



IMPACT OF CAPITAL FLIGHT AND EXCHANGE RATES ON DOMESTIC INVESTMENT IN NIGERIA

Muftau Adeniyi Ijaiya¹&Kolawole Alabi Babaita²

¹Department of Finance, University of Ilorin, Ilorin, Nigeria

²Department of Banking and Finance, Kwara State Polytechnic, Ilorin

08035751946: babaitakolaphd@gmail.com

Abstract

The importance of capital flight and exchange rate on domestic investment has been realised by successive administrations in Nigeria. Yet, the continued occurrence of capital flight in Nigeria has aggravated the shortage of resources for development and indirectly led to a decline in domestic investment. Hence, the need to examine the impact of capital flight and exchange rates on domestic investment in Nigeria. Specifically, this study examined the effect of capital flight on domestic investment in Nigeria; evaluated the impact of exchange rates on domestic investment in Nigeria as well as examined the direction of causality between capital flight and domestic investment in Nigeria. In line with the objectives, autoregressive distributed lags (ARDL) model and the Pairwise Granger Causality Test were used to analyse the time series data collected from 1981 to 2016 from the Central Bank of Nigeria Statistics Bulletin. The study revealed that there is existence of a significant relationship between exchange rates and domestic investment in Nigeria at 5% significance level. Furthermore, the study revealed that capital flight is a significant determinant of domestic investment at 5% significance level. Finally, the study revealed that there exists a uni-direction causality between capital flight and domestic investment. The study concluded that capital flight and exchange rates have a negative impact on domestic investment in Nigeria. The study therefore, recommends that since exchange rates are known to affect domestic investment therefore the exchange rates should be managed in a way that it will be favorable to domestic investment in Nigeria.

INTRODUCTION

Nations have been known to develop through the accumulation of savings that have been productively invested which has yielded returns in different sectors of the economy. These savings are employed to provide social and infrastructural facilities (such as housing, health, transport and education) (Aderoju, 2017) which has prompted monetary authorities to put in place regulations and policies that promotes domestic savings within the economy, since the main source of finance for investment is savings. These capital flows became quite pronounced in the nineteenth century, because of the upheavals in Europe, between the countries and continents of the Northern Hemisphere. These funds were used for the development of infrastructural facilities and improvement of local industries. Domestic investment is one of the most important components of economic growth because it serves as engine of the economic cycle (Bakari, 2017).

According to Adetiloye (2012), domestic investments in Nigeria have contributed about 54.1 percent of Gross Domestic Product (GDP) by employing around 10 per cent of Nigerian labour force. It has therefore been realised that domestic investment growth in Nigeria requires growth in



savings; stability of exchange rate; political stability and control of capital flight (Adedayo & Ayodele, 2016).

Notwithstanding, absence of investible resources required to finance domestic investment has been linked with capital flight, making the nation look for foreign funds to fill the gaps created by insufficient funds and thereby escalating the debt profile of the country. Capital flight seizes most economies' monetary resources that might have been used for financing domestic investment by reducing tax revenues associated with such resources. It is befuddling that financial resources are flown out of developing nations, despite the fact that financial assets are generally needed to enhance economic growth and development in developing nations (Salandy & Henry, 2013). Such lost assets do not add to the advancement of domestic activities or to the improvement of welfare of domestic resident. Fofack and Ndikumana (2010) noted that capital flight constitutes serious obstacle to domestic resource mobilization that are needed for investment in Africa.

The continual capital flight has forced Nigeria to obtain external borrowings to augment domestic funds for economic growth. The consequence is the burden of debt servicing which may ultimately plunge the country to never-ending servitude of poverty. Fluctuating exchange rates has been the cost of this borrowings. Thus, exchange rate has received considerable attention in terms of its influence on investment and economic growth. Policy makers have often been confronted with the problem of determining an appropriate exchange rate system through which the domestic economy is linked to the global economy. Yet the Naira exchange rate saw a persistent slide in all the segments of foreign exchange market (that is, official, bureau de change and parallel markets). Hence, the need to examine the impact of capital flight and exchange rates on domestic investment in Nigeria.

Several studies such as Salandy and Henry (2013); Adedayo and Ayodele (2016); Kolapo and Oke, (2012) were carried out on the impact of capital flight on economic growth in Nigeria. Other studies such as Mileva (2008); Salandy and Henry (2013); Adetiloye (2012) and Aderoju (2017) examined the impact of capital flight on domestic investment without considering the causal relationship of capital flight and domestic investment. Therefore, there is considerable uncertainty about the causal relationship between capital flight and domestic investment. Similarly, previous studies made use of ordinary least square and fully modified ordinary least square in achieving their objectives neglecting autoregressive distributed lags (ARDL) model and Granger causality test. Hence, this study uniquely employs autoregressive distributed lags (ARDL) model and Granger causality test as the statistical tool in achieving the objectives of the study. This study examined the impact of capital flight and exchange rates on domestic investment in Nigeria. Specifically, this study examined (i) the effect of capital flight on domestic investment in Nigeria; (ii) the effect of exchange rates on domestic investment in Nigeria and (iii) the direction of causality between capital flight and domestic investment in Nigeria. However, the hypotheses were tested and stated in null form as follows:

Ho₁: Exchange rates do not have significant effect on domestic investment in Nigeria.

Ho₂: Capital flight does not impact significantly on domestic investment in Nigeria.



Ho₃: There is no significant causal relationship between capital flight and domestic investment in Nigeria.

LITERATURE REVIEW

Conceptual Issues on Capital Flight

Capital flight can be defined as all private capital outflows from developing nations, be it short or long term, portfolio or equity investments (Ajayi (1992 and Oloyede, (2002)). Schneider (2003) defines capital flight as that part of outflow of resident capital that is motivated by economic and political uncertainty. This suggests that such political uncertainty will involve likely change of government or governmental policies as signified by country instability and all forms of minor and significant changes in the political situation of the country.

According to Aderoju (2017), capital flight occurs through a substantial transfer of domestic private savings abroad, the continuous transfer of these savings can prompt a serious pernicious impact on domestic saving, thereby forestalling the bank's capacity to give credit to domestic investors which will promote and enhance economic growth and development. In developing countries, capital flight reduces cases of diminished reserve increases inflation, and decreases tax revenue, thereby hindering domestic investment and undermining free trade. Vu-Le and Zak (2001) conclude that regardless of how capital flight is defined or measured, political risk matters when no other macroeconomic variables are taken into account.

The Concept of Exchange Rates

The exchange rate is the rate at which one currency is traded for another. It is the price or cost of one currency in terms of another currency (Jhingan, 2005). Exchange rate is the price of one unit of a foreign currency in respect of the domestic currency. Foreign exchange in Nigeria is any currency other than the Nigerian currency and it includes coins and notes which might have been a legal tender at any time in any territory outside Nigeria (Central Bank of Nigeria, 2007).

In particular, the International Monetary Fund (2002) characterises foreign exchange as the monetary authorities' claim on foreigners in the form of bank deposit, short-term and long term government securities, treasury bills, and other claims acceptable in the situations of disequilibrium of balance of payments, including non-marketable claims arising from inter central banks and inter-government arrangements, without regard to whether the claim is denominated in the currency of the debtor or creditor.

Exchange rate is the rate at which a country's currency is traded for the currency of another country (Dornbusch, 1976). Obadan (1996) characterises exchange rate as a numerical articulation of the worth of the currency of one country in terms of another country's currency.

The Concept of Domestic Investment

Investment goods are acquired, are not consumed today, yet, utilised in the future to create further capital (wealth). In finance, an investment is a financial asset acquired with the possibility that the resource will turn out income in the future or appreciate and be sold at a higher price. Gross private domestic investment is the proportion of investment used to compute Gross Domestic Product (GDP). This is a significant component of GDP since it gives an indicator of the future productive capacity of the economy (Adetiloye, 2012). However, domestic investment is used for increase in



total capital stock of an economy. This is done by procuring further capital-producing assets that can generate income within the domestic economy rather than abroad. Physical assets particularly add to the total capital stock.

According to Aderoju (2017) domestic investment is the commitment of resources made with the desire for realizing benefits which are expected to occur over a reasonably long period of time. It is an economic activity where an individual, group of individuals or government buys assets with the hope of receiving adequate risk premium (returns) overtime. Boosting economic development requires higher rates of economic growth than savings can provide.

Theoretical Review

Flexible accelerator theory or partial adjustment model of investment was adopted in this study and was suggested by Lucas (1967). The theory postulates a constant proportion of adjustment towards the desired level. The flexible accelerator theory removes one of the major weaknesses of the simple accelerator principle which holds that the capital stock is optimally adjusted without any time lag. In the flexible accelerator, there are lags in the adjustment process between the level of output and the level of capital stock. This model further assumes that investment rate of a firm is determined by the gap between the desired capital stock (K^*) and existing capital stock (K). As a result, firms plan to close the capital stock gap. The equation for net investment is as stated below:

$$I_t = K_t - K_{t-1} = \delta (K_t^* - K_{t-1}) \quad (2)$$

Where I_t denotes investment at time t , ' K_t ' denotes the actual capital level at time t , K_t^* represents the desired capital stock by local firms at time t ; K_{t-1} denotes the previous time's stock of capital and δ denotes adjustment coefficient. Investment in less developed countries depends on public investment, GDP, urban population, bank credit, trade openness, foreign direct investment, government institutions vector (democracy and bureaucracy) 5 and others (Hall and Jorgensen, 1967). Thus, we can specify an investment model in a function form as:

$$I = f(\text{credit, Pub, Urban, trade, FDI, Govern}) \quad (3)$$

Where ' I ' represents investment, credit represents bank credit, Pub is public investment, urban is urban population, trade represents trade openness, FDI denotes foreign direct investment and Govern represents a vector of government institutions (bureaucracy and democracy) (Gachoki, 2016).

The liquidity theory proposes that fluctuations in profits earned cause fluctuations in investment (Tinbergen, 1939). The theory further argues that profits earned are used to predict expected profits. Moreover, the level of investment is constrained by availability of funds. The firm may opt to source for funds externally to finance its investment where internal sources of funds are exhausted (Mbaye, 2012). This theory is of relevance to this study as it affirms that the availability of funds influences the level of domestic investment in a country and that the higher the capital flight the lower the availability of funds, hence, influences negatively on domestic investment. Furthermore, this theory is of importance because it assumes a time lag of domestic investment which was considered in this study.



Empirical Review

A research by Mbaye (2012) on factors influencing domestic private investment in Kenya using the data covering 1970-2010 established that there is a negative and significant influence on private investments. Conversely, real public debt, inflation, public investment, deposit rates, financial liberalization and foreign exchange reserves have a negative and insignificant impact on private investments.

Adaramola and Obalade (2013) investigated whether capital flight have force to bear on Nigerian economic growth between 1981 and 2010, using co-integration and ordinary least square in measuring capital flight and gross domestic product. The study shows that capital flight had a negative impact on economic growth on the short run but positive and significant impact on economic on the long run in Nigeria.

Olatunji and Oloye (2015) examined the impact of capital flight on economic growth in Nigeria from 1980 to 2012. The study employs Johansen co-integration, ordinary least square and error correction mechanism in measuring capital flight, foreign reserves, external debt, foreign direct investment, current account balance and gross domestic product. The results revealed among others that capital flight had negative impact on economic growth.

Onoja (2015) analysed the dynamic impact of capital flight on real exchange rate in Nigeria from 1981 to 2009. The study employed co-integration and error correction mechanism to measure capital flight, foreign direct investment, external debt, current account deficit and total external reserves. The study shows that long run relationship does not exist between capital flight and exchange rate. Also, capital flight has no dynamic influence on real exchange rate.

Weeks (2015) examining the impact of capital flight in Sub Saharan Africa for the period 1970 to 2005. The study employed multiple regression analysis and it was found that in a situation of bad institutional quality and of poor governance, revenues, natural resources, aid and external debt are used in part to finance capital flight.

Vukenkeng and Mukete (2016) examined capital flight and economic growth in Cameroun from 1970 to 2013. The study employed full modified least square method in estimating the relationship between capital flight, gross domestic product, foreign direct investment, external debt, inflation and exchange rate. The results revealed among others, a negative and significant relationship between capital flight and gross domestic product.

Adedayo and Ayodele (2016) empirically analysed the impact of capital flight on the Nigerian economy from 1980 to 2014. The study used gross domestic product, capital flight and exchange rate as variables and employed ordinary least square and co-integration as methods. The variables have significant effect on the positive direction.

Kingsley and Eberechi (2016) using government expenditure, capital flight, external debt, government revenue, economic openness and real exchange rate as variables examined the influence of capital flight on budget implementation in Nigeria between 1986 and 2014. With the



use of co-integration and vector error correction revealed that, long run relationship exists between the variables. Also, capital flight has a positive and significant influence on government spending.

Aderoju (2017) examined the relationship between capital flight and domestic investment in Nigeria. Johansen Cointegration test and Ordinary Least Square estimating technique (OLS) were employed to carry out a detailed analysis of the endogenous and exogenous variables of the model which include Gross Domestic Investment (GDINV), Capital Flight (CAPF), Exchange Rate (EXGR) and Inflation Rate (INFR). The results show that capital flight has a statistically significant positive relationship with gross domestic investment in Nigeria contrary to a-priori theoretical expectation. The result further revealed that a one naira increase in capital flight would bring about 13.74 units rise in gross domestic investment. The results also showed that there exists a statistically significant positive relationship between exchange rate and gross domestic investment. A one naira increase in exchange rate would bring about 4.84 units rise in gross domestic investment.

METHODOLOGY

This study adopted an ex-post-facto method of research design, this is because the investigation started after the fact has occurred without interference from the researcher and also for the fact that data needed for the study already exists. The secondary data used in this study were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin within the time frame of 1981-2016 and the time series data were subjected to autoregressive distributed lags model (ARDL).

Model Specification

To achieve the objectives, the model of the study adapted the work of Aderoju (2017) and was stated as follows:

DI = f(CAPF, EXRA, INFL).....(3.1)

Econometrically, it can be written as:

DI_t = β₀ + B₁CAPF_t + β₂EXRA_t + β₃INFL_t + μ_t.....(3.2)

To suit the purpose of this study, the model was modified to include interest rate that greatly influences the domestic investment of any nation and thus the model was restated as follows:

DI_t = β₀ + B₁CAPF_t + B₂EXRA_t + β₃INFL_t + β₄INTRA + μ_t.....(3.3)

To normalise the data noises, the model was transformed into natural logarithm as follows:

lnDI_t = β₀ + β₁lnCAPF_t + β₂lnEXRA_t + β₃lnINFL_t + β₄lnINTRA + μ_t.....(3.4)

Due to data stationarity at order of (1) and (0) and existence of cointegration between the variables, the autoregressive distributed lags-error correction (ARDL-ECM) model was specified as follows:

ΔlnDI_t = β₀ + β₁ΔlnDI_{t-1} + β₂ΔlnDI_{t-2} + β₃ΔCAPF_{t-1} + β₄ΔCAPF_{t-2} + β₅ΔlnEXRA_{t-1} + β₆ΔlnEXRA_{t-2} + β₇INFL_{t-1} + β₈INFL_{t-2} + β₉ΔINTRA_{t-1} + β₁₀ΔINTRA_{t-2} + β₁₁ECM_{t-1} + μ_t(3.5)

Where:

DI= Domestic Investment

CAPF = Capital Flight



INFL= Inflation

EXRA = Exchange Rate

INTRA= Interest Rate

Δ = notation for differencing

ln = notation for natural log

μ = Error term

β_0 = Constant

β_1 - β_{10} = Slope coefficients measuring the short run relationship between the dependent and independent variables.

β_{10} = Slope coefficient of error correction term measuring the long run relationship

RESULTS AND DISCUSSION

Table 4.1: Result of Unit Root (Stationarity) Test

Variables	Augmented dickey-fuller (ADF)	5% Critical level	Philip-Perron (PP)	5% critical level	Order of integration	ADF	PP
DI	-3.920558	-3.603202	-4.912139	-3.574244	I(0)	I(0)	I(0)
CAPF	-4.056293	-3.557759	-3.799008	-3.552973	I(1)	I(1)	I(1)
EXRA	-5.268181	-3.552973	-5.268197	-3.552973	I(1)	I(1)	I(1)
INF	-3.874811	-3.622033	-4.080318	-3.557759	I(0)	I(0)	I(0)
INTRA	-7.956984	-3.552973	-3.055098	-2.951125	I(1)	I(1)	I(0)

Source: Author’s Computation (2021)

Non-stationarity is a common feature of time series data. The problem with non-stationary or trended data is that the standard Ordinary Least Square estimator produces bias and incorrect regression estimates which mislead the researcher to incorrect conclusions. It is therefore important to perform unit root test to determine the order of integration of the series and avoid spurious regression. Regression becomes spurious when both the dependent and independent variable (s) are not stationary at level. To avoid this problem, Augmented Dickey Fuller (ADF) and Philips-Perron unit root tests were conducted and the result was presented in table 4.1 above.

The results of both the Augmented Dickey Fuller and Philips-Perron test reveal that DI, INT and INF are stationary at levels. That is integrated of order zero [I(0)] while CAPF and EXRA are stationary at first difference, which mean that they are integrated of order one, that is I(1). However, the Augmented Dickey Fuller test shows that INTR is I(1) while Philips-Perron test shows that the variable is I(0). In this case, Philips-Perron test supersedes because it takes care of possible heteroscedasticity. This means that DI and INF as well as INTRA are stationary at levels while CAPF and EXRA are stationary at first difference. To estimate these series with the combination of I(0) and I(1), the ARDL Bound Test of cointegration is conducted and the result is presented below.

Table 4.2: Cointegration Test (Bound Testing Approach)

Model	F-statistic	Lower Bound (at 5%)	Upper bound (at 5%)	Remarks
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DI 3.913 2.12 2.31 Significant

Source: Author’s computation (2021)

The result of the unit root tests shows that some variables are integrated of order one I(1) while others are stationary at level I(0). In this way, Autoregressive Distributive Lag (ARDL) Bound test is the appropriate test of cointegration. The results of the test indicate that the F-statistics of DI model is 3.913 with Critical Values of upper bound being 2.31. Therefore, the F-statistic of the model is higher than the Critical Value of the Upper Bound in the model. Implying the rejection of the null hypothesis that there is no cointegration in the model. In short, the ARDL bound test of cointegration shows that there is long-run equilibrium relationship between the variables in the model. This led adoption of autoregressive distributed lags (ARDL) for this study.

Table 4.3: Regression Result of the Domestic Investment model

$\Delta \ln DI$	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.042621	0.071537	-0.595785	0.5624
$\Delta \ln DI(-1)$	0.817332	0.229173	2.811430	0.0157
$\Delta \ln DI(-2)$	0.618205	0.287610	2.149454	0.0527
$\Delta CAPF(-1)$	-2.81E-06	8.92E-07	-3.145521	0.0084
$\Delta CAPF(-2)$	-1.10E-06	9.15E-07	-1.198591	0.2538
$\Delta \ln EXRA(-1)$	0.166771	0.066081	2.523736	0.0064
$\Delta \ln EXRA(-2)$	0.139855	0.098605	1.418329	0.1815
$\Delta INFL(-1)$	-0.003827	0.001691	-2.263114	0.0430
$\Delta INFL(-2)$	-0.000539	0.001582	-0.340951	0.7390
$\Delta INTRA(-1)$	-0.011050	0.009049	-1.221141	0.2455
$\Delta INTRA(-2)$	-0.001300	0.009110	-0.142668	0.8889
ECTDI(-1)	-0.680123	0.259510	-2.391248	0.0074
R-squared	0.767281	F-statistic	9.082335	
Adjusted R-squared	0.738810	Prob(F-statistic)	0.007763	
Log likelihood	48.30698	Durbin-Watson stat	2.006693	

Source: Author’s computation (2021)

The autoregressive distributed lags model (ARDL) results for this study is presented in table 4.3. The R-squared value of 0.767 affirms the good fit of this model indicating that 76.7% of the systematic variations in domestic investment were explained by capital flight (CAPF), exchange rate (EXRA), inflation rate (INFL) and interest rate (INTRA).

Further, the term- ECTDI(-1) is a coefficient of the long-run equilibrium relationship between the domestic investment and capital flight as well as exchange rate (EXRA), inflation rate (INFL) and interest rate (INTRA). Thus, the result in table 4.3 shows a coefficient of -0.68 implying that domestic investment is getting adjusted to the shock from capital flight, exchange rate, inflation



and interest rate while moving from the state of disequilibrium in the short run to the state of equilibrium in the long run at a speed of 68% every year.

A close examination of the results for short-run relationship between domestic investment and fundamental economic variables shows that contemporary value of change in natural log of domestic investment ($\Delta \ln DI$) is positively correlated with first and second period lags of change in natural log of domestic investment ($\Delta \ln DI(-1)=0.817$ and $\Delta \ln DI(-2) = 0.618$). These coefficients are statistically significant at 5% and 10% levels of significance respectively given the t-statistic of 2.811 and 2.149. This implies that previous domestic investment can equally influence the current contribution of the sector provided that all other things being equal.

The ARDL model results indicate that change in natural log of domestic investment is inversely related to change in capital flight lagged by one period ($\Delta CAPF(-1) = 2.81$). Given a t-statistic of 3.1455, the null hypothesis of no significant relationship can be rejected at 1% level of significance. This means that capital investment would reduce domestic investment ceteris paribus.

On the contrary, the coefficient of change in log transformed exchange rate lagged by one period ($\Delta \ln EXRA(-1) = -0.167$) is positively associated with change in logarithmically transformed domestic investment. The statistical significance of the coefficient is established by t-statistic of -2.524 at 1% level of significance. This implies that 1% increase in exchange rate would bring about 0.167% increase in domestic investment in Nigeria assuming that all other factors are held constant.

The results also indicate that change in natural log of domestic investment and first lag of change in inflation rate are negatively correlated ($\Delta INFL(-1) = -0.0038$). Given a t-statistic of -2.263, the null hypothesis that inflation rate has no significant effect on domestic investment can be rejected at 5% level of significance. Thus, a rise of 1% in inflation rate would bring about a decrease of 0.0038% in domestic investment assuming that all other factors are held constant. The table also reveals that domestic investment is inversely related to interest rate but the relationship is not statistically significant due to low t-statistic (-1.221 and -0.1426).

Above all, the F-statistic of 9.082 establishes the overall significance of the ARDL model. The null hypothesis that capital flight, exchange rate, inflation rate and interest rate are jointly equal to zero can be rejected at 1% level of significance. Hence, capital flight has significant effect on the domestic investment in Nigeria.

Table 4.4: Result of Diagnostic Test for all the Models

Models	Breusch-Pagan-Godfrey Heteroscedasticity Test:		Breusch-Godfrey Serial Correlation LM Test	
	F-statistic	P-value	F-statistic	P-value
DI model	2.822988	0.2172	0.771404	0.4168

Source: Author’s Computation, (2021)



Breusch-Pagan-Godfrey test of Heteroscedasticity and Breusch-Godfrey’s Serial Correlation LM test were conducted for the model in this study and the results are presented in table 4.4. In this case, the result of the Breusch-Pagan-Godfrey’s test of heteroscedasticity presented in table 4.4 shows that the F-statistics of the test is 2.822988 with p-value 0.2172 for the model on DI. Since, the P-values is greater than 5%, the null hypothesis is not rejected. Meaning, there is no heteroscedasticity in all the models.

Another test conducted in this study is Breusch-Godfrey Serial Correlation LM test. The F-statistics for serial correlation tests for the model is 0.771404. Since the probability values of the F-statistics of the model is greater than 5% level of significance, the null hypothesis is accepted and we conclude that there is no serial correlation in the model. Therefore, the results of the models are free from the problem of heteroscedasticity and serial correlation (autocorrelation).

Table 4.5: Result of the granger causality test

Null Hypothesis:	F-Statistics	Prob
CAPF does not Granger Cause DI	0.24495	0.0045
DI does not Granger Cause CAPF	0.58118	0.5663
EXRA does not Granger Cause DI	1.03117	0.0207
DI does not Granger Cause EXRA	0.58349	0.5651
INF does not Granger Cause DI	0.13105	0.0378
DI does not Granger Cause INF	0.49573	0.0018
INT does not Granger Cause DI	0.12240	0.8853
CAPF does not Granger Cause EXRA	1.0055	0.3796
EXRA does not Granger Cause CAPF	1.00550	0.3481
CAPF does not Granger Cause INF	0.34496	0.0114



INF does not Granger Cause CAPF	0.05517	0.9464
CAPF does not Granger Cause INT	5.50207	0.0102
INT does not Granger Cause CAPF	1.88393	0.0122

Source: Author’s computation, (2021)

The result of the causality test in table 4.5 shows that capital flight will have a negative impact on domestic investment. The result indicates that at least, a unidirectional causality exists between DI, EXRA, INF and INT. The implication is that EXRA, INF and INT can all granger cause domestic investment in Nigeria.

Discussion of Findings

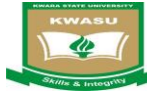
Autoregressive distributed lags (ARDL) model was used to investigate the effects of capital flight on domestic investment in Nigeria. The result of the study shows that capital flight (CAPF) is negatively related to domestic investment which is consistent with the study of Fofack and Ndikumana, (2010).

It was also revealed that exchange rates are negatively related to domestic investment while the study shows an evidence of long run equilibrium impact which is consistent with the work of Bakari (2017) and therefore, the null hypothesis that states that there is no significant effect of capital flight on domestic investment should be rejected.

The study further reveals that there exists a causal relationship between capital investment and capital flight which is also consistent with Adedayo and Ayodele 2016. The study is also consistent with the flexible accelerator theory which postulates that the level of investment is constrained by availability of funds. Hence, capital flight influences investment negatively. This study is also consistent with previous studies such as Mileva (2008); Salandy and Henry (2013); Adetiloye (2012) and Aderoju (2017).

CONCLUSION AND RECOMMENDATIONS

Based on the findings of this study, the study concludes that there is a negative relationship between the capital flight and domestic investment. On the other hand, the study concluded that macro variables are significant determinants of domestic investment. Finally, the study concluded that there exists a causal relationship between capital flight and domestic investment in Nigeria. The study recommends that exchange rates are known to affect domestic investment therefore exchange rates should be managed in a way that it will be favorable to domestic investment in



Nigeria. It is more important for the government to make the domestic economy more attractive for the investors by creating a wider menu of savings induced policies on which domestic capital can be assessed and invested at lower rate comparable to foreign financial instruments. The Nigerian government should re-enact and pursue consumption switching policies to cushion the effect of ever increasing exchange rate and inflation rate which have negative effect on growth and development of the economy as well as domestic investments. Policy makers should also ensure that there are stringent reforms to stem the tide of capital flight and also encourage repatriation of fled capital that can help boost the level of domestic investment.

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