safer cities small business crime survey which is a series of local crime surveys conducted in an effort to establish vulnerability of small businesses to crime;
- ◇ Small business and crime initiative (SBCI) which involved face-to-face interviews with 894 small businesses situated in the north and south-east of Leicester, England, with cohort drawn from all industry sectors which were grouped under four principal sectors, namely, manufacturing (mostly the production of textiles, footwear and clothing, but also paper printing and publishing), wholesale (including distribution and repair businesses), retail, and other services (transport, entertainment and other types of service businesses, such as beauty and health businesses);

- ◆ And the Scottish business crime centre survey which inquired into the extent, nature and costs of crime affecting Scottish businesses during 1998. A number of methods were used. An in-depth premises phone survey that elicited responses from some 2,500 businesses, a postal head office survey that elicited responses from 148 large businesses, and focus interviews with 20 businesses selected on the basis of their exceptionally high or low rate of victimization. The five principal business sectors survey are manufacturing (metals, engineering, food, beverages, etc), construction (home repairs, road works and new property), wholesale and retail (motor distribution companies, vehicle repairers and petrol sales), hotels and restaurants (pubs, clubs, takeaways, catering contractors, holiday camps, and transport and communications (postal services and distribution, air transport and freight, telecommunications, railways, buses and taxis, docks, harbours and water transport, travel and ticket agencies, and motoring organizations).

Other surveys which were done in Nigeria include:

- ◆ the survey by the World Economic Forum (WEF) which sought the views of businesses on organized crimes (racketeering and extortion). The particular issue of interest is on whether organized crimes impose significant cost on business or otherwise. Responses were scaled from 1-7 and the average response is selected for each locality;
- ◆ the Nigerian Manufacturing Enterprise Survey (NMES) which sought the cost of providing security (excluding salary) by business enterprises and their impression of the police and security agencies;
- ◆ the UNIDO Investor Perception Survey which sought the views of investors on the business climate conditions (physical security). Precisely, the survey sought to know the importance of security to the investors, and whether the change in security situation has worsened or gotten better in the last three years; and
- ◆ the World Bank Doing Business Survey which did not cover issues about security.

The International SOS Security assigns personal risk ratings to countries by assessing a range of factors including the frequency and seriousness of violent crime in the country; the degree of political, economic and social unrest; government stability; the potential for internal and external conflicts; and the presence and capabilities of terrorists, insurgents and other militants (International SOS, 2001). As at 2001, Nigeria attracted a high risk listing along with 42 other countries in the world. An entire country may be classified as high risk when any one or a combination of the following conditions exist or there is strong potential for them to develop rapidly anywhere in the country:

- ◆ terrorist/guerrilla groups pose a serious threat to the country's political and/or economic stability or a significant region of the country is experiencing a serious terrorist or guerrilla problems that government cannot control;
- ◆ a pervasive problem exists regarding street violence due to political unrest, economic conditions, or general lawlessness and unrest; the country is involved in violent regional disputes with neighbouring states;
- ◆ there is serious potential for a military coup;
- ◆ the governmental institutions and/or general populace demonstrates evidence of prejudicial or harsh treatment against foreign visitors or business interests;
- ◆ travel and invest with caution; and
- ◆ employ stringent security precautions for personal, business, and employee protection and for safeguarding corporate facilities and materials resources in the affected country.

Although some of these conditions are still with us today in Nigeria, this listing is too general and may not be a true representation of the prevailing circumstances at the sub-national level, and this is a major shortcoming of the International SOS listing.

Furthermore, "Riskwire", a service of the Economist Intelligence Unit (EIU) that ranks the business environment of many countries recently gave Nigeria a global rank of 75 (out of 82 countries and a regional rank of 13 out of 17 countries (EIU, 2006). The EIU evaluates the safety of a number of countries for foreign business. The EIU sees Nigeria as an insecure environment for commercial operations. Security risk, according to EIU, arises on three levels. The first comes from rising violent crime (from simple robbery to carjacking and violent attacks). Second, companies/businesses are subjected to direct attack or blackmail; facilities can be vandalized and staff kidnapped. Third, incidences of inter-communal violence have risen and Nigeria's ill-equipped Police Force has been ineffective in the stemming the crime wave in the country (UNODC, 2005).

The Federal Bureau of Investigation (FBI) in America surveys and reports crime rate using a Uniform Crime Report (UCR) which divides offences into two major classifications designated as Part 1 and Part 2 crimes. According to FBI (2003), Part 1 crimes are violent crimes (homicide, rape, robbery, aggravated assault) and property crimes (burglary, motor vehicle theft, larceny/theft, arson). Part 2 crimes refer to other offences including simple or other assault, forgery and counterfeiting, embezzlement, stolen property offences, vandalism, weapons offences, prostitution and commercialized vice, sex offences (except rape and prostitution), drug abuse violations, driving under the influence, liquor laws, drunkenness, offences against the family and children, disorderly conduct, vagrancy, all other offences (except traffic), curfew and loitering (juveniles only), and runaways (juveniles only).

The Nigeria Police classification system comprises two broad categories of crime/offences, namely, serious crimes; and minor crimes and offences (FOS, 2001). Serious crimes include murder (and attempted murder); manslaughter; felonious wounding; assault (including rape and indecent assault and unnatural offences); other crimes against persons (including child stealing, slave dealing, suicide and kidnapping); armed robbery and extortion; burglary, house breaking and store breaking; larceny; forgery and currency crimes; other crimes against property; bribery and corruption; while minor crimes and offences include false pretence/cheating; unlawful possession and receiving stolen property; arson; perjury; other minor crimes; gambling; breaches of peace; escape from custody; local Acts; and other offences.

The official crime statistics can be complemented by victim surveys and self report studies (despite their limitations) due to the criticisms of official criminal statistics. Though few studies of victimization (with limited scope, content and geographical coverage) have been conducted in Nigeria, there has been no national crime survey in Nigeria. It is important to note here that proper definition of concepts are necessary in order to reduce measurement (empirical) and classification errors when carrying out crime victims survey. Under the UCR (Uniform Crime Report) system, offences are reported as index offences.

#### **4.0 SECURITY SITUATION IN NIGERIA: INSIGHTS FROM EXISTING EVIDENCE**

Crime and insecurity are bad for business. They increase the costs of business, whether through the direct loss of goods or the costs of taking precautions such as hiring security guards, building fences, or installing alarm systems. For instance, World Bank's Investment Climate Survey from nine African countries indicates that 29% of business people in Africa reported that crime was a major constraint on investment, about 50% more than the global average. This survey also showed that those reporting direct losses to crime varied from 11%-80% of respondents in each country, and the cost of these loses varied between 2%-12% of total sales; while expenditure on security ran at about 3% of gross sales in several countries pooled (UNODC, 2005). Moreover, the World Development Report (2005) reported that 36% of businesses in Nigeria reported crime as major constraints.

In the extreme, foreign firms will decline to invest, and domestic ones will flee the country for a more peaceful locale. Foreign attitudes reflect those of local investors. While most Africans are simply too poor to save, those that do invest tend to do so elsewhere. Sub-Saharan Africa has one of the world's highest rates of capital flight, with 40% of private portfolios being held outside the continent. This is estimated to reduce continental GDP by some 16%. If Africans themselves are not willing to invest in the continent, it is difficult to persuade foreigners to do so. Experts agree that confidence in Africa is lower than is justified by the fundamentals. While the reasons behind this are debatable, low levels of investment can largely be explained by the perception that rule of law does not prevail in Africa. The United Nations Economic Commission for Africa has identified rule of law as one of the most robust correlates of economic growth, and African countries are generally rated toward the bottom of the scale in terms of this perception indicator.

The inefficiency of the public security system has forced private business and individuals to seek alternatives in the form of private security companies. In response to this pressure, the private security industry in Nigeria is growing by leaps and bounds (Ekhomu, 2004). Private security companies (PSCs) are non-state organizations licensed or recognized to carry out protection duties. These PSCs are employed to protect businesses and some public facilities in Nigeria. The entire civil security system of corporate Nigeria seems to be in the hands of PSCs and other quasi-PSCs.

The lack of reliable data and statistics has adversely affected the ability of the Nigerian police to achieve high clearance rates, effective prosecution and high conviction rates (Etannibi, 2004). Despite data limitations, available evidence suggests that Nigeria has a serious crime problem which could be undermining development efforts (Table 2). According to Odekunle (2004), there is no doubt that, since the mid-seventies, Nigeria has been experiencing what is referred to in criminological literature as a “crime-problem” i.e. when crime, in terms of incidence and seriousness, passes from the normal or tolerable level to the pathological and becomes a “social problem”. In other words, crime has become not only ubiquitous but has reached a Frankenstein dimension. The situation is worsened by cross-border armed banditry, violent car theft, human trafficking and smuggled arms, making it an arduous and risky business for crime fighters.

Internationally, Nigeria is seen as a major hub of criminal activity, including narcotics trafficking, illicit financial transactions and street crime. Nigerian drug traffickers are believed to operate worldwide and the country itself is believed to serve as an interim destination for heroin and cocaine bound for East Asia, Europe, and North America. Money laundering is also believed to be prevalent in Nigeria, like other financial crimes. A division of the Organization for Economic Cooperation and Development (OECD), the FATF was created in 1989 to address global concerns over the proliferation of money laundering. Also, the U.S Department of State reports a high incidence of business fraud in Nigeria. OECD and even the U.S. Department of State believe that Nigerian criminals have a longstanding tradition of enticing unsuspecting victims, generally foreigners, with advance fee schemes in particular. One common variant begins with an unsolicited correspondence, generally an e-mail, which offers the recipient the promise of high returns on an investment. The hopeful victim is required to pay a series of advance fees before collecting any compensation. The criminals keep the fees, without fulfilling their obligation to pay the duped investors. Another familiar take on the advance fee scheme commences with a solicitation to assist in transferring a large sum of money out of the country. However, in most cases, many of the suspects involved in these crimes succeed because of the gullibility or greed of the foreigners in question.

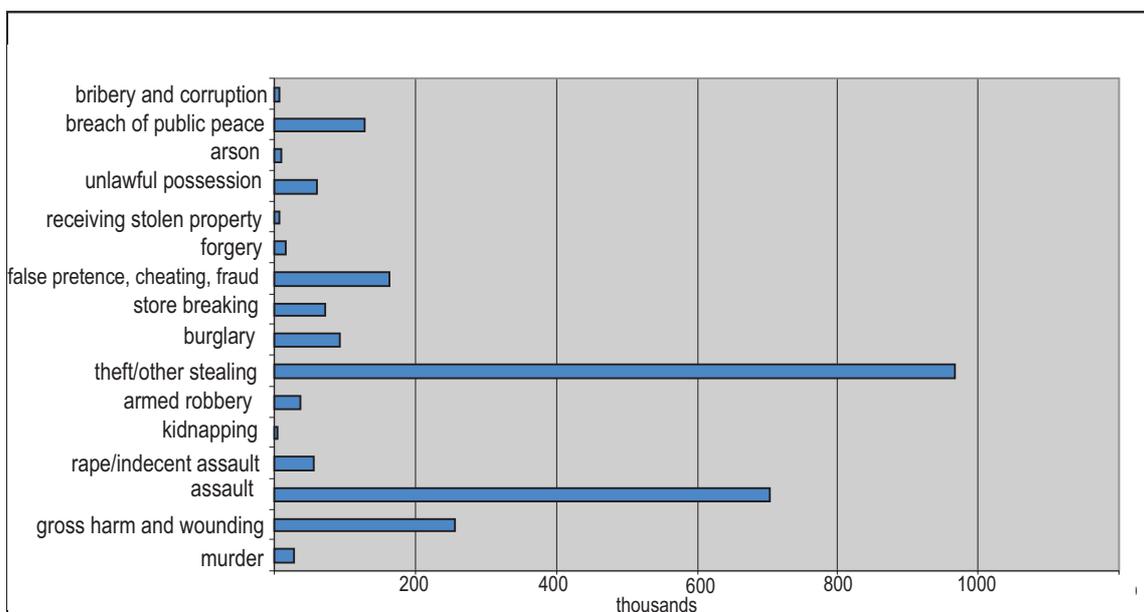
**Table 2: Assault on armed robbery: 2001 and 2003**

<i>Dimensions</i>	<i>2001</i>	<i>2003</i>	<i>Percentage Increase: 2003 over 2001</i>
Suspects arrested	5,232	8,200	58.6%
Robbers killed in combat	821	3,100	277.5%
Firearms recovered	1,031	3,451	240.6%
Ammunition recovered	13,452	30,653	127.0%
Stolen vehicles recovered	603	1,220	102.3%
Policemen killed in operation	23	58	152.1%

Source: Calculation from police raw-data by Odekunle (2004)

Data from Centre for Law Enforcement Education (CLEEN) Foundation indicate that theft/other stealing, assault, gross harm/wounding, false pretence/cheating/fraud, unlawful possession, breach of public peace, burglary, store breaking, murder, and armed robbery have recorded greater incidence than other crimes in Nigeria between 1980 and 2003 (Fig.1). As shown by Fig. 1, theft/other stealing represents about 38% of total crime incidence; assault represents about 27% of total crime incidence; gross harm/wounding represents about 10% of total crime incidence; false pretence/cheating/fraud represents about 6% of total crime incidence; breach of public peace represents about 5% of total crime incidence; and burglary represents about 4% of total crime incidence between 1980 and 2003.

**Figure 1: Total crimes committed in Nigeria (1980-2003).**



Further analysis of the CLEEN Foundation data gives the trends as shown by Table 3.

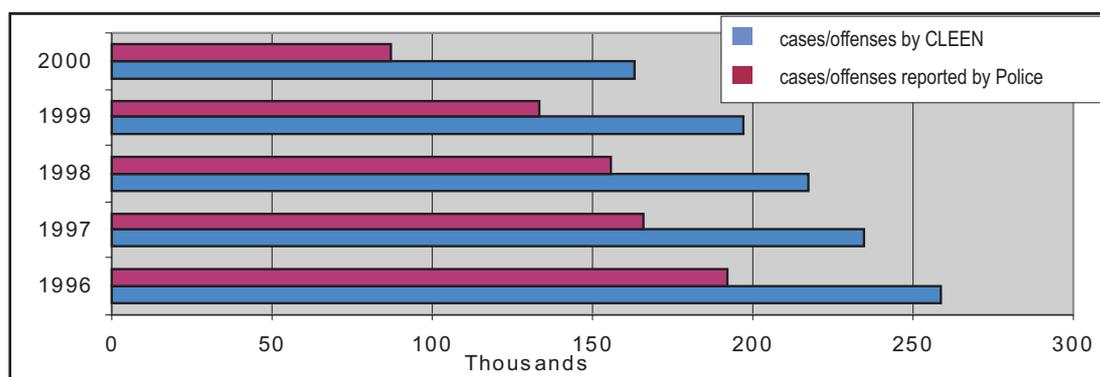
**Table 3: Trend in the incidence of crime in Nigeria (1980- 2003)**

CRIME	Percentage increase	CRIME	Percentage decline
Murder	1.7	Manslaughter	6.8
Attempted murder	1.4	Suicide	1.7
Attempted suicide	3.0	Assault	1.1
Gross harm and wounding	2.8	Child stealing	11.5
Slave dealing	0.8	Rape/indecent assault	0.2
Kidnapping	9.1	Theft/other stealing	3.0
Armed robbery	3.1	Burglary	0.5
False pretence/cheating/fraud	2.3	House breaking	0.2
		Store breaking	1.3
		Forgery	5.5
		Receiving of stolen property	7.7
		Unlawful possession	11.3
		Breach of public peace	17.5
		Perjury	1.8
		Bribery and corruption	0.2
		Escape from lawful custody	10.3

Source: authors' calculation from CLEEN Foundation's data

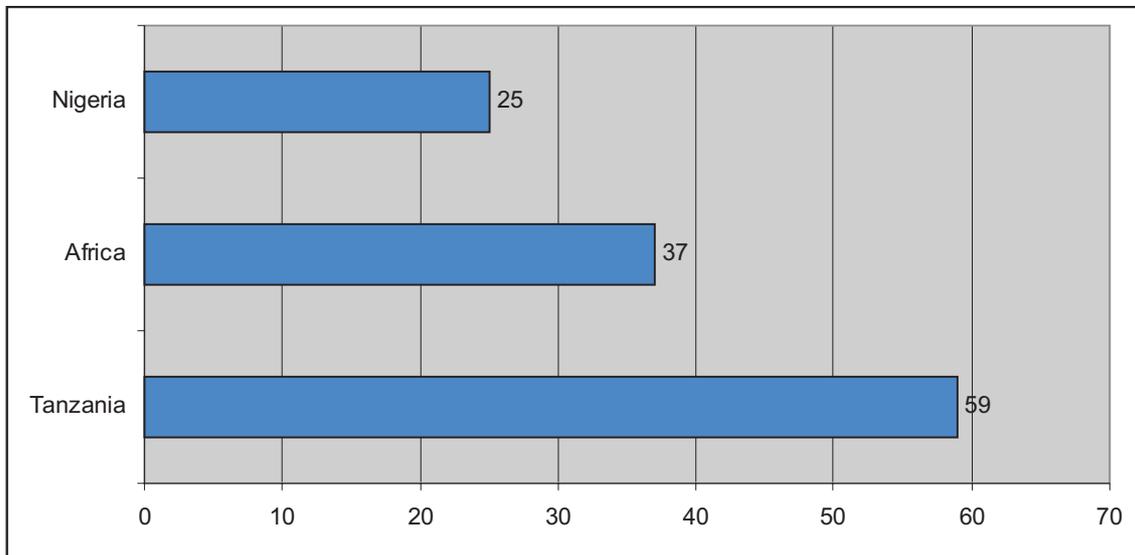
Though the data from CLEEN Foundation differs from police data between 1996-2000, both sources provide data with similar trends (Fig. 2). Fig. 2 shows a decline in the incidence of recorded crimes from both sources, although the incidence of crimes seems to be under-reported by CLEEN Foundation.

**Figure 2: Total cases/offences reported by Police and CLEEN (1996 2000)**



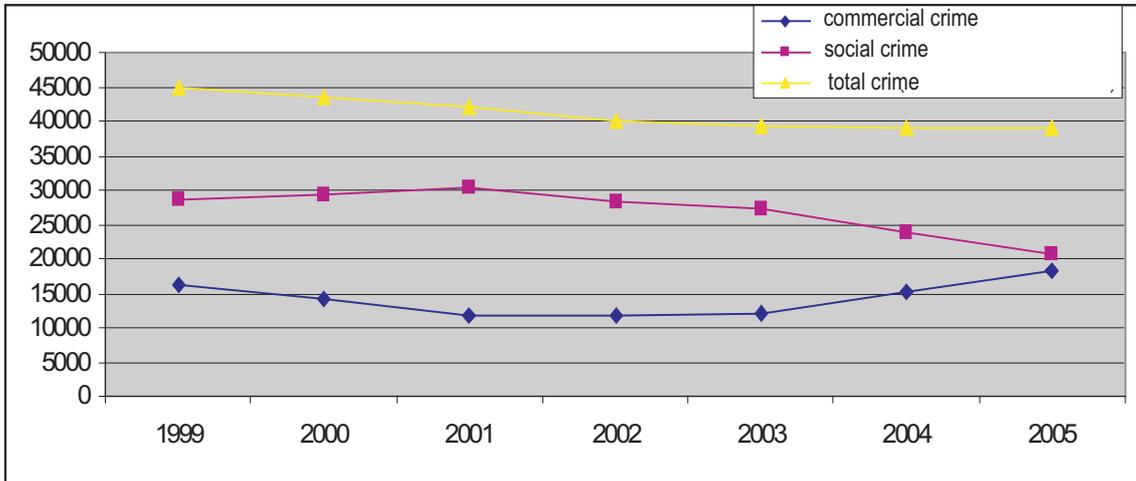
Even the crimes recorded by the police seem to be a far cry from the real situation. According to the International Crime Victims Survey (ICVS) in 2000, while the share of crime victims who reported to the police in Africa was 37%, the share of crime victims who reported to the police in Nigeria was 25% and that for Tanzania is far above the average for Africa at 59% (UNODC, 2005) [see fig. 3]. This is low for Nigeria, with a record of only 100 -500 cases reported per 100, 000 persons, when compared to South Africa, Zimbabwe, Bostwana and Swaziland with a record of above 5000 cases reported to the police.

**Figure 3: Share (%) of crime victims who reported the offence to the police (2000)**



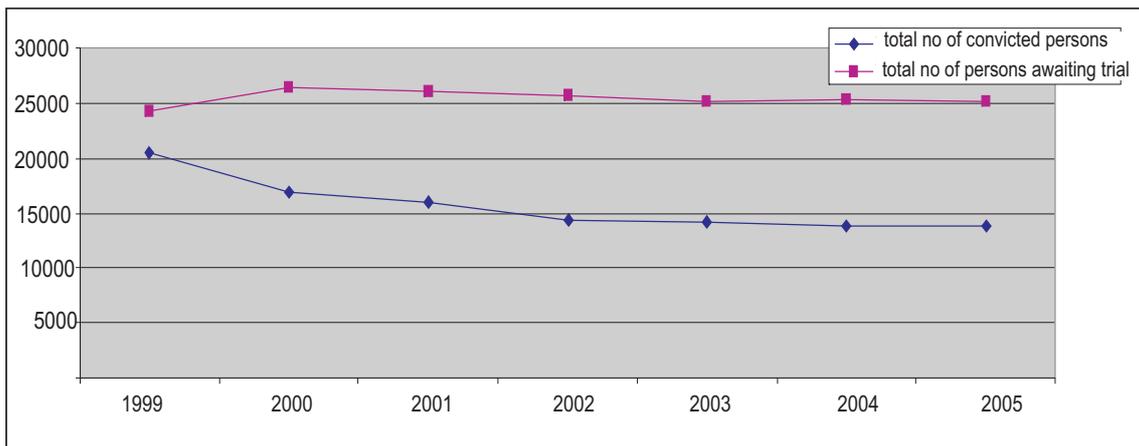
Furthermore, the 2006 quarterly (first quarter) economic performance review released by the National Planning Commission (NPC) indicates that total crime (commercial crime plus social crime) has declined slightly from 44, 797 cases in 1999 to 39, 091 cases in 2005 (Fig. 4). Fig. 3 also reveals that while social crime has declined by 39% from a total of 28, 747 cases in 1999 to 20, 691 cases in 2005, commercial crime increased by 13% from a total of 16, 050 cases in 1999 to 18,400 cases in 2005. Social crime includes violent crimes and other deviant behaviours, such as shoplifting, drug abuse or alcoholism, while commercial crimes are generally committed by businesses or by their directors. In the case of commercial crimes, cases of fraud may overlap with theft.

Figure 4: Trend of crime by type



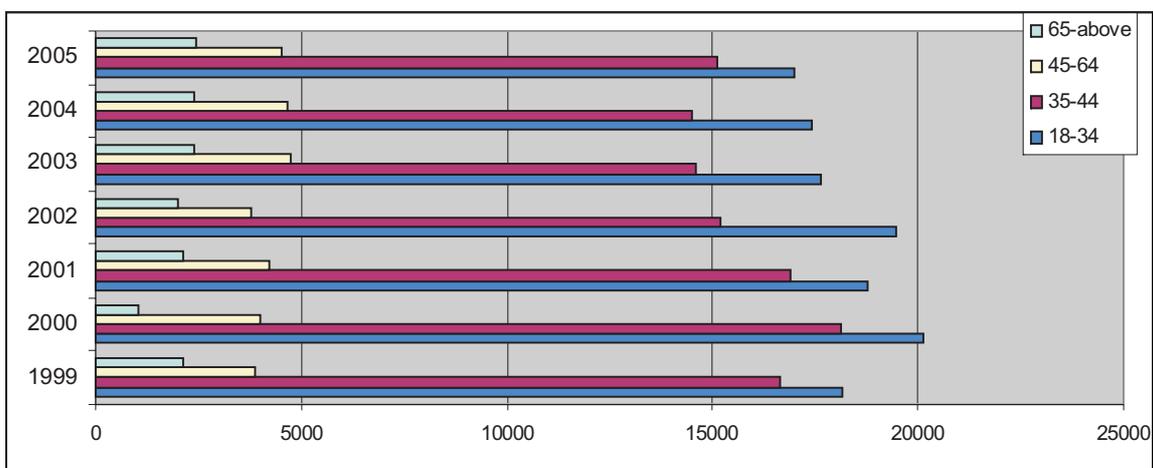
Recent data from the NPC (National Planning Commission) also indicate that while the total number of convicted persons has declined significantly (by 47%) between 1999 and 2005, the total number of persons awaiting trial increased slightly by 3% between 1999 and 2005 (Fig. 5). This shows that Nigeria's judicial system is slow and that the significant decline in the number of convicted persons within the period under review may be attributed to this slow system.

Fig. 5: Number of persons convicted and awaiting trial



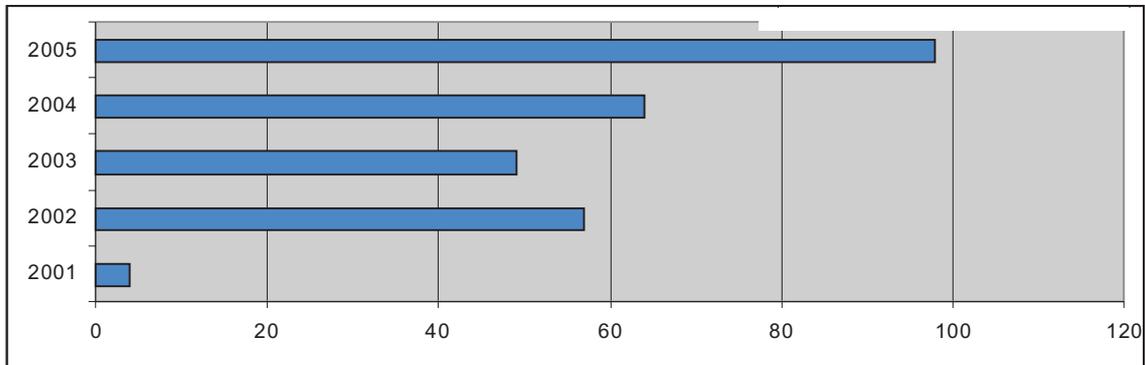
Further investigations reveal that crime in Nigeria is mainly a problem with ages between 18 and 44 (Fig. 6). The distribution of prison inmates by age indicates that between 1999 and 2005, the youths (aged 18 to 44) have dominated the crime scene in Nigeria. This may be an indication that governments at levels need to do something fast in order to check criminal tendencies among the youths.

**Figure 6: Distribution of prison inmates by age**

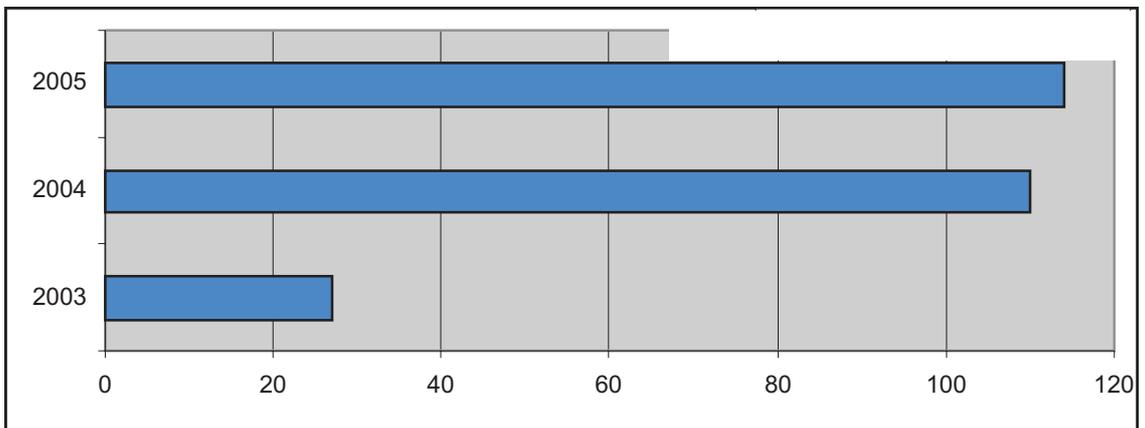


The nature of crimes involved include accepting/giving bribe, making false statements/returns, attempt to frustrate investigation, conferring corrupt advantage, gratification, fraud, contract bribery, corrupt enrichment, fund mismanagement, other related offences and cases without action. The number of cases handled by ICPC increased from 4 in 2001 to 98 in 2005 (Fig. 7), while the total number of economic and financial crime cases received by the EFCC (Economic and Financial Crime Commission) also increased from 27 in 2003 to 114 in 2005 (Fig. 8). The increasing number of petitions received by ICPC (Independent Corrupt Practices Commission) indicates the heightening of accountability especially in the public sector. Corruption and financial crime, no doubt can pollute the business environment and deter investments especially in terms of obtaining the necessary papers and documents for establishing businesses.

**Figure 7: Number of corruption cases handled by ICPC (2001-2005)**



**Figure 8: Total number of cases handled by EFCC (2003-2005)**



Further evidence on crime and insecurity in Nigeria is also available from surveys conducted in recent years. The World Business Environment Survey conducted by the World Bank in 2000 reported crime (organized and street crime) as a key investment climate problem in Nigeria. Also, the World Bank Regional Programme for Enterprise Development (RPED) firm survey in Nigeria in 2001 showed crime and insecurity as principal obstacles to business. More than 15% of firms reported crime and insecurity among the three most important business constraints in Nigeria and 27% of the firms ranked it as serious (Marchat et. al., 2002).

Perceptions of crime and security problem differed between regions and between foreign and domestic firms. Also, according to Marchat et. al. (2002), more than 30% of firms in Lagos rated crime as a four or five as compared to around 21% in the East or North. Among firms with

significant foreign ownership, 22% pointed to crime among the top three business problems, double the percentage of indigenous firms. Close to 43% of foreign firms ranked crime as a serious cost of doing business compared to less than 17% of indigenous firms. According to the UNIDO Nigeria Manufacturing Enterprise Survey conducted in 2001 and 2004, firms rated public security (the police) very low in overall quality, efficiency and integrity of services delivered, second worst after the electricity problem. Another survey of governance in Nigeria commissioned by the Federal Ministry of Finance and conducted by a consortium of Nigerian research institutions in 2001 also rated police/security as very poor in quality and very inefficient. Specifically, police services were rated “very poor” by the highest percentage of households as well as enterprises. Since much of existing evidence is aggregative for the country as a whole, BECANS has important niche in showing the differentiation of security situation across states. Much value will also be added by benchmarking states against one another in order to foster peer review and mutual learning among the states.

## **5.0 THE BECANS FRAMEWORK FOR ASSESSING SECURITY SITUATION**

Security is one of the benchmark areas of business environment evaluation under BECANS. The inclusion of security as a separate benchmark area derives from stakeholder consultation and scientific validation exercises which place security a priority factor in the business environment across Nigerian States. The security benchmark comprises six measures, namely, major crimes (crimes with violence); minor crimes (crimes without violence); police resources, cost and availability; perception of security situation by business enterprises; emergency preparedness and insurance; and security policies, strategies and programmes. These measures reflect different dimensions of the security challenges in the business environment. Each measure is operationalised by a set of indicators, with pre-scored options or values reflecting relative performance on the measuring scale. The indicators will be empirically evaluated using verified quantitative data collected from public sector agency or qualitative data obtained through perceptions-based survey of firms, whichever is applicable. The principle of the BECANS methodology is to comparatively assess and rank the performance of respective states on the indicators based on scores corresponding to the observed security parameters. Comparative assessment of security situation across states is vital for the demonstration of success stories and best practices.

## **6.0 CONCLUSION AND LESSONS**

Crime and insecurity are threats to social and economic life. An insecure business environment deters investors, entrepreneurs and managers. It increases the cost of doing business, business risks and uncertainty. While official national statistics point to declining crime rates since 1996, it is not clear the extent to which the data is representative of security trends in the country, given the possible incidences of under-reporting. The disparity between the trends shown by national statistics and the evidence from surveys further reinforces the possibility of underreporting. Many recent surveys identify security as one of the major concerns of investors and businesspeople in Nigeria. Tackling crime and insecurity is therefore a major challenge of business environment reforms in Nigeria.

One important issue for BECANS, therefore, is that perceptions of security greatly influence business and investment decisions, irrespective of the official statistics. Public or business concern about security and crime and the extent to which they worry about crime is very vital for reaching good business judgement since officially reported crimes may indeed constitute only a fraction of total number of actual crimes. Adequate emphasis needs to be given to perceptions about the security threat in the business environment.

Another important issue in the debate on security is the sharing of responsibility between the federal, state and local governments. Questions about the powers and roles of different tiers of government in providing public security remain at the heart of successive constitutional debates in the country. BECANS will provide credible and relevant data to inform advocacy for reforms in security and thereby stimulate actions by respective state governments. BECANS will increase appreciation for data and statistics on security situation in the country. The evidence articulated under BECANS will drive public debate on security policies, particularly the question of responsibilities between the three tiers of government in ensuring security.

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