An Empirical Investigation of Capital Flight and Domestic Investment in Nigeria (1980-2015)

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Abstract

This paper empirically examined the relationship between capital flight and domestic investment in Nigeria. The study made use of secondary data collected from Central Bank of Nigeria's Statistical Bulletin of various issues and National Bureau of Statistics. The empirical analysis covers the period 1980 and 2015. Augumented Dickey Fuller test, Phillip-Perron test, Johansen Cointegration test and Ordinary Least Square estimating technique (OLS) via Microsoft 7.1 econometric software were employed to carry out a detailed analysis of the endogenous and exogenous variables of the model which include Gross Domestic Investment (GDINV), Capital Flight (CAPF), Exchange Rate (EXGR) and Inflation Rate (INFR). The overall results show that capital flight has a statistically significant positive relationship with gross domestic investment in Nigeria contrary to a priori theoretical expectation. The result further revealed that a one naira increase in capital flight would bring about 13.74 units rise in gross domestic investment. The results also show that there exists a statistically significant positive relationship between exchange rate and gross domestic investment. A one naira increase in exchange rate would bring about 4.84 units rise in gross domestic investment. Based on the results, government should intensify its efforts to ensure speedy recovery of looted funds by corrupt public office holders from foreign accounts to inject funds into the economy for investment purposes; there should be significant improvement in governance and institutional quality to promote stable political environment necessary for capital inflow by foreign investors, and government at all levels should provide investment friendly environment through the availability of infrastructural facilities such as uninterrupted power supply, motorable roads network, regular supply of water and efficient communication network. In addition, there should be establishment of a stable exchange rate regime capable of reducing capital outflows and encouraging capital inflows inform of private foreign investment into the country, and there should be enactment of law regulating the percentage of local profit to be repatriated to parent companies abroad from their subsidiaries in Nigeria.

Keywords: Capital Flight, Gross Domestic Investment, Exchange Rate, Unit Root, Cointegration, Ordinary Least Square, Nigeria

Introduction

Many developing countries of the world especially those in sub-saharan Africa have suffered colossal amount of money to capital flight leaving the economic growth and development of these economies at base. The sluggish economic growth and persistent balance of payment deficits in these developing countries is traceable to high levels of illegal capital outflows from them to advanced countries of the world. Although, there is no generally acceptable definition of capital flight because of the problem of differentiating it with the normal capital outflows. However, capital flight, normal or abnormal, has a harmful or damaging effect on the domestic economy. For the purpose of this study, capital flight is defined as illegal movement or transfer of capital from one country to another. It is viewed as a diversion of domestic savings from less developed economies away from financing domestic real investment for a foreign investment in developed economies of the world. This outflow of funds from less developed countries results in capital reduction available for investment purposes that could induce economic growth and development. According to Ndikumana and Boyce (2001), several developing countries are losing more resources that would have been channeled to domestic investment via capital flight than through debt servicing.

Fofack and Ndikumana (2010) noted that the high levels of capital flight constitute serious challenges for domestic resource mobilization in support of investment and growth in Africa. According to Schneider (2003), capital flight involves the outflows of resident capital which is motivated by economic and political uncertainties in the domestic country. According to International Monetary Fund report of (1996) which revealed that Nigeria suffered a loss of $7,573million between 1972 and 1989 to capital flight. Out of this total, the sum of $7,362 million was lost between 1972 and 1978 against a capital inflow of $270 million within the same period. International Financial Corporation (1998) observed that Nigeria is among many African economies that have achieved significant lower investment levels caused by high level of capital flight. Such low level investment brought about by high rate of capital flight in Nigeria also has multiplier consequences on other aspect of the economy, including the alarming rate of unemployment as well as pronounced regressive effects on the distribution of wealth in Nigeria. The 2007 United Nation Conference on Trade and Development (UNCTAD) report showed that around $13 billion per year have left the African continent between 1991 and 2004. In

addition, the total stock of illicit outflows from Nigeria between 2002 and 2011 was put at $142,274 million (Global Financial Integrity, 2013). Capital flight has been regarded as a major factor contributing to the mounting foreign debt and inhibiting development efforts in the third world countries (Cuddington, 1986). External debt in Nigeria for example, increased by 700 percent from $3.5 billion in 1980 to $28.0 billion in 2000 (Ajayi, 2007) while debt outstanding at year end 2012 stood at $6522 million.

Studies on the determinants of capital flight and its impact on the Nigerian economy include those of Ajayi (1992; 1997), Lawanson (2007) and Onwiodwokit (2002). While many studies have been conducted on capital flight as it affects economic growth (Gosarova, 2009; Lan, 2009; Ameth, 2014). Other studies relate to the effects of capital flight and its macroeconomic determinants on agricultural growth in Nigeria (Francis and Chukwuemeka, 2014), little or nothing has been undertaken in relation to the investigation of the impact of capital flight on domestic investment. It is against this backdrop that this study sets to investigate the effects of capital flight on domestic investment in Nigeria.

Objectives of the study
The broad objective of this study is to investigate the relationship between capital flight and domestic investment in Nigeria. The specific objectives are:
-To describe the trend of capital flight and domestic investment in Nigeria over the sample period 1980 to 2015.
-To estimate the relationship between capital flight and domestic investment in Nigeria
-To make recommendations based on the estimated results.

Study Hypothesis
The main hypothesis to be tested in this study is stated in null and alternative form as shown below:
H_0 : There is no statistically significant positive relationship between capital flight and domestic investment in Nigeria.
H_1 : There is statistically significant positive relationship between capital flight and domestic investment in Nigeria.

Literature Review
Capital flight occurs through the transfer of a substantial part of domestic private savings abroad, the persistence of which can lead to a serious deleterious effect on domestic saving, thereby preventing the bank's ability to provide credit to domestic investors capable of promoting and enhancing economic growth and development. In developing countries, capital flight reduces foreign reserve, exacerbates inflation, reduces tax revenue, hinders investment and undermines free trade. Apart from removal of domestic resources that could otherwise be used for poverty alleviation and promotion of economic growth and development, it tends to restrict the capacity and ability of affected countries to mobilize domestic resources and access foreign capital necessary to finance economic growth and development of third world countries like Nigeria.

Dooley (1978) in his study found a significant relationship between capital flight and inflation repression and risk premium through a study of seven developing countries which include Argentina, Brazil, Chile, Venezuela, Philippine, Peru and Mexico. The study found that since residents expected returns on domestic assets are threatened by inflation, the perceived inflation risk therefore motivate capital flight. Cuddington (1986) in his study of Argentina, Mexico, Uruguay and Venezuela employed portfolio adjustment model. He found that residents considered foreign financial assets as an edge against domestic inflation. Also, exchange rate overvaluation, disbursement of public debt and lagged capital flight as motivators of capital outflow. Khern and Hague (1987) estimated capital flight from four sub-saharan African countries: Nigeria, Sudan, Tanzania and Uganda from 1976 to 1989, using their estimates capital flight may seem small compares to Latin American countries but the burden as a percentage of GDP is higher by 61% of sub-saharan compared to 22% for Latin American. Murinde et al., (1996) by their calculation discovered that Nigeria experienced the biggest capital flight over the period representing 60% of the combined total of the four countries in the sample of their econometric analysis of the determinant of capital flight which indicated that most explanatory variables is public external borrowing. The results revealed that capital flight and external debt are closely dependent. Ojo (1992) conducted a study of three countries namely: Coted'Ivore, Nigeria and Morocco revealed that Nigeria had the largest capital flight of about 35billion and emphasized the importance of domestic economic environment including policy related variables as government budget deficit and changes in external debt. Awung (1995) opined that transfer of embezzled public funds into private account abroad, political instability caused by uncertainty and insecurity, coup and counter coups could motivate residents to invest abroad as against Dooley (1978), Boyce (1992), Cuddinton (1986) amongst others.

Isu (2002) examined the impact of capital flight on economic development in Nigeria over the period 1970 and 1991. He concluded that Nigeria had greatly suffered as a result of capital flight. He recommended that the element of uncertainty in Nigeria's macroeconomy occasioned by an unpredictable political transition,

unpredictable economic environment, unpredictable living standards and unpredictable productivity levels should be forcibly removed from the Nigerian environment to make for a reversal of the capital outflows syndrome. Busari (2010) examined the impact of capital flight on some economic recession indicators whereby capital flight was regressed against GDP, inflation, interest rate, unemployment and exchange rate in Nigeria using ordinary least squares (OLS) model. The findings showed that capital flight has a negative effect on GDP, inflation, interest rate and unemployment. The variables used in the study were statistically insignificant except for GDP and unemployment. Saheed and Ayodeji (2010) conducted a study on the impact of capital flight on exchange rate and economic growth in Nigeria employing ordinary least squares (OLS) method to analyze the secondary data. They found that capital flight has a positive and significant effect on economic growth in Nigeria. Ugwuanyi and Uguru (2010) analyzed the influence of capital flight as a multidisplinary phenomenon on foreign direct investment in Nigeria. They employed the ordinary least squares (OLS) regression model in the study and found that capital flight has a negative and significant influence on foreign direct investment in Nigeria for the period 1997 and 2004. It was, however, recommended that government should minimize policy reversals, since an erratic stance and frequent policy reversals create uncertainty that reduce private investment thereby creating room for capital flight and its attendant undesirable effect.

Uguru (2011) examined the impact of capital flight on the corporate performance indices of profit, cost of production and tax paid by some selected multinational corporations in Nigeria. He employed ordinary least squares (OLS) regression model, the findings showed that corporate profits which are supposed to be ploughed back into the economy are shifted abroad; transfer mispricing and over invoicing of import increase the high cost of production of firms which lead to high cost of consumer goods in Nigeria, and capital flight decreases government revenue through tax evasion. Kolapo and Oke (2012) analyzed the relationship between Nigerian economic growth and capital flight determinants between 1985 to 2010. They analyzed their data with cointegration and concluded that inflation and exchange rate are prominent causes of capital flight from Nigeria and that foreign investments significantly affect the level of gross domestic product. Ajayi (2012) conducted a comprehensive study of capital flight and Nigerian economic growth over the period 1970 and 2009. He analyzed the relationship between gross domestic product, external debt, foreign direct investment, external reserves and current account balance. The study revealed that capital flight and its assessments are significant factors for explaining economic trends in Nigeria. Also capital flight has negative impact on the economy. He recommended that funds from foreign sources in form of loans, gifts, grants and aids should be judiciously used for economic development of Nigeria.

Umoru (2013) conducted a study on the impact of capital flight on the Nigerian economy using cointegration to test the relationship between gross domestic product and capital flight, exchange rate, domestic investment, public expenditure and industrial output in Nigeria. His study revealed that capital flight impacts adversely on the growth rate of GDP and such growth rate effect of capital outflow is significant. Capital control is insignificant in stimulating GDP growth rate in Nigeria, exchange control is weak, industrial output is a veritable resources of GDP growth rate in Nigeria, public expenditure has significant positive impact on GDP growth in Nigeria and that the growth effects of domestic investment is insignificant in Nigeria. The study therefore suggested a need for effective control of capital outflows. Adaramola and Obalade (2013) analyzed the impact of capital flight on Nigeria's economic growth using the Johansen cointegration test to investigate the dynamic relationship between capital flight and economic growth. The study revealed that there is a long run cointegration among the variables and that capital flight significantly and positively influence Nigerian economic growth in the short run. It was revealed that capital flight significantly and positively influence economic growth of Nigeria in the long run.

Olugbenga and Alamu (2013) examined the impact of capital flight on Nigeria economic growth over the period 1981 and 2010. The Johansen Cointegration test was utilized to investigate the dynamic relationship between capital flight and economic growth. The results showed that capital flight has negative impact on economic growth in the short-run but the reverse is the case in the long-run. The study therefore recommended that since unproductive use of borrowed fund is reflected in embezzlement by political office holders and subsequent transfer to foreign private accounts, effort should then be made to ensure strict monitoring of execution of public projects, accountability and transparency. Also, enabling business environment to encourage foreign investors into Nigeria should be created; and capital outflows that finance importation of capital goods that are necessary for development purposes should be encouraged due to its long-run positive effects. Leonard, Benjamin and Chibuike (2014) conducted a study on the relationship between capital flight and exchange rate volatility in Nigeria. The study employed the parametric statistical techniques of ordinary least squares (OLS) regression model. They found that capital flight has a statistically significant positive relationship with exchange rate in Nigeria during the period of study. The study recommended that a stable exchange rate regime should be established through a drastic reduction in capital flight and increase capital inflows in the form of foreign private investments.

Ayodele (2014) examined the impact of capital flight on the Nigerian economy over the period 1991 and

2010. The simple linear regression model was used to analyze the data. It was discovered from the analysis that there exists a very high positive correlation between GDP in Nigeria and capital flight from the country. It was also found that capital flight has a significant impact on the GDP in Nigeria. Francis and Chukwuemeka (2014) examined the impact of capital flight and its macroeconomic determinants on agricultural growth in Nigeria from 1970 to 2013. Data generated were analyzed using unit root test, cointegration test and regression analysis. The study found negative and insignificant relationship between total capital flight and agricultural growth. Olawale (2015) investigated capital flight and the short and long run analysis of the Nigerian economy over the period 1981 and 2010 using the Engel granger two steps procedure for estimation. The study found that the explanatory variables: defense expenditure, interest differentials and investment are individually affecting the capital flight. It was confirmed by the study that not only would the country loose substantial amounts of funds that could be otherwise used for development and further stabilization, capital flight also hinders long term economic growth. The study revealed that defense expenditure affects capital flight both in the long and short run.

Description of Variables

Domestic Investment- This is the **dependent or endogenous variable** in the model which is expected to be influenced by a number of exogenous or explanatory variables. Domestic investment can be described as the commitment of resources made with the hope of realizing benefits which are expected to occur over a reasonably long period of time. It is an economic activity where an individual, group of individuals or government buys assets with the hope of receiving adequate risk premium (returns) overtime. Investment is a net tangible property of human being and of institutional arrangement capable of rendering services to consumers and producers of a nation. This implies the profitable postponement of consumption to the future. Such greater consumption expectation is only attained if the resources committed yield benefits as per the opportunity cost of the capital. It could also mean the production of capital goods which are not consumed but instead used in future production. Domestic investment is generally classified into two major components viz: the private domestic investment and the public domestic investment. Private domestic investment refers to gross fixed capital formation plus net changes in the level of inventories whereas public domestic investment includes investment by government and public enterprises on social and economic infrastructure, real estate and tangible assets. The combination of private domestic investment and public domestic investment is normally referred to as Gross Fixed Capital Formation. Domestic investment is generally influenced or determined by numerous factors such as domestic inflation rate, debt burden level, size and growth rate of market, availability and access to bank credit, level of real interest rate, fiscal deficits, infrastructural development level, political and economic stability, investment climate and institutional factors.

The **exogenous variables** in the model are:

Capital Flight- This explanatory variable refers to the illegal movement of money or financial assets from investments in one country to another in order to avoid country-specific risks such as hyperinflation, political turmoil and anticipated depreciation or devaluation of currency. It can also be viewed as a movement of local saving from less developed economies away from financing local real investment for a foreign financial investment in advanced economies of the world leaving the economic growth and development of the less developed economies at base. Capital flight in Nigeria is adjudged to be more severe than it is elsewhere in other Sub-Sahara African countries due majorly to political instability, unhealthy economic environment and the high magnitude of corruption at all levels of government in Nigeria. This variable theoretically is expected to exert a negative impact on the domestic investment of the economy.

Exchange Rate – Exchange rate is the price at which the domestic currency is exchanged for foreign currencies. It is the rate at which one currency will be exchanged for another, that is, the value of a country's currency in terms of another. Nigeria has had problems with exchange rate management for the past four decades. This variable is expected to exert a negative impact on domestic investment in Nigeria.

Inflation Rate – This variable theoretically should affect domestic investment negatively. The higher the inflation rate, the greater the prices of productive resources or factors of production needed by domestic investors and the slower would be the pace of investment level in the economy. There would be discouragement or disincentive to invest on the part of potential domestic investors.

Random Variable - This variable accommodates other exogenous or explanatory variables influencing the domestic investment which are not included in the model. It takes care of the unexplained part of the model.

Data and Methodology

The research work made use of secondary data collected from Central Bank of Nigeria's Statistical Bulletin and National Bureau of Statistics. The empirical measurement covers the sample period between 1980 and 2015. Augumented Dickey Fuller unit root test, Phillips-Perron unit root test, Johansen Cointegration test and Ordinary Least Square (OLS) Regression technique were employed to carry out an extensive analysis of the endogenous and exogenous variables which include Gross Domestic Investment, Capital Flight, Exchange Rate and Inflation

Rate.

Model Specification

For the purpose of analysis, data for this research work are secondary data obtained from the Central Bank of Nigeria's Statistical Bulletin and National Bureau of Statistics for the period 1980 and 2015. The mathematical representation of the variables identified from this model is presented as follows:

$$GDINV = f(CAPF, EXGR, INFR), \quad \text{where} \qquad\qquad (1)$$

GDINV = Gross Domestic Investment

CAPF = Capital Flight

EXGR = Exchange Rate

INFR = Inflation Rate

The regression analysis of Ordinary Least Square (OLS), Augumented Dickey Fuller (ADF) unit root test, Phillips-Perron (PP) unit root test and Johansen Cointegration test were employed to examine the impact of Capital Flight on Gross Domestic Investment in Nigeria over the period 1980 to 2015. Specifically, the estimated regression equation is of the following form:

$$GDINV = b_0 + b_1CAPF + b_2EXGR + b_3INFR + E \qquad\qquad (2)$$

b_1, b_2 and b_3 are elasticity of the parameters of the respective variables.

The Apriori Test Expectation

An apriori argument, reason or probability is based on assumed principles or facts, rather than actual or observed fact. These in economic terms are based on economic theory and they seek to determine whether the expected is equal to the observed, i.e. whether the economic expectations are in line with actual observations in the analysis. Therefore, from the OLS linear equation, it was expected that the following conditions are derivable: $a_0 > 0$, $a_1 < 0$, $a_2 < 0$, $a_3 < 0$

Stationary Test

Before the estimation of the equation (2), all the variables were subjected to stationary tests of time series data. If the data are differenced and it is found that they are stationary, then they can be integrated to the order of one or greater; otherwise, a non-stationary series exists.

Table 1 Augumented Dickey Fuller Statistics of the Variables

VARIABLES	ADF STATISTICS	1%	5%	10%	ORDER OF INTEGRATION
GDINV	-7.338999	-3.639407	-2.951125	-2.614300	I(1)
CAPF	-6.598810	-3.639407	-2.951125	-2.614300	I(1)
EXGR	-4.853336	-2.639210	-1.951687	-1.610579	I(1)
INFR	-6.020532	-3.646342	-2.954021	-2.615817	I(1)

Source: Author's Computation using E-view 7.1

Table 2 Phillips-Perron Statistics of the Variables

VARIABLES	PP STATISTICS	1%	5%	10%	ORDER OF INTEGRATION
GDINV	-7.155159	-3.639407	-2.951125	-2.614300	I(1)
CAPF	-7.623923	-3.639407	-2.951125	-2.614300	I(1)
EXGR	-4.874920	-2.639210	-1.961687	-1.610579	I(1)
INFR	-9.764270	-3.639407	-2.951125	-2.614300	I(1)

Source: Author's Computation using E-view 7.1

Unit root tests are conducted for the variables using the Augumented Dickey Fuller test and the Phillips-Perron test and the results are presented in the table 1&2 above. Note that the Mackinnon (1996) critical values for the Augumented Dickey Fuller test and the Phillips-Perron test estimation at 1%, 5% and 10% significance levels are stated in the tables above. Stationary (unit root) test conducted for the set of variables enumerated above revealed that all the variables are I(1) variables (Integrated of order 1). That is, they are not stationary at levels but are all stationary at their various first differences.

Table 3   **Johansen Cointegration Test**

Date: 10/22/17   Time: 11:51

Sample (adjusted): 1982 2015

Included observations: 34 after adjustments

Trend assumption: Quadratic deterministic trend

Series: GDINV CAPF EXGR INFR

Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.815453	109.4799	55.24578	0.0000
At most 1 *	0.558725	52.02498	35.01090	0.0000
At most 2 *	0.380097	24.21000	18.39771	0.0000
At most 3 *	0.208533	7.951472	3.841466	0.0004

Trace test indicates 4 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.815453	57.45488	30.81507	0.0000
At most 1 *	0.558725	27.81498	24.25202	0.0000
At most 2	0.380097	16.25852	17.14769	0.0000
At most 3 *	0.208533	7.951472	3.841466	0.0048

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Table 3 above presents the cointegration result for the variables. Here, it could be observed that the variables in the equation are cointegrated. The existence of cointegration suggests that there is a long-run relationship among the variables in the equation. Trace test and Max-eigenvalue test indicate cointegration at 5% levelof significance respectively. As a result of this, an ordinary least square regression was estimated because the variables are stationary at their various first differences.

Table 4

Dependent Variable: GDINV

Method: Least Squares

Date: 10/15/17   Time: 15:09

Sample: 1980 2015

Included observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.585621	0.002440	3108.908	0.0000
CAPF	0.001374	0.000363	3.790473	0.0000
EXGR	0.000484	0.000529	0.914683	0.3672
INFR	-0.000776	0.000314	-2.475273	0.0188

R-squared	0.935689	Mean dependent var		7.599638
Adjusted R-squared	0.929659	S.D. dependent var		0.005275
S.E. of regression	0.001399	Akaike info criterion		-10.20183
Sum squared resid	6.26E-05	Schwarz criterion		-10.02588
Log likelihood	187.6329	Hannan-Quinn criter.		-10.14041
F-statistic	155.1929	Durbin-Watson stat		1.961729
Prob(F-statistic)	0.000000			

Table 5 Presentation of Regression Result
Dependent Variable : GDINV   **Sample : 1980-2015**

Variables	Estimated Coefficient	T-Value	Apriori Expectation	Inference
Constant term	7.585621	3108.908	$b_0 > 0$	Correct sign and significant
CAPF	0.001374	3.790473	$b_1 > 0$	Incorrect sign and significant
EXGR	0.000484	0.914683	$b_2 > 0$	Incorrect sign and significant
INFR	-0.000776	-2.475273	$b_3 < 0$	Correct sign and significant
Significant at 5%		$R^2 = 0.93$		DW = 1.9

Empirical Findings
The result of the analysis in table 5 shows that there is a positive relationship between capital flight and domestic investment in the Nigerian economy, given the coefficient of 0.001374 which is statistically significant with a t-value of 3.790473. This can be interpreted as a one naira increase in capital flight would bring about 13.74 units increase in gross domestic investment. This implies that capital flight from Nigeria, contrary to economic theory, is a significant factor that can transform the growth of domestic investment. The reason for this result could be that part of the capital outflow from the country by corrupt politicians could have been repatriated and invested into the domestic economy thereby leading to the upsurge in the level of domestic investment. From the estimated result, there is a positive relationship between exchange rate and domestic investment in Nigeria, given the coefficient of 0.000484 which is statistically significant with a t-value of 0.914683. This suggests that a one naira increase in the exchange rate would bring about 4.84 units increase in domestic investment. The coefficient of inflation in the estimated regression equation is -0.000776 which is statistically significant with a t-value of -2.475273. This implies that a one unit rise in inflation rate would decrease domestic investment by 7.76 units. This is in conformity with the apriori theoretical expectation that there is an inverse relationship between inflation and domestic investment.

The coefficient of determination (R^2) indicates that over 93 percent changes in the gross domestic investment (GDINV) are explained by Capital flight (CAPF), Exchange rate (EXGR) and Inflation (INFR) taken together. This is a nice fit as the unexplained variation is just 7 percent. The remaining 7 percent could be attributed to some other variables influencing gross domestic investment outside this model. The Adjusted Coefficient of Determination (R^2) is 0.92 and this shows that 92 percent variation in Gross Domestic Investment (GDINV) is caused by variations in Capital flight (CAPF), Exchange rate (EXGR) and Inflation (INFR). This model as specified is statistically significant given its F-test to be 155.1929. The F-statistic value of 155.1929 is high enough, this shows the overall significance of the model and this indicates that collectively, all the explanatory variables are important determinants of domestic investment.

The value of Durbin-Watson is 1.961729 for the model. This falls within the determinate region and this implies that the model is free from autocorrelation problem. Since capital flight exerts a statistically significant positive relationship with domestic investment in the model, thus, null hypothesis is rejected which states that there is no significant positive relationship between capital flight and domestic investment in Nigeria.

Conclusion and Recommendations
This paper investigated the investment implications of capital flight and exchange rate in Nigeria. Empirical analysis was conducted by applying the multiple regression of the ordinary least square technique to the annual data on the Nigerian economy for the period 1980-2015. The model was found to be significant and most of its estimates are unexpected. The study found that capital flight have sustained impact on gross domestic investment. The findings show a positive relationship between capital flight and gross domestic investment which is in contrary to apriori theoretical expectation. The study further revealed that there is a positive relationship between exchange rate and domestic investment which negates apriori theoretical expectation.
Based on the estimated results, the following recommendations are made:
-Government should intensify its efforts to ensure speedy recovery of looted funds in foreign accounts by corrupt public office holders in order to attract inflow of funds from abroad for domestic investment purposes.
–There should be significant improvement in governance and institutional quality to promote stable political environment necessary for capital inflow into the domestic economy by foreign investors.
-Government at all levels should provide investment friendly environment through the availability of infrastructural facilities such as uninterrupted power supply, motorable roads, regular water supply and efficient communication network to encourage more inflow of funds from abroad.
–Adequate penalties should be melted out to past and serving corrupt public office holders to serve as deterrent factors to others who have the ambition of occupying public positions for treasury looting.
–Establishment of a stable exchange rate regime capable of reducing capital outflow and encouraging capital inflows in the form of foreign private investment which could also impact positively on private domestic investment in the country.

–Government should vigorously pursue diversification of the economy to make the country less dependent on oil revenue which is determined by fluctuations in exchange rate prices.

–There should be enactment of law regulating the percentage of local profit that could be repatriated to parent companies abroad from their subsidiaries in Nigeria. This will significantly reduce the amount of capital fleeing Nigeria to foreign countries.

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