

Capital Flight and Domestic Investment in Nigeria: The Mediating Influence of Leadership System

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Abstract

*Capital flight has been identified as a major factor affecting domestic investment in less developed countries, especially the sub-Saharan nations of which Nigeria is part. Capital flight has over the years diminished the meagre resources that hitherto would have been invested in these developing countries to generate employment and accelerate economic growth and development. Unfavourable business climate, poor level of infrastructural development, macroeconomic instabilities, and political uncertainties are some of the factors responsible for capital flight. This study examined the moderating influence of the leadership system (LS) on the nexus between capital flight (CAPF) and domestic investment (DI) in Nigeria from 1981 to 2018 within the auto-regressive distributed lag (ARDL) framework. An inverse relationship was found between LS and DI both in the short run and long run. Furthermore, the interactive influence of capital flight and leadership system (CAPF*LS) revealed a positive and significant (at ten per cent) influence on DI. This study, therefore, recommends that concerted effort should be made to improve the quality of governance through the provision of basic infrastructure and the formulation and implementation of policies that will increase domestic investment and mitigate the level of capital flight from Nigeria.*

Keywords: Capital Flight, Domestic Investment, Leadership System

JEL Classification: F32, E22, G38

1. Introduction

The provision of social and economic infrastructure in terms of communications, roads, electricity, water and sanitation, among others, creates an appropriate environment for businesses to thrive and thus encourages citizens and foreigners alike to invest in the domestic economy. This is so because no meaningful returns can be derived from

investments in a country where basic infrastructure are lacking (Todaro & Smith, 2015).

Nigeria has been the 6th largest oil-producing nation in the world with a high level of foreign exchange generated from crude oil over the years; one would expect that basic infrastructure and incentives for the growth of domestic investments would have been a thing of the past. Unfortunately, the country still clamours for the inflow of foreign direct investment (FDI), which is believed to augment domestic savings, provide skilled manpower, human capital development through training of local labour, employment creation, among others (Andohol & Bamber, 2020). According to Makwe and Oboro (2019), Nigeria's daily production of crude oil is over 3.5 million barrels and its foreign reserve exceeds US\$46 billion. Yet, it was ranked 128th position out of 186 countries of corrupt nations by Transparency International in 2012. The Economic and Financial Crimes Commission (EFCC) in Nigeria has also revealed at various points in time that public office holders siphoned huge public funds and stocked them in foreign bank accounts or purchased private properties abroad with such illegal wealth. Capital flight and corruption have been identified among the likely reasons why Nigeria's domestic investments have remained low, coupled with inadequate basic infrastructure (Okoli & Akujuobi, 2009).

According to Aderoju (2017), between 1991 and 2004, the African continent lost US\$13 billion annually to capital flight while Sub-Saharan Africa (SSA) lost US\$186.8 billion to capital flight between 1970 and 1996 (Okoli & Akujuobi, 2009). Nigeria lost US\$7,573million between 1972 and 1989 to capital flight, while the capital flight from Nigeria between 2002 and 2011 stood at \$142,274 million. According to Adedoyin *et al.* (2017), capital flight from Nigeria between 1970 and 2001 stood at \$107billion.

Furthermore, capital flight is a major factor responsible for the low rate of domestic investment and its attendant consequences like increasing unemployment rate, high inflation rate and exchange rate experienced in Nigeria over the years (Ndikumana, 2000). Domestic investment in Nigeria in 1990 was US\$43.8 billion but declined to US\$37.3 billion and US\$20.1 billion in 1992 and 1995, respectively. Between 2010 and 2015 in Nigeria, domestic investment stood at US\$134 billion while an outrageous capital flight to the tune of over US\$900 billion was recorded in the same period (World Bank, 2015). This huge amount of money lost to capital flight from Nigeria over the years is an indication that if such money were invested in the domestic economy, stabilization of the economy would have occurred through employment creation, exchange rate moderation, inflation cushioning, economic growth and its multiplier effects.

Makwe and Oboro (2019) and Ndikumana and Boyce (2001) believe that capital flight depletes the already scarce resources in developing countries and have severe consequences on domestic investment. Schneider (2003), Okoli and Akujuobi (2009), and Adetiloye (2012) argued that political uncertainty and macroeconomic instability are principal drivers of capital flight in developing countries which in turn affects domestic investment. Thus, there seems to be an interactive influence between capital flight and the leadership system (which tells the level of political stability in a country) on domestic investment. Different types of government regimes have various macroeconomic policies, which tend to influence foreign reserves, external debt, exchange rate, inflation rate, capital flight and domestic investment (Olatunji & Oloye, 2015). From this backdrop, it is apt to investigate the mediating influence of the leadership system on the nexus between capital flight and domestic investment in Nigeria from 1981 to 2018.

2. Literature Review

2.1 Conceptual Review

2.1.1 Concept of Capital Flight

Capital flight for this study is defined as the movement of capital resources from developing countries to developed nations in response to political or macroeconomic policy instabilities. In this light, governance or the system of government practised plays a major role in determining whether there will be a high level of capital flight or not; the level of domestic investment will also depend on the business environment created by the government of the day (Adetiloye, 2012; Aderoju, 2017).

Furthermore, capital flight is asserted as a method adopted by citizens of a country in keeping their savings in secure environments from the bad leadership systems experienced in politically unstable countries. Put differently, capital flight can be viewed as the movement of cash and investments from one country to another nation where such resources are considered secured and beyond the reach of the authorities of where such funds have been taken from (Mahon, 1996). Capital outflow from developing countries to mostly the West determined by political unrest and economic instability is what Schneider (2003) defined as capital flight. Capital flight can further be seen as the transfer of large sums of money from a developing country to developed nations to escape political or economic turmoil or to seek higher rates of return (Otene & Richard, 2012).

2.1.2 Concept of Domestic Investment

According to Jhingan (2006), domestic investment can be defined as net changes in the level of inventories in addition to gross

fixed capital formation in a country over a given period. Heim (2008) opined that investment is the accumulation of resources for the production of goods and services in the future. Domestic investment is synonymous with gross capital formation or capital within a particular economy. It involves the addition to the capital stock of a country in terms of new factories, machinery, and equipment which results in a greater increase in the productive capacity of the country (Todaro & Smith, 2015). The paucity of savings and investment in some countries of the world especially developing countries formed the basis for the necessity of Foreign Direct Investment (FDI) and the various interventions from the international organizations of the World Bank and the International Monetary Fund) received by these nations. Thus, domestic investment is achieved through both the help of foreign investors and domestic investors. Capital flight is seen as a leakage to the gross capital formation of a country.

2.2 Theoretical Review

2.2.1 Investment Diversion Theory

This study is anchored on the investment diversion theory propounded by Kindleberger (1966). The theory opined that investors (owners of capital) tend to move their resources from countries currently experiencing or likely to experience macroeconomic or political instabilities. Capital flight is mainly seen in the light of the movement of capital resources from developing countries to developed nations where investment opportunities and supportive business environments abound. The business climate in developing countries is bedeviled with a lot of obstacles like high taxation, inadequate supply of electricity, poor infrastructure, political/religious/ethnic crises, inflation, high exchange rate, inter alia. These are the supposed reasons opined by this theory for the capital flight experienced in developing nations.

Corruption and political instability are other factors that have contributed to capital flight. Corrupt government officials mismanaged capital meant for developmental projects. It is also evident in history that due to political and macroeconomic instabilities experienced in developing countries, government officials who embezzle large sums of public funds invest them abroad for safety and stack the rest in foreign bank accounts (Olatunji & Oloye, 2015).

2.2.2 Portfolio Choice Theory

The portfolio choice theory by Markowitz (1959) identified risk aversion and expectation to maximize return as responsible for the choice of investment and capital flow location. Collier, Hoeffler and Pattillo (1999) found that Africa's private wealth held abroad was the largest

even as the continent had the lowest capital per worker, which may suggest that capital flight is a portfolio choice. The theory posited that risk and return considerations determine the outflow or inflow of capital. These determinants of investment and capital flight from a different perspective imply that the investor who determines capital flows across countries are guided by their optimal choice of minimum risk and maximum return on investment.

2.2.3 Debt-Driven Flight Thesis

The debt-driven capital flight thesis is the modification of the debt overhang Hypothesis propounded by Krugman (1988). The debt overhang hypothesis states that debt is a future burden because expected repayment often exceeds the repayment ability of the borrowing country. However, the debt-driven capital flight thesis indicates that external debt propels capital flight by depreciating the economy's currency from which external debt repayment is expected as the demand for foreign currency increases due to debt repayment. Anetor (2019) identified the reduction of domestic interest rates and crowding out of the domestic investment as factors determined by the debt-driven capital flight. These effects on domestic investment are responses to the currency depreciation caused by external debt repayment.

2.3 Empirical Review

Akinwale (2020) examined the relationship between capital flight and economic development in Nigeria between 1986 and 2018. The study employed the auto-regressive distributed lag (ARDL) methodology and found that capital flight negatively and significantly impacted economic development within the period of the study. The study recommended that policies that will mitigate the rate of capital flight from the country should be formulated and implemented to the latter.

In a study on capital flight and domestic investment in Nigeria (1980-2017), Lionel *et al.* (2020) advocated for strengthening institutions, especially the anti-graft agencies, to prevent the capital flight experienced in the country over the years. The study employed the ARDL and it was revealed that capital flight is inversely related to domestic investment with a significant impact during the period of the study.

Anetor (2019) examined the macroeconomic determinants of capital flight in Sub-Saharan Africa (SSA) using the ARDL between 1981 and 2015. The study found that external debt and economic growth are the principal drivers of capital flight in the region. The study recommended that policies should be made to regulate the magnitude of external borrowing with the view of reducing the amount of borrowing

while at the same time monitoring the activities of public office holders to prevent the diversion of public funds.

In examining the role of governance in modulating the effect of capital flight on industrialization in Africa, Asongu and Odhiambo (2019) employed the generalized method of moments (GMM). The study revealed that governance in terms of political stability increases industrialization in Africa, while the capital flight is inversely related to industrialization within the period of the study from 1996 to 2010. The study recommended that countries should strive to be corruption-free and maintain political stability to curtail capital flight to improve industrialization in Africa.

Makwe and Oboro (2019) investigated the effect of capital flight on economic growth in Nigeria between 1990 and 2017 using the Ordinary Least Square (OLS) methodology. Having found that external debt servicing as a proxy for capital flight and major leakages in the economy negatively influenced real gross Domestic Product (RGDP), recommended that the government should avoid unproductive borrowings, which later plunges the country into capital flight in the name of huge debt servicing.

Using the ARDL, Egbuwalo and Abere (2018) examined the impact of capital flight on the growth of the Nigerian economy and found that there is an inverse relationship between gross domestic product (GDP) and capital flight. The study advocated for the formulation of macroeconomic policies that will check inflation and high level of exchange rates. The provision of adequate basic infrastructure was also recommended.

Adequate funding of education and health infrastructure, good governance and prosecution of corrupt officials to discourage capital flight and encourage domestic investments were advocated by Igwemma, Egbulonu and Nneji (2018) examined the impact of capital flight on the Nigerian economy from 1986 to 2016. The study employed the ARDL methodology and found that Capital flight negatively impacted the economic growth of Nigeria, with foreign education, medical expenses and looted funds being the major channels through which huge capital leaves the country.

The formulation of vibrant policies that will promote a greater level of domestic investment in Nigeria and curtail capital flight was advocated by Adedoyin *et al.* (2017) while using the ARDL methodology to examine capital flight and economic growth in Nigeria between 1981 and 2015. The study revealed that capital flight had an inverse relationship with economic growth during the period of the study.

Capital flight was found to have a direct and significant influence on domestic investment in a study carried out by Aderoju (2017) using the Ordinary Least Square (OLS) methodology. The study investigated the influence of capital flight on domestic investment in Nigeria between 1980 and 2015. The study advocated for policies that will enable stability of exchange rates between Nigeria and other countries while at the same time promulgating laws that will prohibit the uncontrolled repatriation of profits to home countries.

Investigating the impact of remittance and capital flight on poverty in Nigeria between 1970 and 2010, Peter and Ebi (2017) used the OLS technique and found that capital flight influences poverty negatively and significantly during the period of the study. The study recommended that policies that discourage capital flight and provide a conducive business climate in the country should be enacted to reduce the rate of capital flight in the country.

Adedayo and Ayodele (2016) investigated the impact of capital flight inflow on the Nigerian economy between 1980 and 2014 using the OLS methodology. The study opined that the government should provide a more enabling business environment to attract more capital inflow into the country since the findings revealed that capital inflow into Nigeria within the period of the study exerted a positive influence on the economy.

Investigating capital flight in developing countries using Turkey as a case study between 1980 and 2010; Ali, Ash and Adem (2013) employed the OLS technique. They found significant relationships between capital flight and exchange rate on the one hand; trade balance, exchange rate, uncertainty, financial direct investment and external debt on the other hand. However, the rate of inflation was insignificant at 10%. The study recommended that strict policies should be put in place by the government to check the rate of capital flight from developing countries.

Adetiloye (2012), using the OLS methodology, examined capital flight versus domestic investment in developing countries: an empirical analysis from Nigeria. The study advocated for concerted efforts to be made towards the enactment and implementation of policies that will encourage domestic investment based on the revelation of the finding that the contribution of capital flight to domestic investment within the period of the study was insignificant while an inverse relationship existed between the variables.

Examining the impact of capital flight on domestic investment in the franc zone between 1970 and 2005 using the generalized method of moments (GMM) and the ordinary least square (OLS), Ameth (2009) found out that capital flight negatively affected private domestic

investment more than public domestic investment. The study recommended that concerted efforts should be made towards the stabilization of macroeconomic variables to ensure that capital flights are repatriated back and used to boost the economic growth of the zone through domestic investment.

Using the OLS technique to examine the determinants of capital flight in Nigeria between 1970 and 2005, Okoli and Akujuobi (2009) found that type of government significantly influenced the rate of capital flight in Nigeria during the period of the study. The study concluded that political instability illuminated in civil unrests, frequent military regime change account for greater capital flight and the relocation of domestic investments to favourable environment. Thus, the study advocated for the creation of a favourable business climate to encourage domestic investors while at the same time checkmating corruption.

The works of Ali *et al.* (2013); Egbuwalo and Abere (2018); Igwemma *et al.* (2018); and Makwe and Oboro (2019); investigated the influence of capital flight on economic growth; while the works of Ameth (2009); Adetiloye (2012); Aderoju (2017); Adedoyin *et al.*, (2017); and Lionel *et al.*, (2020) examined the nexus between capital flight and domestic investment. These works neglected the mediating influence of the leadership system or type of government regime existing in a country at a particular time on the nexus between capital flight and domestic investment, thus creating a gap which this study hopes to fill.

3. Methodology

The ADF test was used to check for unit root, and in examining the impact of Capital Flight Capital Flight (CAPF) on Domestic Investment (DI), the Auto-Regressive Distributed Lag (ARDL) was employed after checking for long-run relationships using the Bound-test. Post diagnostic tests were employed to test for the absence of spurious estimates, while the CUSUM and recursive coefficients tests were used to check for the stability of the variables. The data for this study covering the period of 1981 to 2018 was sourced from the Central Bank of Nigeria's Statistical Bulletin (2018) and the World Bank Development Indicator (2018).

3.1 Model Specification

Relying on the works of Adetiloye (2012); Aderoju (2017); and Lionel *et al.* (2020), which investigated the impact of capital flight on domestic investment, the model for this study can be formulated thus:

With the works of Okoli and Akujuobi (2009) $DI = f(CAPF, EXR, FDI, INFR + \ell) \text{-----} -1$ Adetiloye (2012); Asongu and Odhiambo (2019), which gives credence

to leadership style (type of government) as a mediating variable between capital flight and domestic investment, model (1) is re-modelled as:

$$DI = \alpha_0 + \alpha_1 LS + \alpha_2 CAPF + \alpha_3 CAPF * LS + \alpha_4 EXR + \alpha_5 FDI + \alpha_6 INFR + \ell \dots 2$$

Where: DI = Domestic investment, LS = Leadership style (Dummy variable), 1 = military regime and 0 = civilian regime, CAPF = Capital flight, CAPF*LS = Interacting variable (capital flight and leadership style), EXR = Exchange rate, FDI = Foreign direct investment, INFR = Inflation rate, $\alpha_0 - \alpha_6$ = Structural Parameters to be estimated and ℓ = error term

Linearizing equation (2), we have

$$LnDI = \alpha_0 + \alpha_1 LS + \alpha_2 LnCAPF + \alpha_3 LnCAPF * LS + \alpha_4 EXR + \alpha_5 LnFDI + \alpha_6 INFR + \ell \dots 3$$

Equation (3) is modified into conventional ARDL form as can be seen in equation (4).

$$\begin{aligned} \Delta DI_t &= \pi_0 + \sum ni = 1\pi_1 \Delta DI_{t-i} + \sum ni = 1\pi_2 \Delta LS_{t-i} + \sum ni = 0\pi_3 \Delta CAPF_{t-i} + \\ \sum ni &= 0\pi_4 \Delta CAPF_{t-i} * LS_{t-i} + \sum ni = 0\pi_5 \Delta EXR_{t-i} + \sum ni = 0\pi_6 \Delta FDI_{t-i} \\ + \sum ni &= 0\pi_7 \Delta INFR_{t-i} + \beta_1 DI_{t-i} + \beta_2 LS_{t-i} + \beta_3 CAPF_{t-i} + \beta_4 CAPF * LS_{t-i} + \beta_5 EXR_{t-i} + \\ \beta_6 FDI_{t-i} &+ \beta_7 INFR_{t-i} + v_1 ECT_{t-i} + \lambda_{1t} \dots 4 \end{aligned}$$

Where: Δ represents Differenced Operator; π represents short-run parameter estimates; β represents long-run parameter estimates; π_0 represents the constant term; ECT represents the adjustment speed; v_1 represents the adjustment parameter.

A-priori: FDI and CAPF*LS are expected to be greater than zero, while LS, CAPF, EXR and INFR are expected to be less than zero.

4. Results and Discussion

Table 1: Descriptive Statistics

	DI	CAPF	EXR	FDI	INFR
Mean	3292178.0	62735.97	88.54404	2700000000	19.92632
Maximum	16908130	1907200.0	306.0837	8840000000	72.81000
Minimum	8799.480	517.6000	0.617708	189000000	4.670000
Jarque-Bera	12.28748	1938.224	4.084522	7.237108	17.83455
Probability	0.002147	0.000000	0.129735	0.026821	0.000134
Observations	38	38	38	38	38

Source: Authors' Computation from Eviews 10

Table 1 revealed the descriptive statistics of the variables employed in this study. Domestic investment (DI), capital flight (CAPF), the exchange rate (EXR), foreign direct investment (FDI), and inflation

rate (INFR) in Nigeria during the period of the study averaged ₦3292178.0billion, US\$62735.97billion, US\$88.54, US\$2700000000 and 19.93% respectively. The highest values of domestic investment (DI), capital flight (CAPF), the exchange rate (EXR), foreign direct investment (FDI) and inflation rate (INFR) stood at ₦16908130 billion, US\$1907200.0 billion, US\$306.08, US\$8840000000 and 72.81% respectively. While the lowest values of domestic investment (DI), capital flight (CAPF), the exchange rate (EXR), foreign direct investment (FDI) and inflation rate (INFR) stood at ₦8799.480 billion, US\$517.60billion, US\$0.62, US\$1890000000 and 4.67% respectively. The high values of the Jarque-Bera statistic indicate that the variables do not have a normal distribution, thus necessitating further testing using the unit root test as shown in Table 2.

Table 2: Stationarity Results

Variables	ADF t-test @ levels	Mackinnon Critical Value @ 5%	ADF t-test @ first difference	Mackinnon Critical Value @ 5%	Order of Integration
DI	-0.080859	-2.943427	-4.280773	-2.945842	1(1)
CAPF	-0.728264	-2.943427	-6.353539	-2.945842	1(1)
EXR	1.736109	-2.943427	-4.212040	-2.945842	1(1)
FDI	-1.746652	-2.943427	-10.96498	-2.945842	1(1)
INFR	-3.119618	-2.943427			1(0)

Note: if $t^* \leq ADF$ (Critical Values) = Unit root does not exist.

Source: Authors' Computation from Eviews 10

The unit root test result for the variables of interest is presented in Table 2. The result revealed that all the variables are integrated of order one I(1) except for inflation rate (INFR), which is integrated of order zero I(0). Thus, the auto-regressive distributed lag (ARDL) technique becomes appropriate in estimating the relationship between the variables. Using the ARDL method of optimal lag selection, lag one and lag two were found to be optimal.

Table 3: ARDL Bounds Test

Dependent Variable	D (LN DI)			
Selected Model	ARDL (1100110)			
F-Bounds Test	Null Hypothesis: No levels relationship			
Test Statistics	Value	Signif.	I(0)	I(1)
	Asymptotic: n =1000			

F-Statistic	7.374651	10%	1.99	2.94
K	6	5%	2.27	3.28

Source: Authors' Computation from Eviews 10

Table 3 revealed that there exists a long-run relationship among the variables of interest employed in this model since the F-statistics value of 7.374651 is greater than the lower bound value I(0) of 2.27 and the upper bound value I(1) of 3.28 at 5 per cent level of significance. Hence, the estimation of the ARDL short-run and long-run forms and the presentation of their results are in table 4 for further analysis.

Table 4: ARDL Short run and Long Run Form Models

Dependent Variable	D (LNDI)			
Selected Model	ARDL (1100110)			
Sample: 1981-2018	Date: 06/11/21 Time: 09:09			
Included observations:	37			
ARDL Short-run model				
Variables	Coefficient	Std. Error	t-statistic	Prob.
D(LS)	-2.813531	0.356208	-7.898565	0.0000
D(EXR)	-0.000737	0.001791	-0.411713	0.6839
D(LNFDI)	0.197042	0.057982	3.398309	0.0022
ARDL Long-run model				
Variables	Coefficient	Std. Error	t-statistic	Prob.
LS	-11.96678	6.670757	-1.793916	0.0845
LNCAPF	-0.812349	0.352520	-2.304405	0.0294
LNCAPF_LS	1.574032	0.831697	1.892555	0.0696
EXR	0.021398	0.006269	3.413116	0.0021
LNFDI	2.317602	0.465686	4.976753	0.0000
INFR	0.008302	0.015753	0.527012	0.6027
ECM	-0.210663	0.024345	-8.653385	0.0000
R-squared	0.594353			
Adjusted R-squared	0.557476			
Durbin-Watson stat	2.035055			
F-statistic	506.6419			

Source: Authors' Computation from Eviews 10

From Table 4, both in the short run and long run, an increase in foreign direct investment (FDI) increases the level of domestic investment (DI). Foreign direct investment contributed significantly to domestic investment (DI) in both periods. This result agrees with the *a-priori*. This implies that if adequate foreign direct investment (FDI) is wooed into the country, it has the potentials of uplifting the growth of the domestic economy of the country. An increase in the leadership system (LS) practised in Nigeria revealed that both in the short and long run, LS negatively influenced domestic investment (DI). This result agrees with the *a-priori*, but it is at variance with the work of Asongu and Odhiambo (2019). The result suggests that the economic policies and business climate created under the military and civilian regimes may not have been favourable and conducive for investments to thrive. In the long run, capital flight (CAPF) agrees with the *a-priori*. Its impact on domestic investment (DI) is negative and significant, implying that capital flight reduced domestic investment during the period of the study. This may not be far-fetched from the high level of corruption and investments abroad by public office holders during the period of the study. This result agrees with the works of Ameth (2009), Adetiloye (2012), Adedoyin *et al.* (2017); Igwemma *et al.* (2018); Akinwale (2020) and Lionel *et al.* (2020).

Furthermore, the interactive influence of capital flight and leadership system (CAPF*LS) is revealed to have a positive and significant influence (at ten per cent) on domestic investment (DI). This result agrees with the *a-priori* and implies that with an improvement in the leadership system of the country and the mitigation of capital flight, there will be an increase in domestic investment (DI). This result agrees with the work of Asongu and Odhiambo (2019), which gives credence to good governance as a determinant of domestic investment.

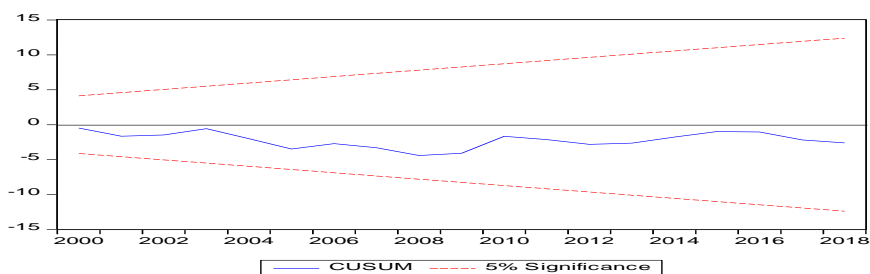
The ECM coefficient of -0.210663 represents the speed at which domestic investment (DI) returns to equilibrium after distortions in the system is correctly signed (negative) and significant. The adjusted R-squared with a value of 0.557476 indicates that the regressors employed in this model are responsible for approximately 56 percentage variations in domestic investment (DI), while the remaining 44 per cent variation in domestic investment (DI) is influenced by other variables not included in this model. The F statistics value of 506.64 revealed that all the variables employed in the model collectively have a significant influence on the dependent variable.

Table 5: Post Diagnostic Estimates

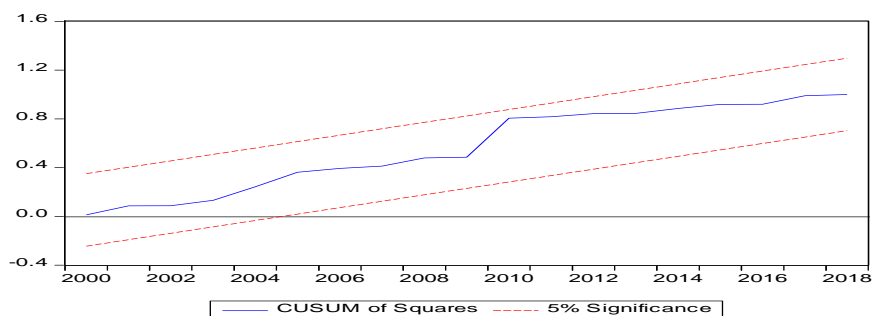
Breusch-Pagan-Godfrey Heteroskedasticity Test			
F-statistic	0.514615	Prob. F(10,26)	0.8642
Obs*R-squared	6.113356	Prob. Chi-square(10)	0.8057
Breusch-Godfrey Serial Correlation LM Test			
F-statistic	0.016571	Prob. F(1,25)	0.8986
Obs*R-squared	0.024509	Prob. Chi-square(1)	0.8756

Source: Authors' Computation from Eviews 10

The results of the Breusch-Pagan-Godfrey heteroskedasticity test and the Breusch-Godfrey serial correlation LM test presented in Table 5 revealed that the null hypothesis of no heteroskedasticity and no autocorrelation is accepted. The stability diagnostics tests in CUSUM and CUSUM squares diagrams are presented in Figure 1 and Figure 2 respectively.

**Figure 1: CUSUM Stability**

Source: Eviews 10 Output

**Figure 2: CUSUM of Squares Stability**

Source: Eviews 10 Output

Figures 1 and 2 represent CUSUM and CUSUM of squares stability diagnostics, respectively. The diagrams revealed that the

variables of interest employed in this model for analysis are all stable and thus appropriate for inclusion in the model for analysis and forecasting.

5. Conclusion and Recommendations

The moderating influence of the leadership system (LS) on the nexus between capital flight (CAPF) and domestic investment (DI) in Nigeria was studied from 1981 to 2018 within the auto-regressive distributed lag (ARDL) framework. Leadership system (LS) negatively influenced domestic investment (DI) both in the short run and long run within. However, the interactive influence of capital flight and leadership system (CAPF*LS) revealed a positive and significant influence on domestic investment (DI). This study, therefore, recommends that concerted effort should be made to improve the quality of governance through the provision of basic infrastructure and the formulation and implementation of policies that will increase domestic investment and mitigate the level of capital flight from Nigeria.

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