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DOMESTIC INVESTMENT AND CAPITAL FLIGHT NEXUS IN NIGERIA: EMPIRICAL EVIDENCE FROM NEW DATA SET[6]

This study investigated the impact of capital flight on domestic investment in Nigeria. The data for the study were mainly sourced from CBN statistical bulletins for the period 1981 to 2017. However, the capital flight data series used in this analysis were obtained from new estimates of capital flight from the Political Economy Research Institute (PERI) at the University of Massachusetts as constructed by Ndikumana and Boyce. The Auto-Regressive Distributed Lag (ARDL) bounds test approach was adopted for the study. The result showed that capital flight significantly decreases domestic investment in both the short run and long run. Other variables found to have a significant effect on domestic investment include credit to the private sector and inflation rate. With these findings, the study, therefore, recommended that policymakers in Nigeria should consistently evolve policy measures that will curtail capital flight and make the economy competitive and more attractive for domestic investment. Others include anti-inflationary policies, strengthening anti-graft agencies to improve their effort in tackling laundering of public funds and the maintenance of more stable macroeconomic indicators which allow foreign capital inflow so as to boost private domestic investment.
Keyword: Capital flight; Domestic investment; Credit
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1. Introduction

Capital flight has been a major challenge facing developing countries. The majority of these countries have struggled tremendously to be able to save up adequate capital of their own to

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aid domestic investment and push economic growth, but despite their efforts; these countries are still faced with the undesirable turnout as their effort has been severely influenced by the legal and illegal escape of domestic capital abroad (Ndikumana, Boyce, 2021). For a developing country such as Nigeria, the inherent need for adequate capital formation cannot be overemphasized, and the consequences of persistent outflow of local capital away from Nigeria is undeniable, given a look at the sluggish progress in most of the economic sectors due to lack of adequate investment.

.In Nigeria, the continuous shortfall in investment which could be attributed to poor investment climate, unstable polity, erratic policy changes and weak military and civilian governance, has greatly affected sustainable production and, as a result, limited the ability of the economy to reach its full economic potentials in terms of growth and development (Isaac et al., 2021; Orji et al., 2021). However, for any developing economy to find itself in this undesirable state where the domestically generated capital consistently flow out of the economy to find solace abroad leaves much to be desired. Such an economy will face a huge drop in autonomous investment, and output generation will suffer immensely as infrastructure deteriorates (Anthony-Orji et al., 2020; Ekeocha et al., 2021). Considering the state of infrastructural deficit facing Nigeria, the capital needed to establish, restore and renovate infrastructure is rarely available domestically, and in most cases, when sourced from abroad at some expense, the fund will be siphoned, thereby creating a wide gap in the nation's external debt.

In the Nigerian case, some of the efforts by Nigerian leaderships to curb capital flight and illicit financial flows over the decade include the establishment of the Economic and Financial Crime Commission by the Obasanjo regime. This effort was to dictate and prosecute financial crime offenders and help ensure sanity in financial-related issues, the introduction of a single windows trade platform in all of the country's ports of entry and ensuring company registration linking the Federal Inland Revenue Service (FIRS) to the Corporate Affairs Commission (CAC) website to be able to gain a proper monitory channel. Others include the introduction of the Voluntary Assets and Income Declaration Scheme (VAIDS), a tax amnesty scheme for tax offenders; the Bank Verification Number (BVN) scheme; enactment of law granting independence to the National Financial Intelligence Unit against money laundering and related crimes. Also, the government, in its bid to win the fight on capital flight, went further to sign a multilateral convention treaty to implement measures in order to prevent base erosion and profit shifting as well as common reporting standard multilateral competent authority agreement to continue the convention on mutual assistance in tax and tax-related matters. As part of the effort to check and recover illicit capital flow, the Nigerian government also hired a leading international asset tracking and investigation agency to trace illicit flows and assets from Nigeria to developed nations (Victor, 2016).

However, despite the efforts of both international and local financial authorities in an attempt to eradicate capital flight from Nigeria, the statistical outlook still indicates little or no success. CBN (2018) indicates that Nigeria recorded a massive capital flight on an average of about US$32 billion from 2004 to 2007, US$47.4 billion from 2008 to 2010. It increased massively to an average of about $78.2 billion between 2011 and 2014. In 2015 and 2016, it recorded an illicit flow of about US$14.5 billion and US$ 9.3 billion, respectively. Figure 1 (in Appendix) is an indicator of the state of capital flight in Nigeria compared to Mali and