THE EFFECT OF CAPITAL FLIGHT ON ECONOMIC GROWTH OF NIGERIA: A SUSTAINABLE NATIONAL PRODUCTIVITY PERSPECTIVE.

OBI, BRIDGET CHIKA, PhD.
Department of Accountancy
Alvan Ikoku Federal College of Education,
Owerri

AMADI EMEKA
Department of Accountancy
Imo State Polytechnic Umuagwo-Ohaji
Imo State

And

OKAFOR LINUS C.
Department of Banking & Finance
Imo State Polytechnic Umuagwo-Ohaji
Imo State

Abstract
This study examined the impact of capital flight on economic growth of Nigeria from 1983 – 2017. This is to respond to the claims as to whether the huge outflow of capital from Nigerian economy over the years has actually translated to the growth of the economy. The study made use of time series secondary data with five explanatory variables (capital flight, net foreign direct investment, current account balance, net workers' remittances and change in external reserve) and one explained variables (real gross domestic product) sourced from Central Bank of Nigeria Statistical Bulletin and World Bank Data Bank. Tests carried out include unit root test, cointegration test, and causality test while ordinary least square regression analysis was used to develop the models' relationships. The study revealed that: there is significant inverse relationship between capital flight and economic growth of Nigeria, there is no significant relationship between net foreign direct investment, current account balance and economic growth of Nigeria, , there is significant inverse relationship between net remittances, change in external reserve and economic growth of Nigeria, The study recommends that citizens of Nigeria should learn to invest in the home country than to do same abroad and the cashless policy of Central Bank of Nigeria should be encouraged and implemented to check unnecessary money outflow from Nigeria.
Keywords: capital flight, Economic Growth, foreign direct investment, current account balance and Productivity.

Introduction

Capital flight which derives its name from the term flight can be described as capital movements from one country to another. The huge amount of capital flight experienced by the less developed countries (LDCs) and their effects on the national economy have attracted the attention of many economists in recent years. Capital flight is regarded as a major factor contributing to the foreign debt problem. Reasons for capital flight as indicated by Lawal, Kazi and Adeoti (2017) incorporate varying risk discernment, exchange rate disarrangement,

financial sector limitations and control, financial shortages, frail foundations, macroeconomic policy twists, defilement and unusual right to use government resources among others. The financial contentions against capital flight from creating or emerging nations are persuading as well as too solid to ever be disregarded. In Nigeria, capital flight is discontinuous. For instance, there is proof of progressively capital flight in the years when there was oil boom than in the years when oil boom does not exist. Furthermore, despite the fact that there appears to have been increasingly capital flight during the military time, it is hard to reach any resolutions with respect to whether capital flight really happened more under the military than under a non-military personnel system, not just on the grounds that the military has been at the middle phase of administration since autonomy, yet in addition on the grounds that the monetary fortunes of Nigeria were not the equivalent under the two regimes.

More so, Nigerian economic performance for the past four decades has been characterized by economic stagnation. As a result, the region has consistently suffered from balance of payment disequilibria, dwindling government finances, increasing macroeconomic and political instability and, as a consequence, a higher incidence of poverty, Bredino, Fiderikumo and Adesuji (2018). These persistent economic difficulties have meant that Nigeria has become heavily reliant on external financing. A natural question which arises is: what factors are driving private capital out of Nigeria and whether this situation can cause Sustainable National Productivity calls for an empirical study. This question has attracted a large body of research which, broadly speaking, identifies macroeconomic and political conditions as the main cause of Nigeria capital flight (Collier et al. 2001; Ndikumana & Boyce, 2003, Collier 2006 and Ndiaye 2009). The components of capital flight distinguished incorporate financial instruments, bank transfers, valuable metals and collectibles, mis-invoicing of trade transactions, and transfers by entrepreneurs who are international traders through the illegal buying and selling (black market) and through commissions and operators' charges i.e. agents' fees. Therefore, this investigation is set to fundamentally give a far reaching examination of capital flight and the resultant effect on economic growth in Nigeria, a Sustainable National Productivity viewpoint. In particular, its goal is to find out the degree to which capital flight, net foreign direct investment, current account balance, net remittances and change in external reserve individually impacts on economic growth of Nigeria.

In emerging economies, the desire to get better the productivity performance is especially relevant, given the less favorable financial circumstance that defies most creating nations today showed by method of huge balance of payment deficits and constant outside trade deficiencies (foreign exchange deficiencies. This can reduce output growth by means of the acquisition of factor inputs as expenditure on off shore inputs which forms part of total input, should be brought low. Consequently to trigger and support lasting development, productivity improvement is completely basic.

Productivity is along these lines vital for fast economic growth and development. The level of quality of life of the people relies upon the rate of production, which will likewise determine the pace of growth and sustainable Nation. Productivity is low in Nigeria especially in the two major sub sectors-agriculture and industry, (Ajayi, 2012 and Saheed & Ayodeji, 2012).

This is liable for the current rate of destitution, low level of quality of life, low growth rate and underdevelopment of the country. Capital flight is a huge level of departure of monetary resources and capital from a country because of occasions, for example, political or

financial insecurity (economic instability), reduction in value of nations' currency or the inconvenience of capital controls.

Capital flight might be lawful, just like the situation when those foreigners who invest in countries other than their home countries, send funds back to their nation of origin, or illicit, which happens in economies with capital controls that do not encourage or allow the transfer of funds from the country to another. Capital flight can force a serious weight on less fortunate countries, since the absence of capital stops economic growth and may prompt slow standard of living.

Incomprehensibly, economies whose borders are open for easy trading with foreign countries, are the least powerless against capital flight, since openness, straightforwardness and transparency improve investors' trust in the long term possibilities for such economies. Abalkin and Whalley (2009) use the term to indicate "transfers of assets denominated in a national currency into assets denominated in a foreign currency, either at home or abroad, in ways which are not part of normal commercial transactions. Again, the definition emphasizes the abnormal aspect of it. It is therefore a narrow view.

Table 1: Measures of capital flight

Definition	Methodology	Authors
Narrow measure	net short term capital outflow plus errors and omissions.	Cuddington
Derived measure*	part of increase in external claims that yield no recorded investment income.	Dooley
Residual measure or Sources and uses approach	Change in debt plus net foreign direct investment minus current account deficit plus change in reserves	Chang & Cumby World Bank Pastor
Private Claims measure	Acquisition of external claims by the private sector including deposit banks and the non-bank sector plus recorded errors and omission in the balance of payments.	Cornesa
Mirror stock statistics method	Cross Border bank deposit by residence of depositor	Khan & ul Haque
Change in private foreign assets+	the counterpart of the sum of net direct investment inflows, change in gross external debt, current account balance and change in selected gross foreign assets.	Morgan Guaranty Coy.

Notes: + this measure is also often seen as another aspect of the residual measure. * this can also be called stock of unreported foreign assets measure.
Source: Ajayi, (2012)

Theoretically, the study hinges on the Portfolio Diversification Theory, Intermediation Theory and Speculation Theory. One well-liked elucidation for capital flight in the finance and

economics literature emphasizes the specific function of "portfolio diversification" --the notion that rational international investors might have the option to decrease the danger of their investment portfolios by securing resources from another nation. A related actuality is that right up 'til today, there are as yet not a lot of publicly-traded, internationally-diversified Third World multinationals. So if those living in the Third World nations need to expand into new areas of business, they cannot typically do as such by putting resources into local organizations, (James, 2012). Proponents of this theory summarized it as follows; Recognizing that assets in less-developed countries are very risky in their own right and yet virtually uncorrelated with the bulk of assets in the world economy, one might expect residents to hold as much as 50 to 60 percent of their assets abroad. What may be surprising is not the extent of capital flight, but the extent to which residents of less-developed countries hold local assets.

A marginally progressively advanced clarification for capital flight, intermediation, underlines that Third World elites are increasingly happy with putting resources into their own nations by method of First World banks and different intermediaries.

It recognizes that obligation and flight regularly streamed directly by one another, all through the same nation. However, the intermediation story has different issues. To start with, at any rate 33% of all flight went into resources like real estate securities, and money that could not without much of a stretch be intermediated. And while major banks did lend and borrow to the same country at the same time, others collected very little flight capital.

Intermediation alone is not capable of clarifying why a bunch of the major worldwide banks wound up with such an enormous portion of flight, or why the flight boom happened when it did, except if we expect that investors abruptly completely found this intermediation strategy simultaneously.

Speculation Theory deals on financial speculation, focuses on investor expectations about exchange rates and relative returns on investment. The notion is that flight surges when investors expect increased (real after-tax) returns on foreign investments relative to domestic investments, because of expected-but-not-yet-fully-priced devaluations or "uncovered" changes in interest rates and tax rates. Extensively, this description clarifies capital flight in relation to country policy blunders, for instance, exaggerated exchange rates.

Empirical Review

Empirically, connection between capital flight and macroeconomic variables has been the drive of a few investigations. David (2013) investigates exactly the general impact of capital outflows on the growth rate of GDP in Nigeria. To accomplish this mission, he put into operation three models of GDP growth rate, with each model combining an alternate computation of capital flight from Nigeria. The variables in the models were analysed for conceivable co-integration and discoveries shows that capital flight impacts unfavourably on the growth rate of GDP and such growth rate significantly affects capital outflow, capital control is insignificant in invigorating GDP growth rate in Nigeria, exchange controls are feeble, industrial output is a genuine asset of GDP growth rate in Nigeria, public expenditure has significant positive effect on GDP growth rate in Nigeria and that the growth impacts of domestic investment is insignificant in Nigeria.

Ndiaye (2012) found that capital flight repatriation helps increase savings and credit to the private sector, contributing then to promote financial intermediation. Bakare (2011) examined

the extent and magnitude of contributions of external debt and corruption to capital flights plus other factors that have been examined in the literatures. He employed standard methodological approach, Vector Autoregressive Model, to decide the wellsprings of shock to capital flight in Nigeria. The examination found that the highest shock to capital flight originated from external debt and corruption. In any case the debt relief of 2005 limited the capital flight in Nigeria. The discoveries of the investigation exhibited that, capital flight limits growth potential, crowds-out investment, and compounds capital formation.

Ajayi (2012) gives proof on the negative effect of the evaluation of capital flight on economic growth of Nigeria for a long time (1970-2009). He gives a thorough examination of capital flight and its consequential effect on domestic investment and the growth rate of the economy. The examination utilized cointegration and Error Correction Mechanism (ECM) as its primary estimation methods. He found that capital flight and its appraisals are important and considerable variables for clarifying or explaining economic pattern or trend in Nigeria. It was likewise found that capital flight has negative effect on the economy.

Okoli (2005) researched on how the determinants of capital flight and how they effect Nigerian economy. The examination covered the period of 1970-2005. Employing the least square regression, she estimated four models. The results emerging from the analysis strongly reveal that 'only type of government' proved to be a significant contributor to capital flight, thus, leading to the conclusion that countries with more stable and durable regime types experience less capital flight than countries with civil wars, military rule or unstable regime types. However, in terms of the effect of capital flight determinants on the economy, while the model shows that capital flight actually exerts a negative effect on Nigeria's economic development, it reveals that six of the twelve explanatory variables exert some significant effects on the economic development. These include the total export, terms of trade, type of government, growth rate differential, inflation and sum of import and export as a ratio of GDP. Forgha (2008) and Valeria Gusarova (2009) studying Cameroon and some developing nations respectively observed that capital flight adversely impact real economic growth.

Ajilore (2010) and De Boyrie (2011) saw that trade faking and mis-invoicing are significantly responsible for capital flight in chosen African nations, Nigeria inclusive, and thwart long-term economic growth.

Ayadi (2008) discovered interest differential and exchange rate depreciation as significant reasons for capital flight in Nigeria and inferred that capital flight is denying Nigerian economy of generous and basic financial resources required for investment and working of social capital, and so on.

Ameth (2010) in his investigation of 15 African nations discovered that capital Flight have diminishing relationship with domestic investment. His outcome uncovered that capital flight diminishes private investment as its effect on public investment is not significant. Consequently, private investment proffers a superior elucidation of the negative effect of capital flight on domestic investment.

Cuddington (2006) examined Argentina, Mexico, Uruguay and Venezuela uses portfolio adjustment model he observed that residents would consider foreign financial assets as an edge against domestic inflation. He discovered that overestimation of exchange rate, distribution of public debt and lagged capital flight provoke capital outflow.

Capital flight in Nigeria is inspired by real interest rate differential, growth rate of domestic economy, exchange rate behavior, foreign interest rate and fiscal deficit. According to Ajayi (2012), the higher the level of growth rate proxied by GNP, the less the extent of capital flight. He however submitted that there was no evidence of debt fuelled capital flight, even though significant amount of capital flight relative to external debt occurred during the observed period. He observed that rising real interest rate and availability of investment opportunity abroad promote capital flight from developing countries.

David (2013) made use of simultaneous equation to estimate the impact of capital flight, real interest rate, and term of trade, foreign direct investment and growth rate of GDP on domestic investment in Nigeria. He discovered that capital outflow relates inversely with domestic investment in Nigeria and deducted that capital flight has inverse effect on the Nigeria economy growth rate.

Folorunso (2008) did econometric examination of Capital Flight in emerging economies, with emphasis on Nigeria. He utilized arbitrage approach to clarify the prevalence of Capital Flight. The researcher made clear how private investors participate in worldwide arbitrage so as to exploit interest rate differential.

Kolapo and Ojo (2012) examine the connection between Nigeria economic growth and Capital Flight determinants between 1985-2010. They put into use co-integration in analysing data and deducted that inflation and exchange rate are conspicuous motivators of capital flight from Nigeria and that foreign direct investment significantly influence the degree of total national output or gross domestic product.

Saheed and Ayodeji (2012) in contrast to the greater part of the current examinations on Capital Flight, found a direct connection between capital flight and investment in Nigeria. He presented that capital flight positively affects Nigeria economic growth. This is parallel to the findings of the study by Adesoye, Maku and Atanda, (2012) who discovered that capital flight has positive impact on economic growth. Gross domestic product is a reducing function External debt while external reserves increases gross domestic product (Ajayi, 2012).

Methodology

This paper shall determine the effect of capital flight on economic growth in Nigeria using Ordinary Least square regression method, unit root test, cointegration, causality and serial correlation tests. The study would employ secondary data covering a period of 35 years (1983 – 2017).

Model Specification

Five explanatory variables (capital flight (CAPF), net foreign direct investment (NFDI), Current Account Balance (CAB), net remittances (NREM) and change in external reserve (CEXTR))(proxies for capital flight) are put to use in the work and real gross domestic product (RGDP) (proxy for economic growth) is the dependent variable. The functional specification of the model is:

$RGDP_t$ = f($CAPF_t$, $NFDI_t$, CAB_t, $NREM_t$, $CEXTR_t$) …………………………..(1)

The Econometric specification of the models is:

$RGDP_t = \beta_0 + \beta_1 CAPF_t + \beta_2 NFDI_t + \beta_3 CAB_t + \beta_4 NREM_t + \beta_5 CEXTR_t + e_t$ ……….(2)

Where: β_0 is the intercept or Constant term;

$\beta_1 - \beta_5$ are the coefficients of explanatory variables. They also represent the rate of change in dependent variables for each unit change in the independent variables respectively.

RGDP is real gross domestic product;

CAPF is capital flight; calculated as Change in debt plus net foreign direct investment minus current account deficit plus change in reserves. (Residual Approach)

NFDI is net foreign direct investment; CAB is current account balance; NREM is net remittances; CEXTR is change in external reserve; t is the time period under study and e is the stochastic variable or error term.

Causality Test

With the intention of deciding if changes in a single variable are a reason for changes in another, we utilized the Granger (1969) causality test. Granger (1969) causality technique for examining whether A causes B is to perceive the amount of current B can be clarified by past values of B and afterward to see whether by including lagged values of A we can get better description of B. Decision Rule: if the ρ-value is less than 5%, we will reject the null hypothesis of no Granger Causality; otherwise, we will not reject the null hypothesis.

Results and Discussions

Unit Root Test

Table 1: Summary of Unit Root Test

Variable	ADF Value	5% Critical Values	Order of Stationarity
RGDP	-6.739284	-2.976263	Stationary at first difference
CAPF	-4.373464	-2.986225	Stationary at first difference
CAB	-9.278832	-2.976263	Stationary at first difference
FDI	-6.378786	-2.976263	Stationary at first difference
REM	-12.0425	-2.971853	Stationary at first difference
EXTR	-7.430761	-2.976263	Stationary at first difference

Source: Extract from Unit Root Test Result

The Unit Root test result as summarized in table 4.1 shows that all the variables are stationary at first difference and are therefore integrated of order one i.e I(1). The ADF-test statistic values are greater than (in absolute term) the critical values respectively at 5%. To know the number of cointegrating vectors in the series and to ascertain whether or not long run relationship exists among the variables a co-integration test is conducted using Johansen method.

Hypothesis to be tested is:

H_0: δ = 0 (the variables are not co-integrated)

H_1: δ < 0 (the variables are co-integrated)

Table 2. Summary of Cointegration result

Hypothesized	Trace	0.05	Hypothesized	Max-Eigen	0.05
No. of CE(s)	Statistic	Critical Value	No. of CE(s)	Statistic	Critical Value

None *	117.9201	95.75366	None*	36.96967	33.87687
At most 1 *	82.95046	69.81889	At most 1*	28.27543	27.58434
At most 2 *	54.67503	47.85613	At most 2*	23.87967	21.13162
At most 3 *	30.79536	29.79707	At most 3*	15.95635	14.26460
At most 4	14.83901	15.49471	At most 4	9.046168	3.841466
At most 5 *	5.792843	3.841466	At most 5	5.792843	8.130211

Source: Extract from Cointegration Test

The unrestricted cointegration rank test i.e. Trace and Maximum Eigenvalue indicate 4 cointegrating equation at critical p-value of 0.05 respectively. This is justified as the Trace and Maximum Eigen Statistic values respectively are less than 5% Critical Value at r≥4. This necessitated the acceptance of the hypothesis that there is cointegration among the variables. The researcher therefore conclude that there is long-run equilibrium relationship among the variables.

Pairwise Granger Causality Test

The results for the Granger causality test for model 1,2 and 3 are reported in tables 1 , 2 and 3 below. Generally, the F-test is conducted on the null hypotheses in order to determine the direction of causality between each pair of variables. The rejection of each of the null hypothesis is based on the significance of the F-value for the particular relationship.

Table 3: Result of Pairwise Granger Causality Test
Lags: 4

Null Hypothesis:	Obs	F-Statistic	Prob.
CAPF does not Granger Cause RGDP	26	0.34029	0.8470
RGDP does not Granger Cause CAPF		8.19742	0.0007
FDI does not Granger Cause CAPF	26	3.28010	0.0364
CAPF does not Granger Cause FDI		2.05045	0.1326
REM does not Granger Cause CAPF	26	0.23400	0.9154
CAPF does not Granger Cause REM		7.70915	0.0010
EXTR does not Granger Cause CAPF	26	0.24795	0.9069
CAPF does not Granger Cause EXTR		5.43865	0.0052
REM does not Granger Cause FDI	26	0.63950	0.6415
FDI does not Granger Cause REM		9.84136	0.0003
EXTR does not Granger Cause FDI	26	0.47352	0.7546
FDI does not Granger Cause EXTR		5.58548	0.0047
EXTR does not Granger Cause REM	26	2.01566	0.1378
REM does not Granger Cause EXTR		3.56049	0.0276

Source: Computer Printout.

The F-value for the null hypotheses that RGDP does not granger cause CAPF, FDI does not granger cause CAPF, CAPF does not granger cause REM, CAPF does not granger cause EXTR, FDI does not granger cause REM, FDI does not granger cause EXTR and REM does not granger cause EXTR, respectively, is significant which suggest the null hypothesis is rejected. All these relationships are without feedback. The result therefore revealed that one-directional causal relationship were found to run from RGDP to CAPF, FDI to CAPF, CAPF to REM, CAPF to EXTR, FDI to REM, FDI to EXTR and REM to EXTR. Increase or decrease in historical values of real gross domestic product specifically at lag 4 cause the increase or decrease in capital flight.

Ordinary Least Square Test
Table 4 Ordinary Least Square Result
Dependent Variable: RGDP
Method: Least Squares
Sample: 1983 2017
Included observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	347.4116	306.5081	1.133450	0.2682
CAPF	-0.183734	0.057141	-3.215426	0.0065
CAB	0.008805	0.568945	0.015476	0.9878
FDI	-0.996663	3.161871	-0.315213	0.7553
REM	-0.176341	0.034399	-5.126279	0.0012
EXTR	-1.652258	0.470504	-3.511676	0.0037

R-squared	0.740245	Mean dependent var	0.035172	
Adjusted R-squared	0.720264	S.D. dependent var	7.960841	
S.E. of regression	4.210493	Akaike info criterion	5.810734	
Sum squared resid	460.9346	Schwarz criterion	5.952178	
Log likelihood	-81.25564	Hannan-Quinn criter.	5.855033	
F-statistic	37.04723	Durbin-Watson stat	1.895692	
Prob(F-statistic)	0.000000			

Substituted Coefficients:
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RGDP = 347.4116 - 0.183734*CAPF + 0.008805*CAB - 0.996663*FDI - 0.176341*REM - 1.652258*EXTR
Source: Computer Estimate

The relationship of the model is: RGDP=347.41-0.18*CAPF+0.0088*CAB-0.997*FDI-0.1763*REM-1.6523*EXTR.

Capital flight (CAPF), has inverse relationship with Real GDP. Its coefficient indicates that RGDP will decrease by 0.184unit, if CAPF, increases by 1unit, *ceteris paribus*. Current Account Balance (CAB) on the other hand has positive relationship with RGDP. 1unit increase in CAB will cause RGDP to rise by 0.0088unit, all things being equal. However, the relationship between CAB and RGDP is not statistically significant at 5% level. However this result suggests that

Nigeria imports more than she exports, pays more transfers than she receives. Nigeria imports almost all the finished goods that her citizens consume. But it is evident that Nigeria though richly blessed with crude oil and other mineral deposits could not refine these natural resources domestically but export them for refining and imports the refined products with huge cost.

Foreign direct investment (FDI), has inverse relationship with real GDP. A unit increase in FDI, will cause RGDP to decrease by 0.9967unit. The finding is in agreement with the findings of Kolapo and Ojo, (2012). However, there is much inflow in foreign direct investment in Nigeria especially in the oil and gas sector, communication sector, building and construction sector etc. among other sectors in Nigeria but much is being sent out both, legally and illegally, in form of profit, salaries and allowances, school fees to Nigerians in diaspora etc.

Remittances (REM) also have inverse relationship with real GDP. A unit increase in REM will cause RGDP to decrease by 0.176unit. This negative result might be evidenced in the huge fund repatriations made by the so called foreign workers (expatriates) and investors in the oil and gas sector, building and construction sector, industrial sector, health sector, service sectors, portfolio investment among others.

Finally, External reserve (EXTR) has inverse relationship with real GDP. A unit increase in EXTR will cause RGDP to decrease by 1.652units. This finding confirms that Nigeria holds some of her resources in form of reserve which could have been invested for productive purposes outside the shores of the country.

Results of the empirical study for the test of significance are discussed as follows:
Investigating the overall significance of the model, the value of F-statistics is 37.047 with prob of 0.00000 which is less than 0.05. This means that there exists statistical significance between capital flight and economic growth. Meanwhile the adjusted R-squared value of 0.72 implies that the independent variables can explain the changes in the dependent variable by 72% while 28% of the changes can be explained by other variables not captured in the model (represented by μ).

Conclusion and Recommendation

Based on the findings, the work concludes that: There is significant inverse relationship between capital flight and economic growth of Nigeria, there is no significant relationship between net foreign direct investment and economic growth of Nigeria, there is no significant relationship between current account balance and economic growth of Nigeria, there is significant inverse relationship between net remittances and economic growth of Nigeria, there is significant inverse relationship between change in external reserve and economic growth of Nigeria. Consequently, the funds repatriated legally or illegally from Nigeria to various countries have not been in the best interest of Nigeria.

Based on the findings, the following recommends are made:

- The Federal Government of Nigeria should create an enabling environment to attract more foreign investment in the country and discourage repatriation of funds from Nigeria. This means that foreign workers in Nigeria should be encouraged to invest in Nigeria than remitting all their funds home.
- The citizens of Nigeria should learn to invest in the home country than to do same abroad.
- The central bank of Nigeria cashless policy should be implemented to the core to checkmate money laundering.

- Nigeria should learn to export finished product and import less rather than exporting only primary good

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