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CAPITAL FLIGHT AND POVERTY RATE IN NIGERIA

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Abstract

This study examined Capital Flight and poverty rate in Nigeria. Capital Flight was proxied by foreign direct investment outflows, external debt servicing, external reserves and capital and financial account deficits. Hypotheses that guided the study were formulated in line with the study objectives and relevant literature were reviewed and evaluated. Relevant data were extracted from the annual Statistical Bulletin of the Central Bank of Nigeria and the National Bureau of Statistics. Unit root test was conducted using Augmented Dickey Fuller method which revealed that the variables were integrated at level and first difference necessitating the use of autoregressive distributive lag/bond test to explore the long run relationship existing among the variables in the model and the result showed that the variables in the model were co-integrated thus we proceeded in evaluating the long run as well as the co-integrating form in the model. From the result of the various tests, it was revealed that while some of the outcomes conformed to apriori expectations, others did not conform to apriori expectations. Based on the findings from the analysis, the study recommended amongst others, that external debt acquired should be judiciously used for infrastructural development that would encourage investments which would ultimately bring about economic growth as well as reducing the rate of poverty in Nigeria.

Keywords: Capital Flight, Poverty Rate, Foreign Direct Investment Outflows, External Reserves, External Debt, Capital and Financial Account.

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1.1 Introduction

Numerous developing nations across the globe including those countries within Sub-Saharan Africa, have overtime, suffered various situations of financial losses which have manifested as a result of the indiscriminate movement of investable financial resources from these developing countries, to other countries that are most often developed, this experience has been counterproductive to these developing nations and the economic growth and development of such countries have been seriously jeopardized (Forson, Obeng & Brafu-Insaidao, 2017).

The challenges of capital flight have been a major concern for policy makers especially in the less developed and developing nations to which Nigeria belongs, as there is a persistent issue of inadequate supply of financial capital considered necessary for sustained economic growth and development (Ifedayo & Olawale, 2015). Olatunji and Aloye (2015) posit that economic resources lost through the medium of outflows of resident capital do not contribute to the increase of domestic activities, rather, is reduces social welfare of residents and increases the poverty rate in the country.

It is basically true that outflow of funds from these debt-ridden economies would further increase their external indebtedness, worsen their external reserves and Balance of Payments (BOP) position,reduce domestic savings and future growth potentials and increase poverty rate. Historically, all over the globe including Nigeria, just as the dreaded Acquired Immune Deficiency Syndrome (AIDS) and cancer constitute serious problems for the medical science and scientists, so does capital flight constitute a problem not only to economist, policy decision-makers, government, financial analyst but the social sciences (Momodu, Akani, &Uzobor, 2009).

Ifedayo and Olawale (2015) noted that, capital flight should be seen as any form of abnormal capital outflows from a developing country by economic agents (private or public with the intention of concealing such flow). This is abnormal because one expects capital to flow from resource surplus to scarce countries as suggested by capital arbitrage theory, theory of the firm and product cycle theory; such abnormal capital outflow are responsive to political pressures at home coupled with domestic economic policy distortions such as heavier taxes, capital control and overvaluation of the exchange rate.

Capital flight is seen therefore to have taken various forms, including false bottom suitcases stocked with cash or travellers' cheques (currency smuggling), trade taking (over invoicing of imports and under invoicing of exports). Electronic fund transfers from private banking services, declaring of un-existing foreign debts and commission and agents' fee. Other components of capital flight include overseas investment, emanating from illegal activities like drug trafficking, corruption, illicit activities particularly those related to tax evasion and exchange rates controls (Ifedayo & Olawale, 2015). All these have collectively contributed to the prevailing high rate of poverty experienced in Nigeria over several decades.

1.2 Statement of the Problem

Over the years, there has been an increasing concern for capital flight in Nigeria in relation to the nation's economy, and general research works have been carried out on this problem. At the same time the prospect for solving this problem remain grim. Poor level of capital inflows reduces the level of economic growth and increases the poverty rate and would constitute a disincentive to economic development in any economy, High level of capital inflows encourages capital formation, which is very essential for economic growth and development,

which in turn, enhances substantial level of investment and encourages high level of returns, as such reducing the rate of poverty. When there is capital outflow, it is money that is "fleeing" from the country.

In fact, increase capital outflow implies a potential lost for economic growth especially in a country that is heavily dependent on external financing and/or international aids or support.The Nigerian government in the past has initiated policies and programmes aimed at boosting foreign capital inflows and harness its proper contribution to the overall economy. These includes, the establishment of Nigerian Investment Promotion Commission (NIPC), the establishment of the Bureau of Public Enterprises (BPE), the setting up of National Council on Privatization (NCP), Economic and Financial Crime Commission (EFCC) and other anti-regulatory agencies and economic/budgetary reforms are also targeting at promoting inflows of capital for economic growth and development of the nation's economy. Yet these lofty objectives have turned out to be a mirage.

The problem is even more severe today as attention has shifted in favour of a mono-cultural economy based on oil. Thus, in spite of several government efforts in attracting foreign capital inflows, these inflows have not played its expected role in economic transformation in particular and economic growth and development of the nation in general viz a viz a reduction in the aggregate poverty rate of Nigeria. Also, there are numerous empirical studies with conflicting claims concerning the effect of capital flight on the economy of a country, while some researchers argue that capital flight has a negative impact on the economy (Ajayi, 2012; Olugbenga & Alamu, 2013; Lawal, et al, 2017; Uddin, Yousuf & Islam, 2017) , others had maintained an opposite view arguing that capital flight do not impact negatively on an economy (Adaramola & Obalade, 2013; Adebayo & Ayodele, 2016; Gunter, 2017), thus the researchers here seem to be caught in the web of confusion concerning which group to agree with. It is against this backdrop that this study conducted to find out the macroeconomic effects of capital flight on poverty rate in Nigeria.

1.3 Objectives of the Study

The overall objective of this research was to critically examine the impact of capital flight on the poverty rate in Nigeria. The specific objectives included to;

1. analyze the effects of foreign direct investment outflows on poverty rate in Nigeria;
2. assess the effect of external reserves on poverty rate in Nigeria;
3. examine the effects of external debt servicing on poverty rate in Nigeria; and
4. evaluate the effects of deficits on capital and financial account on poverty rate in Nigeria.

1.4 Hypotheses

H_{o1}: There is no significant relationship between foreign direct investment outflows and poverty rate in Nigeria.

H_{o2}: There is no significant relationship between external reserves and poverty rate in Nigeria.

H_{o3}: There is no significant relationship between external debt servicing and poverty rate in Nigeria.

H_{04}: There is no significant relationship between capital and financial account deficits and poverty rate in Nigeria.

2. Literature Review

2.1 Capital Flight

Capital flight is related to the existence of high uncertainty and risk with respect to returns on domestically held assets. Residents take their money and run in order to avoid extremely high-expected losses on their asset holdings. It is sometimes argued that capital outflows based on this consideration should be viewed as abnormal, and should therefore be distinguished from normal capital outflows, since normal outflows are based on considerations of portfolio diversification of residents, and/or activities of domestic commercial banks aiming at acquiring or extending foreign deposit holdings (Adaramola & Obalade, 2013). Yet, when measuring capital flight, it appears to be very difficult to empirically distinguish between normal and abnormal capital outflows.

Therefore, as no surprise that several different capital flight measures are available in the existing literature inevitably; these measures lead to differences in capital flight estimates. However, the following three main methods of measuring capital flight can be distinguished in the literature. First, several studies have measured capital flight indirectly from balance of payments statistics by comparing the sources of capital inflows (Net increases in external debt and the net inflow of foreign investment) with the use of these inflows (the current account deficit and additions to foreign reserves). If the sources exceed the uses of capital inflows, the difference is termed as capital flight. This is the so-called residual method. It has been the most widely used measure in the available literature. The method acknowledges the difficulties of separating abnormal from normal capital flight. Several variations on the measure have appeared in the literature, among them World Bank (1985), Morgan Guaranty (1986).

Second, some authors measure capital flight by adding up net errors and omissions and non-bank private short-term capital outflows (Francis & Chukwuemeka, 2014). This measure reflects the idea that capital flight goes unrecorded, due to the illegal nature of these capital movements. It is argued that the unrecorded capital movements appear in the net errors and omissions. Moreover, by concentrating on short-term flows, medium and long-term outflows are excluded, which according to the author are more normal in character (Onwioduokit, 2007). This measure is referred to as the hot money method. Capital flight measured in this way refers to short-term movements of capital, whereas the residual method additionally takes into account capital outflows that are more long-term in nature.

Third, the capital flight measure proposed by Dooley (1986) also aims at measuring abnormal or illegal capital outflows. Dooley defines capital flight as all capital outflows based on the desire to place assets beyond the control of domestic authorities, excluding normal outflows. Consequently, this measure includes all capital outflows that do not receive and/or register interest payments. However, Sheets (2005) shows that the calculation of capital flight as proposed by Dooley (1986) is partly based on the residual approach, although he uses a different concept of capital flight. Therefore, the Dooley method gives rather identical magnitudes of capital flight as compared to those for the residual method.

2.1.1 Dimensions of Capital Flight

(i) Foreign Direct Investment Outflows

The International Monetary Fund's Balance of Payments Manual (2010) defines Foreign Direct Investments as "an investment that is made to acquire a leading interest in an

enterprise operating in an economy other than that of the investor, the investor's purpose being to have effective voice in the management of the enterprise". Foreign Direct Investments (FDI) as its name suggest refers to an overseas investment made by an entity based in one country. Foreign Direct Investments can be set up through a number of ways, such as through a subsidiary, joint venture, merger, acquisition, or through a foreign associate partnership (Ayanwale, 2007).

Foreign direct investments represent a phenomenon resulting from globalization, which involves the integration of the domestic economic system with global markets. It is accomplished through opening up of the local economic sector as well as domestic capital for foreign investors to establish business, within the economy. Foreign direct investments should not be confused with indirect investments such as when a foreign entity invests funds in another country's stock market. When a direct investment is made by an entity based in one country into another entity that is based in another country, it helps to enhance globalization and cut trade barriers (Feridun&Sissoko, 2011).

A foreign entity that engages in foreign direct investments will have a substantial amount of control over the company or operations into which the investment is made. The lasting interest in a direct investment enterprise typically involves the establishment of manufacturing facilities, bank premises, warehouses, and other permanent or long-term organizations abroad. This may involve the creation of a new establishment or investment (Greenfield investments), joint ventures, or the acquisition of an existing enterprise abroad (cross-border mergers and acquisitions).

Nevertheless, foreign investments do not come devoid of some negative aspects. There is normally the tendency for over utilization of the available natural resources, as the companies strive to maximize profits in their venture (Cohen*et al*., 2009). The 'tragedy of the commons' whereby many organizations compete to utilize a shared resource leads to degradation of natural resources as well as environmental pollution, which have largely been associated with the issue of climate change (Sindre, 2011), importation of capital intensive and out-dated technology, Exploitation of local labour, Increase in local wage cost through payment of high wages by multinational corporations affiliates, Contribution to economic leakage (and deterioration of balance of payments) through preference of imported inputs to local ones, Lack of linkages with local communities, that is, development of 'enclaves', Adverse effects on competition in the national market, Use of transfer prices to escape local taxes and to cheat local partners on returns, encouragement of corruption, pollution of the environment, especially in extractive and heavy industries, social disruptions associated with accelerated commercialization and creation of tastes for expensive foreign consumer goods and political dependency on foreign direct investments source countries and, therefore, loss of sovereignty (Alam & Zubayer, 2010).

In the Nigerian context, foreign direct investment could be expressed as FDI local which defines foreign direct investment coming into the country, and FDI outflows representing foreign direct investment going out of Nigeria. In this study, the researchers will be interested in foreign direct investment outflows.

(ii) External Reserves

External reserve can also be calledforeign reserve or international reserve and it is defined according to IMFas consisting of official public sector foreign assets that are readily available to, and controlled by the monetary authorities, for direct financing of payment imbalances,

and directly regulating the magnitude of such imbalances, through intervention inthe exchange markets to affect the currency exchange rate and/or for other purpose (IMF, 2010). The mandate of managing the reserve is bestowed on the central bank of each country.

The components of foreign reserves include monetary gold, reserve positionat the International Monetary Fund (IMF), holding of special drawing right (SDRs) and foreign exchange which are convertible currencies of other countries (CBN, 2017). The major currencies that Nigeria holds as reserves are US dollar, pound sterling, Euro and yen. Prior to 1959 when Central Bank of Nigeria (CBN) was established the Nigeria external reserve was been manage by West Africa Currency Board. Consequent upon the establishment of CBN, the apex takes charge of the responsibility of managing the reserve in accordance with the Act establishing it. And the reserves were kept only in gold and pound sterling in compliance with CBN Act 1959.In 1961, Nigeria joined international Monetary Fund IMF and this widened the monetary options available to the country. Consequently, in 1962 CBN Act 1959 was amended to allow the apex bankmaintain the external reserve not only in gold andpound sterling.

The recent trend of accumulation of external reserve was as a result of the Asianfinancial crises of the 1990‟s. This marked the beginning of the era of financial globalization (Krušković & Maričić, 2015).

Mendoza (2004), stated two motives of holding reserves as transactionary and precautionary while Aizenman and Lee (2005) added the third which is mercantilist motive.External reserves accumulation has much benefit among which are: Enhances foreign debt service and international trade activities, serves as self-insurance against external shocks,serves as a tool for maintaining low exchange rates, promotes trade and international competitiveness, shows the creditworthy in the eyes of other countries, creditors and donors payments, supports monetary policy operations, enhances transaction needs, fosters confidence in the government policy framework and its capacity to meet external obligations (Elhiraika &Ndikumana, 2007; Kashif, Sridharan & Thiyagarajan, 2017; Aizenman & Lee, 2005; World Bank, 2019; Drummond, Mrema, Roudet, & Saito, 2009; Nugee, 2000; Soludo, 2005).

(iii) External Debt

Economic growth and development are major goal of most developing countries;hence resources are mobilized from various sources including external borrowing for investment into viable projects for growth acceleration. Sustainable economic growth isa predominant concern for all countries, especially developing economies that frequently face burgeoning fiscal deficits mainly driven by higher levels of debt service, particularly external debt servicing and widening current account deficits (Reinhart, Reinhart & Rogoff, 2012). According to Atique and Malik (2012), external debt constitutes a greater share of the public debt structure in developing countries.

The external debt levels of Sub-Saharan African countries have been on the rise in the past two decades, generating concerns among analysts and policy-makers about a looming debt distress threatening the region. Despite recent tightening of concessionary terms associated with bilateral and multilateral loans, Sub-Saharan Africa countries to which Nigeria belongs still continue to rely heavily on external borrowing for fiscal sustainability in order to accelerate economic growth. The impacts of the global economic downturn in the 1980s on developing economies, including the debt crisis, were such that the 1980s is often referred to as the “lost decade” for Africa (Iyoha, 1999).

Even though many countries in the developing regions have managed to restore growth fortunes after the global economic distress of the 1980s, stagnation persisted in Sub-Saharan Africa into the first half of the 1990s as the burden of external debt lingered. Thus, the regional growth rate averaged 0.8 per cent per annum between 1990 and 1995, with many countries in the region experiencing negative growth. Growth improved in the years that followed, and stood at 3.4 per cent in 2000, rising further to 5.3 per cent by the end of 2010 (World Bank, 2015).

The causality between external debt and capital flight has many facets, though all the possible relationships result in capital flight. Ajayi (1995) and Boyce (1992) distinguish four possible linkages between the two: debt-driven capital flight, debt-fuelled capital flight, flight-driven external borrowing and flight fuelled external borrowing. Beja (2006) analysed the relationship between the two using what he termed 'revolving door model'. Beja's model posits direct and indirect linkages between external debt and capital flight. One of the linkages posits a direct causal effect, whereby external debt provides the fuel and/or motivation for capital flight, and vice versa. Thus, external borrowings are transformed sometimes instantaneously from capital inflow to capital flight, ultimately ending up abroad, usually in a private foreign account.

(iv) Capital and Financial Account

The Capital Account registers the acquisitions or disposal of non-financial and non-produced assets (Yalta & Yalta, 2012).This includes the exploitation of natural resources, such as mineral, forest, or airspace. Notice that to be registered on the capital account, there should be a change in the ownership of the right to exploit. If the use is temporary, the registration is made on the secondary income account of the current account. Also registered on the capital account are marketing assets transactions, such as brand names, trademarks, and contracts that give exclusive rights over future goods and services, such as the amount paid by a foreign soccer club for a player.

The recent financial account transactions are very interesting from an economic viewpoint. In general, one can see that globalization is evident in the sharp increases in the overall size of the transactions. In most years the US direct investment abroad has exceeded the direct investment by foreigners in the United States. Note also that even throughout the banking crisis, the direct investment continued.Early observations suggest that most countries have shown a clear preference for maintaining their capital accounts open during the crisis. Only a small number of countries have resorted to policies to restrict cross-border movements of capital despite the turmoil in global financial markets (Kunieda, Okada & Shibata, 2014).

Similarly, inward flows that manage to circumvent capital account restrictions are much less likely to convey many of the indirect benefits of financial integration. In addition, although there is little evidence that capital controls are effective at achieving their macroeconomic objectives beyond a limited period, they are associated with substantial microeconomic costs that would likely eliminate the productivity gains associated with financial integration, especially when they are sustained for a prolonged period of time (Lawal, Somoye& Babajide, 2016).

2.2 Poverty Rate

Since the early 1900's, measurements of poverty have traditionally followed an economistic approach based on income and consumption levels. Over the last decades social scientists have criticised this approach and have produced an impressive amount of work presenting alternative definitions and ways of measuring poverty (Otene & Richard, 2012). However, much of the poverty indicators used to this day are still imbedded in this income/consumption paradigm, while fieldwork undertaken so far on alternative indicators have been primarily carried out in rural areas. Poverty can be looked at in absolute or relative terms and using objective or subjective perspectives. Deprivations can be of a physiological nature or of a sociological nature. In any case the roots of poverty are situated in the "underlying structural inequities and inherent disadvantages" that are at work in any social make-up, and therefore is a socio-economic and political phenomenon (Akani, 2013).

In the power play continuously taking place within any society, the perspective of the strongest often becomes the imposed norm. Definitions and approaches to poverty follow this rule, so that it is the perspective of the powerful that usually takes precedence over the perspective of the main actor in the poverty drama, i.e., the poor themselves. In view of the above, it is not surprising to find that the 'orthodox' indicators compiled and used by state's ministries and multi-lateral agencies do not reflect outlooks and priorities shared by the poor and their organisations (Olawale, 2015). There is therefore a need for these organisations of locally specific indicators to help them in their work, to identify where to concentrate their efforts and to monitor the results of such policies they would have chosen.

Throughout history mankind has had to come up with words and concepts to represent poverty, and all societies have had to develop ways to come to term with it, accommodate it, or eventually control its social and economic consequences, by force if necessary. Concepts of poverty therefore reflect their times, and from the descriptive social approach of 19th century Europe we have moved, with the industrial revolution, the advent of capitalism and the rapid urbanisation and proletarianization of the masses, towards a quantitative and economistic focus (Ayadi, 2008). Rowntree's work on urban poverty in the English city of York may be the first "modern" attempt at developing poverty standards at the household level, based on estimates of nutritional and other requirements (Chukwuma, 2010).

This paved the way for the income/consumption-based poverty lines that many agencies affectionate so much to this day. However, this approach has severe limitations and many critics have developed alternative concepts to determine and measure poverty. However, despite these constructive criticisms, we find that the income-based approach still represents the most powerful paradigm to poverty measurement within the development arena (Uguru, 2011). The present emphasis on income level, Gross National Product per head, macro-economic development and growth is mainly a post 1945 phenomenon.

The international and national agencies have long favoured the use of income poverty line to assess the extent of poverty. As these agencies somehow sit on top of the political hierarchy of the development arena, it is not surprising to see that the use of income-based poverty indicators still remains the best-publicised mean of assessing poverty (Auzairy, Fun, Ching, Li& Fung, 2017). The most general and abstract income-based indicator is certainly represented by the hegemony of the World Bank's $1 per day per person poverty line. It is applied equally to all low- and middle-income nations. Income-based poverty lines are also applied within countries and are extensively used by national governments to evaluate and monitor national incidence of poverty.

2.3 Theoretical Framework

2.3.1 The Austerity Theory

This thesis views the poor in severely indebted situation due to capital flight. They suffer more because they are exposed to excruciating austerity measures by government to pay for debt obligations to international banks that in turns pay interests to flight capital from residents in these countries (Pastor, 1989). Poverty in developing countries reduces them to ewers of wood and drawers of water while perpetrating international inequality and dependency and, widening the gap between the rich countries and poor countries. Furthermore, the tax that the poor may pay is small, which again constrains the ability of government to muster enough resources to promote growth and development with poverty alleviation. Thus, a vicious circle of external debt, capital flight, poor growth, poverty and external debt is created.

From the above, capital flight destroys the domestic macroeconomic environment and enhances the absence of transparency and accountability. These distortions manifest themselves in weak governance, large government deficits, overvalued exchange rate, high and variable inflation coupled with financial repression (Ajayi, 1992).

2.4 Empirical Review

Anetor (2019), carried out a study on macroeconomic determinants of capital flight; evidence from the sub-Saharan African countries between the periods 1981-2015; the data for the study were obtained from the World Bank development indicators (WDI), and the autoregressive distributed lag (ARDL) model techniques was used to determine the macroeconomic factors influencing capital flight from the sub-Saharan African region. The results of the study showed that economic growth had a significant negative relationship with capital flight in both the long run and short run.

Makwe and Oboro (2019), examined capital flight and economic growth in Nigeria between 1990 and 2017, using ordinary least square analysis, augmented dickey fuller test, granger causality test and co-integration test**.** The study revealed that net foreign investment abroad, external debt servicing and external reserves being proxies for capital flight; all have an impact on economic growth proxied by gross domestic product.

Bredino, Fiderikuma and Adesuji (2018), studied the impact of capital flight on economic growth in Nigeria using an econometric approach over the period 1980 to 2012 using the Ordinary Least Square (OLS) and co-integration/error correction methods of analysis. The research findings showed that capital flight have adverse impact on the cross domestic product, while exchange rate impacts positively on GDP in Nigeria

Salandy and Henry (2018), examined the determinants of capital flight from Trinidad and Tobagobetween 1971 and 2011. Using the OLS and the Generalized Method of Moments (GMM) techniques ofestimation, the study noted that the major causes of capital flight include the lagged external debt,lagged capital flight, external debt, GDP growth, interest rate differential, and excess liquidity.

Anaya, Hachula and Offermanns (2017), used a structural global VAR model to analyse the impact of US unconventional monetary policy shock as defined by changes in the central balance sheet. It was on the financial and economic conditions of emerging market economies. It also investigated whether or not international capital flight flows were an important channel of shock transmission. They observed that an expansionary policy

significantly increased portfolio flows from the US to emerging economies for the periods studied. This was accompanied by a persistence movement in real and financial variables in the receiving emerging economies.

Auzairy et al. (2017), investigated the dynamic relationship between capital flight andmacroeconomic fundamentals in Malaysia between 1992 and 2012. Using co-integration and vectorauto-regression methods of estimation, the study noted that Consumer Price Index (CPI), GDP, interestrate and exchange rate constitute the macroeconomic fundamentals determining capital flight.

Gunter (2017), examined the impact of corruption and family effects on capital flight in economic growth of nexus in China based on data from 1984 to 2014. The research used both the Cuddington's balance of payments and residual measures to investigate this relationship by adjusting and reflecting the legitimate assets of the Chinese banking industry, miss-invoicing of China's trade with its major trading partners, exchange rates, and the weakness of the official debt data among others. The research observed that capital control had little or no long term impact on the volume of capital especially the capital flight route in Hong Kong. The research also observed that corruption, transaction costs, migration facilitation process were the prime driver of capital flight from mainland China.

Aderoju (2017), studied an empirical investigation of capital flight and domestic investment in Nigeria between 1980 to 2015. The study made use of secondary data from CNB statistical bulletin of various issues and the National Bureau of Statistics. The Augmented Dickey Fuller test, Philip-Perron test, Johensen Co-integration 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. The overall results showed that capital flight has a statistically significant positive relationship with gross domestic investment in Nigeria. The result also showed that there exists a statistically significant positive relationship between exchange rate and gross domestic investment.

Lawal, Kazi, Adeoti, Osuma, Akinmulegun and Ilo (2017), carried outa study on capital flight and economic growth, evidence from Nigeria using the Autoregressive Distributed Lag (ARDL) model to analyse data source from the period of 1981 to 2015. The variable used include, current account balance, capital flight, foreign direct investments, foreign reserve, inflation rate, external debt and real gross domestic product. The result indicated that capital flight has a negative impact on the economic growth of Nigeria.

Uddin, Yousuf and Islam (2017), carried an econometric analysis of the determinants of capitalflight in Bangladesh between 1973 and 2013. They used OLS and noted that the major causes of capital flight are foreign direct investment flows, external debt, interest rate differentials, foreign reserves,and current account surplus. The study also concluded that there is a strong positive correlationbetween interest rate differential and capital flight and between change in external debt and capitalflight.

Adedayo and Ayodele (2016), conducted an empirical analysis of the impact of capital flight on Nigeria economy using secondary data covering the period 1980 to 2014. The Ordinary Least Square (OLS), Augmented Dickey-Fuller unit root test and Co-integration tests were adopted to carry out an extensive analysis of the adopted variables which include Gross Domestic Product, capital flight and exchange rate. The result revealed that the variables have a significant effect in the positive direction. The implication is that as capital flight inflow increases into the economy, it in turn increases the exchange rate causing a positive influence on the Nigerian economy.

Efobi and Asongu (2016), from a panel of 29 African economies analysed the effects of terrorism on the capital flight based on data from 1987 to 2008 using the Generalized Method Moment (GMM) with Forward Orthogonal Deviations (FOD) and Quantile regression (QR). In the results, GMM showed that domestic, transnational unclear and total terrorism consistently increased capital flight. Meanwhile, QR showed that except transnational terrorism which showed the positive effect on capital flight at about 0,90th quintile, terrorism dynamics affected capital flight in low quintiles of the capital flight distribution.

Liew, Mansor and Puah (2016), carried out an empirical investigation on the macroeconomic causesof capital flight in the Malaysian economy between the period 1980-2010. Using the autoregressivedistributed lag (ARDL) model, the study found that political risk and financial crisis positively andsignificantly influence capital flight in the long-run.

3. Methodology

The research design for this study thus, was based on the use of time-series data in the analysis. Therefore, the study adopted the quasi-experimental research design in determining the structural relationship existing between capital flight and the selected macroeconomic variables of the Nigerian economy. Quasi-experimental design is also referred to as survey. According to (Cook, 1983 cited in Baridam, 2008), quasi-experimental design constitutes a set of empirical studies involving human beings that lack the true major attributes of experimentation. First, they rarely occur in a laboratory, and they do not involve the random assignment of unit to the treatments being contrasted.

The major source of data used in this study was the secondary source. Thus, the data for this research analysis was obtained from various issues of the Central Bank of Nigeria Statistical Bulletin, the National Bureau of Statistics Summary of Abstract (1990 to 2020) and the United Nations Development Programme Reports. These data covered information on Foreign Direct Investments Outflows, External Debt servicing, external reserves and capital and financial account deficits serving as the dimensions of Capital Flight, andPoverty Index serving as the dependent variable.

3.1 Model Specification

3.1.1 Poverty Index Model

Anaya, Hachula and Offermanns (2017) made an attempt to find out the nexus between capital outflows and poverty index. They specified their model as HPI= *f*(XFDI,EXD,EXC,INF,ERR). Adopting this and disaggregating Capital Flight into FIA, EXR, EXD and CFA, we have as our Poverty Index Model:

$PID = f(FIA, EXR, EXD, CFA)$----------(3.10)

Stating the exact or mathematical form of (10) above we had:

$PID = \pi_0 + \pi_1(FIA)_t + \pi_2(EXR)_t + \pi_3(EXD)_t + \pi_4(CFA)_t$----------(3.11)

Economic relationships are inexact therefore stating (11) above in econometric form we had:

$PID = \pi_0 + \pi_1(FIA)_t + \pi_2(EXR)_t + \pi_3(EXD)_t + \pi_4(CFA)_t + U$----------(3.12)

Apriori Expectation

Capital flight and poverty index Nigerian. Capital flight is assumed to be unhealthy to a developing country like Nigeria, not only by depriving the country of potential financial

resources for investment, but also in terms of increasing the unemployment situation, lowering the standard of living and creating an extreme situation of poverty. Therefore, in the poverty index model, we expect a positive relationship between capital flight and poverty index. Thus,

$$\pi_1>0;\pi_2>0;\pi_3>0;\ \pi_4>0$$

Where:

FIA	=	Foreign Direct Investment Outflows
EXR	=	External Reserves
EXD	=	External Debt Servicing
CFA	=	Capital and Financial Account Deficits
PID	=	Poverty Index

3.2 **Methods of Data Analysis**

This study adopted the econometric technique. According to Theil (1971), cited in Gujarati and Sangeetha (2007), econometrics is concerned with the empirical determination of economic laws. It is a combination of economic theory, mathematical economics and statistics, but is completely distinguished from each of these three branches of science (Koutsoyianis, 1977).

For the purpose of our analysis here, the Autoregressive Distributive Lag (ARDL)/bond test approach developed by Peseran et al (2001) was adopted as our data sets consisted of variables integrating both at level (0) and at first difference (order I).

The Autoregressive Distributive Lag (ARDL)/bond test approach was used to establish a long run relationship between the variables in each model. This approach was adopted at this instance because it is suitable for use with a mixture of variables integrated at level I (0), variables integrated at first difference I (1) or variables that are fractionally integrated (see Peseran et al, 2001).

However, for the avoidance of having any variables integrated at order 2, we made use the Augmented Dickey Fuller (ADF) test to formally explore the stochastic properties of each individual series. Another reason for the suitability of the ARDL approach is because it involves a single equation setup, making it simple to implement and interpret. Also, different variables can be assigned different lag lengths as they enter the model. And finally, because of its extra robustness and better performance for small sample size such as this study period (see Peseran & Shin, 1997).

The bond test is based on the f-test which has a non-standard distribution and with two sets of critical bounds provided by Peseran et al (2001). The lower critical bound assumes that all the variables are integrated at level I (0), while the upper bound assumes all the variables to be integrated at first difference I (1).

4. Data Presentation and Analysis

4.1 Analysis and Results

In this section, pre-estimation, estimation and post estimation tests were carried out and presented in an orderly manner to address the objectives and hypotheses of this study, where necessary, tables and figures were used to buttress the point of the researchers.

Table 4.1: Descriptive statistics

STATISTIC	CFA	EXD	EXR	FIA	PID
Mean	-325.8476	1.85E+05	2.42E+10	0.371715	46.43968
Median	-201.9711	6.14E+04	2.80E+10	0.252235	46.3
Maximum	1932.2530	1.17E+06	5.36E+10	1.919487	56
Minimum	-2496.880	-4.08E+0	1.20E+09	-0.07816	40.06
Std. Dev.	978.2561	3.22E+05	1.88E+10	0.401732	4.419588
Skewness	-0.062590	1.980029	0.109755	2.248782	0.497398
Kurtosis	4.121626	7.042764	1.347289	8.520115	2.450443
Jarque-Bera	1.645215	41.36692	3.590364	65.48717	1.668358
Probability	0.439285	0.000000	0.166097	0.000000	0.434231
Sum	-10101.28	5.74E+06	7.49E+11	11.52316	1439.63
Sum Sq.Dev.	2.87E+07	3.11E+12	1.06E+22	4.841668	585.9827
Observations	31	31	31	31	31

Source: Author's Computation using Eviews 10

From table 4.1 above, it can be seen that both poverty index and capital flights variables have witnessed noticeable disparities over the period under consideration. From the results, Capital and Financial Accounts Deficits (CFA) has mean value of -325.8476, median value of -201.9711, maximum value of 1932.253, minimum value of -2496.880, Standard deviation value of 978.2561, Skewness value of -0.062590, Kurtosis value of 4.121626, Jarque-Bera value of 1.645215 with its associated probability value of about 0.43. The result of the skewness statistic which measures symmetric nature of the data around its mean suggests that the data has a negative tail as its reported statistic is less than zero. The value for kurtosis which measures the peakedness or flatness of the data suggests that the distribution of the data is relatively leptokurtic as the reported statistic is greater than 3. The Jarque-Bera which measures the normal distribution of the data suggests that the data is normally distributed as the test statistic and its associated probability value of 0.43 is greater than the conventional 5% significance level. A further look at Table 4.1 reveal that External Debt servicing (EXD) has a mean value of 185188.6, median value of 61418.27, maximum value of 1165895, minimum value of -408091.5, standard deviation value 321774.4, skewness value of 1.980029, kurtosis value of 7.042764, Jarque-Bera value of 41.36692 and its associated probability value of 0.000000. The skewness statistic which measures the symmetric nature of the distribution of the data suggest that it has a long positive tail while kurtosis statistic that measures the peakedness or flatness of the distribution of the data suggest that it is leptokurtic (peaked) and the Jarque-Bera statistic and its associated probability value suggest the null hypothesis of the variable been normally distributed was rejected.

Again, Table 4.1 revealed that External Reserves (EXR) has a mean value of 2.42E+10, median value of 2.80E+10, maximum value of 5.36E+10, minimum value of 1.20E+09, standard deviation value of 1.88E+10, skewness value of 0.109755, kurtosis value of 1.347289 and Jarque-Bera value of 3.590364 and its associated probability value of 0.166097. The skewness value indicates that the distribution of the data on the variable has a positive long tail and the kurtosis value suggest that the distribution of the data on the variable is leptokurtic (peaked) while the Jarque-Bera statistic value and its associated probability value suggest that the null hypothesis of the variable been normally distributed could not be rejected.

The descriptive statistics for Foreign Direct Investment Outflows (FIA) on Table 4.1 shows that the variable has a mean value of 0.371715, median value of 0.252235, maximum value of 1.919487, minimum value of -0.078157, standard deviation 0.401732, skewness value of 2.248782, kurtosis value of 8.520115 and Jarque-Bera value of 65.48717 and its associated probability value of 0.000000. The skewness statistic suggests that the distribution of the data on the variable is leptokurtic (peaked) and finally, the Jarque-Bera statistic and its associated probability suggest the rejection of the null hypothesis that the distribution of the data on the variable follows the normal distribution was rejected.

The descriptive statistics for Poverty Index (PID) on Table 4.1 indicates that the variable has a mean value of 46.43968, median value of 46.30000, maximum value of 56.00000, minimum value of 40.06000, standard deviation value of 4.419588, skewness value of 0.497398, kurtosis value of 2.450443, Jarque-Bera statistic of 1.668358 and its associated probability value of 0.434231. The skewness statistics which measure the symmetric nature of the distribution of data for the variable shows that the distribution is symmetrical (that is, it neither has positive nor negative long fail). The kurtosis statistic that measures the peakedness or flatness in the distribution of the data on the variable suggests that the distribution is platykurtic (flat) and the Jarque-Bera statistics and its associated probability value suggest that the null hypothesis of the distribution of the data following the normal distribution could not be rejected, thus the distribution is normally distributed.

Table 4.2: Correlational Matrix for Poverty Index Model

Variable	PID	CFA	EXD	EXR	FIA
PID	1				
CFA	0.251356	1			
EXD	-0.33742	-0.64831	1		
EXR	-0.29278	-0.08822	0.244422	1	
FIA	-0.00423	0.186509	-0.25909	-0.47823	1

Source: Author's Computation using Eviews 10

Table 4.2 report the correlation matrix for the variables in the poverty index model. The correlation coefficient between poverty index and capital and financial account deficit was 0.25 suggesting that both variables are positively related (weak correlation) while the correlation coefficient of -0.33 between poverty index and external debt servicing suggests a negative relationship between both variables. Similarly, a correlation coefficient of -0.29 between poverty index and external reserve suggest a negative relationship between both variables while a coefficient of -0.004 between poverty index and foreign direct investment outflows suggest that both variables are inversely related.A correlation coefficient of -0.64 between capital and financial account deficit and external debt servicing suggest a mild correlation between both variables and -0.08 suggest a weak correlation between capital and financial account deficit and external reserve. The coefficient for capital and financial account deficit and foreign direct investment outflows was 0.18 suggesting weak correlation. Similarly, external debt servicing and external reserve has a correlation coefficient of 0.24 which suggest a weak correlation between both variables and the correlation coefficient between external debt servicing and foreign direct investment outflows was -0.25 which suggest negative weak correlation. Finally, the correlation coefficient between external reserve and foreign direct investment outflows was -0.47 indicating a weak negative correlation. Thus, the correlation matrix shows that all the explanatory variables in the poverty index model can be sustained.

Table 4.3: Unit Root test result at Level and First Difference using Augmented Dickey-Fuller (ADF) Technique

VARIABLE	LEVEL	FIRST DIFFERENCE	DECISION
CFA	-3.34*	-	I(0)
EXD	-2.74	-5.4*	I(1)
EXR	-1.04	-4.74*	I(1)
FIA	-3.16*	-	I(0)
PID	-2.96	-3.46*	I(1)

*Indicates significance at 5%

Source: Author's Computation using Eviews 10

The unit root test conducted using the Augmented Dickey-Fuller (ADF) technique gave the result presented in table 4.3 above. It shows that Current and Financial Account Deficits (CFA), and Foreign Direct Investment Outflows (FIA)were both stationary at level. That is, their test statistic is more negative than 5% significance level. This implies that these variables have no unit roots at level or they became stable without differencing. Therefore,the null hypothesis that there is unit root in CFA and FIA is rejected. However, the result shows that External Debt servicing (EXD), External Reserve (EXR) and Poverty Index (PID) were all stationary at first difference. This implies that these variables have no unit roots at first difference or they became stable after differencing once. Base on this result, the null hypothesis of unit root is rejected at 5% significance level after differencing the variables once.

Table 4.4: Bound test Result for Poverty Index model

ARDL Bounds Test
Date: 08/30/21 Time: 10:40
Sample: 1994 2020
Included observations: 27
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	4.430959	4

Critical Value Bounds

Significance	I0 Bound	I1 Bound
5%	2.86	4.01

Source: ***Author's Computation using Eviews 10***

The results of the diagnostics tests on the residual as reported in table 4.4 reveal that Jarque-Bera test for normality shows that the error term is normally distributed around the mean as the null hypothesis of normal distribution is accepted. The Breusch-Godfrey serial correlation LM test statistic of 80.950 and its associated probability of 0.071 suggest the absence of autocorrelation. Furthermore, the Breusch-Pagan Godfrey test for heteroscedasticity of 0.494 and its associated probability of 0.861 revealed that heteroscedasticity is absent in the model as we accept the null hypothesis of homoscedasticity. The Ramsey RESET test indicated that no variable is missing in the model as the null hypothesis is also accepted. The adherence of

the model to the basic assumptions of ordinary least squares estimation affirm that the model is good for prediction and forecast hence the best linear estimator (the BLUE).

Table 4.4 shows the long run equilibrium relationship between the dependent variable and independent variables in the Poverty Index model. The Autoregressive-Distributed lag (ARDL) bound test for long run dynamics suggest that long run equilibrium exists between the variables given that the F-statistic of 4.430 is greater than the critical value at 5%. Thus, the null hypothesis that 'No levels relationship exists' among the variables in the poverty index model is rejected. The confirmation of long run relationship is a pre-condition for estimating the long run coefficients and error correction model (ECM) for the poverty index equation.

Table 4.5(a): ARDL long run result for Poverty Index Model. Selected model: ARDL (4,1,2,4,2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
PID (-1)	1.176377	0.248607	4.731876	0.0011
PID (-2)	-0.710852	0.367851	-1.932443	0.0853
PID (-3)	-0.153443	0.444894	-0.344898	0.7381
PID (-4)	-0.356527	0.268143	-1.329615	0.2164
CFA	0.739277	0.612811	1.206369	0.2584
CFA(-1)	0.648471	0.628344	1.032032	0.3290
EXD	-0.514727	0.220210	-2.337435	0.0442
EXD(-1)	-0.113757	0.207714	-0.547659	0.5972
EXD(-2)	-0.410415	0.239789	-1.711571	0.1211
EXR	0.127538	0.112982	1.128840	0.2882
EXR(-1)	-0.055223	0.153648	-0.359412	0.7276
EXR(-2)	-0.298879	0.198998	-1.501917	0.1674
EXR(-3)	0.271843	0.172065	1.579880	0.1486
EXR(-4)	-0.245112	0.104579	-2.343799	0.0437
FIA	-1.182095	2.244559	-0.526649	0.6112
FIA(-1)	-5.725770	2.114391	-2.707999	0.0241
FIA(-2)	-1.956993	1.946299	-1.005495	0.3409
C	58.49908	23.39849	2.500121	0.0339

Source: ***Author's Computation using Eviews 10***

Table 4.5(b): Long run coefficients with restricted constant and no trend for Poverty Index model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CFA	1.328695	0.901694	1.473554	0.1747
EXD	-0.994691	0.330949	-3.005572	0.0148
EXR	-0.191329	0.036351	-5.263384	0.0005
FIA	-8.487630	2.301565	-3.687765	0.0050
C	56.009749	1.478555	37.881412	0.0000

Source: ***Author's Computation using Eviews 10***

Table 4.5 (a&b) shows the summary of the long run result of poverty index model. Capital and Financial Account deficit is positively related to poverty rate index. This suggests that an increase in capital and financial account deficit would increase poverty rate in Nigeria. This is in line with the neoclassical theory which argues that decline in a country's financial resources would translate to lower investments and productivity in an economy that would increase dependency ratio and thus poverty rate.

External debt servicing is inversely related to poverty rate index. This suggests that an increase in external debt servicing would bring about decrease in poverty rate in Nigeria. This

contravenes theoretical expectation. Proponents of Growth with debt theory argued that most developing countries are faced with shortage of capital and the presumption that foreign debt can be used to augment the stock of capital over and above what could be used for domestic savings. External Reserve is positively related to poverty rate in Nigeria. This suggests that an increase in external reserve would bring about increase in Poverty rate in Nigeria and vice versa.

Foreign Direct Investment Outflows is inversely related to poverty rate. That is, an increase in foreign direct investment outflows would decrease poverty rate in Nigeria and vice versa. This is contrary to theoretical expectation. The investment diversion theory posits that uncertainty in developing countries and the simultaneous existence of better investment opportunities in advanced countries cause the movement of investable funds out of the economy lowers production capacity and the potential income per head of the citizens.

Table 4.6: ARDL Error Correction (ECM) Result for Poverty Index model with Selected Model: ARDL (4, 1, 2, 4, 2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(PID(-1))	1.220821	0.301553	4.048449	0.0029
D(PID(-2))	0.509969	0.417403	1.221766	0.2528
D(PID(-3))	0.356527	0.268143	1.329615	0.2164
D(CFA)	0.739277	0.612811	1.206369	0.2584
D(EXD)	-0.514727	0.220210	-2.337435	0.0442
D(EXD(-1))	0.410415	0.239789	1.711571	0.1211
D(EXR)	0.127538	0.112982	1.128840	0.2882
D(EXR(-1))	0.298879	0.198998	1.501917	0.1674
D(EXR(-2))	-0.271843	0.172065	-1.579880	0.1486
D(EXR(-3))	0.245112	0.104579	2.343799	0.0437
D(FIA)	-1.182095	2.244559	-0.526649	0.6112
D(FIA(-1))	1.956993	1.946299	1.005495	0.3409
CointEq(-1)	-1.044445	0.399299	-2.615695	0.0280

R – Square = 0.96; Durbin-Watson = 2.53; AIC=3.74 & SC = 4.60

Source: ***Author's Computation using Eviews 10***

Table 4.7: Model Diagnostic test for Poverty Index model

Diagnostic test	**F-statistic**	**Probability**
Jarque-Bera test for normality	0.487	0.783
Breusch-Godfrey serial correlation LM test	4.141	0.065
Breusch -Pagan Godfrey Heteroskedasticity test	0.870	0.616
Ramsey RESET test for specification error	3.052	0.118

Source: ***Author's Computation using Eviews 10***

Table 4.6 shows the error correction model for poverty rate index model. The contemporaneous effect component of Capital and Financial Account deficit is positively signed suggesting that capital and financial account deficit is positively related to poverty rate

index in Nigeria in the short run. However, the coefficient is not significant. Thus, the variable has not significantly influenced poverty rate in Nigeria.

The contemporaneous effect coefficient for external debt servicing is negatively signed while its lag 1 is positively signed. The contemporaneous effect coefficient is significant whereas the coefficient for lag 1 is not significant. This shows that in the short run external debt servicing has an instantaneous effect on reducing poverty in Nigeria.

The contemporaneous effect coefficient for external debt servicing is negatively signed and significant while its lag 1 is positively signed but not significant. This suggests that in the short run, external debt servicing has an instantaneous effect on reducing poverty in Nigeria.

The contemporaneous effect coefficient for external reserve and its lag 1, 2 and 3 are positively related to poverty rate index. However, the contemporaneous effect coefficient and its lag 1 and 2 are not significant but the lag 3 of the variable is significant. This implies that changes in external reserves have a delayed effect in exacerbating poverty rate in Nigeria for the period under review.

The contemporaneous effect coefficient for foreign direct investment outflows is negatively related to poverty rate in Nigeria whereas the lag 1 of the variable is positively signed. However, both the contemporaneous effect component and the lag 1 of the variable are not significant. This suggests that foreign direct investment outflowshave not significantly influenced poverty rate in the short run.

The results of the diagnostics tests on the residual as reported in table 4.7 reveal that Jarque-Bera test for normality shows that the error term is normally distributed around the mean as the null hypothesis of normal distribution is accepted. The Breusch-Godfrey serial correlation LM test statistic of 0.487 and its associated probability of 0.783 suggest the absence of autocorrelation. Furthermore, the Breusch-Pagan Godfrey test for heteroscedasticity of 4.141 and its associated probability of 0.065 revealed that heteroscedasticity is absent in the model as we accept the null hypothesis of homoscedasticity. The Ramsey RESET test indicated that no variable is missing in the model as the null hypothesis is also accepted. The adherence of the model to the basic assumptions of ordinary least squares estimation affirm that the model is good for prediction and forecast hence the best linear estimator (the BLUE).

4.2 Discussion of Findings

Capital and financial account deficit is positively related to poverty rate but not significant. This implies that capital and financial account deficit exacerbate poverty rate in Nigeria. Thus, decline in financial resources translate to lower investment and productivity in Nigeria. Also, External debt servicing is inversely and significantly related to poverty rate in Nigeria. That is, increased external debt servicing reduces poverty rate. The result also revealed that, External reserve is positively and significantly related to poverty rate in the long run while it is insignificant in the short run. Finally, our result also showed that, Foreign direct investment outflows is inversely and significantly related to poverty rate in the long run. Thus, Outflow of foreign direct investment decrease poverty in Nigeria.

5. Summary, Conclusions and Recommendations

5.1 Summary of Findings

This study examined empirically the effect of capital flight and poverty rate over the period 1990 -2020. The capital flight variables were capital and financial account deficit, external

debt servicing, external reserve and foreign direct investment outflows. To achieve the objectives set out in this study, annual time series data for the relevant variables were extracted from the Central Bank of Nigeria statistical bulletin and were analysed using descriptive statistics as well as econometric techniques.

Specifically, the relevant data were examined using descriptive statistics, correlation analysis and the Augmented Dickey-Fuller (ADF) test for unit root. The results of the ADF unit root test showed that some of the variables are integrated at order zero while some are integrated at order one. That is, some of the variables at stationary at level and some stationary at first difference. This informed the decision for the adoption of the Autoregressive Distributed Lag (ARDL) estimation method. The results and findings from the study show that:

> Capital and financial account deficit is positively and insignificantly related to poverty rate in Nigeria while eternal debt servicing and foreign direct investment outflows are inversely and significantly related to poverty rate whereas external reserve is positively and significantly related to poverty rate in Nigeria.

5.2 Conclusions

The study examined the effect of capital flight on poverty rate in Nigeria using Autoregressive-Distributed Lag methodology. Based on the finding enumerated above, the study concludes that capital flight has implication on poverty rate in Nigeria. Capital and financial account deficit has less implication on poverty rate while external debt servicing and foreign direct investment outflows reduces poverty rate in Nigeria.

5.3 Recommendations

Based on the results and findings from this study, the following recommendations are made:

i. External debt acquired should be judiciously used for infrastructural development that would encourage investment that would ultimately bring about economic growth as well as reduce poverty rate in Nigeria.
ii. There should be concerted efforts geared towards encouraging the inflow of capital as well as financial resources into the Nigerian economy which would reduce the deficit experienced in the capital and financial account as well as spur economic growth and consequently reducing the poverty rate in Nigeria.
iii. There should be incentive for investors to keep their resources in Nigeria. This incentive can be in form of providing investment friendly environment for businesses to thrive. Provision of social overheads as well as formulating and implementing consistent policies that would serve as the needed incentive.

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