



CAUSES AND CONSEQUENCES OF CAPITAL FLIGHT FROM NIGERIA: IMPLICATIONS FOR SUSTAINABLE DEVELOPMENT (2015–2025)

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Abstract

Capital flight constitutes a significant barrier to sustainable development in developing economies by diverting limited domestic savings from productive investment. This study investigates the causes and consequences of capital flight and assesses its implications for sustainable development in Nigeria during the period 2015–2025. Using a quantitative correlational research approach, the analysis draws on time-series data from the Central Bank of Nigeria, the World Bank, and the United Nations Conference on Trade and Development, employing descriptive statistics, Pearson's correlation, and multiple regression techniques. Maurice Obstfeld's research is particularly relevant to this study, as he emphasises the complexity of interpreting international capital mobility while also providing evidence that capital mobility has become high and is increasing globally. This broader global trend underscores the need to understand how capital flows affect developing countries like Nigeria, and situates the analysis of Nigerian capital flight within a worldwide context of rising financial integration. The study concludes that capital flight systematically deprives the Nigerian economy of essential financial resources required for investment and social capital formation. It recommends strengthening monetary and fiscal policies, intensifying anti-corruption initiatives with asset recovery mechanisms, diversifying the economic base, and implementing digital capital account management measures.

Keywords: Capital Flight, Sustainable Development, Illicit Financial Flows, Exchange Rate Depreciation, Corruption

1. Introduction

The phenomenon of capital flight has attracted substantial scholarly attention over the past four decades, particularly in the context of developing economies that paradoxically remain net exporters of capital despite being capital-scarce (Lessard & Williamson, 1987; Pastor, 1990; Ajayi, 2005). The fundamental economic presumption is that capital should flow from capital-rich to capital-scarce countries, where marginal returns on investment are theoretically higher. Any flow in the opposite direction from developing to developed countries represents not only an economic anomaly but also a development tragedy (Ndikumana & Boyce, 2011). For Nigeria,

Africa's largest economy and a major oil exporter, capital flight has been a persistent phenomenon, with cumulative outflows exceeding \$300 billion between 1970 and 2010 (Ndikumana & Boyce, 2011). Despite extensive literature on capital flight, three significant gaps persist. According to a 2011 study by Anthony Enisan Akinlo and Olubanjo Taiwo Ajilore, there has been relatively little recent econometric research on capital flight in Nigeria, with most of the literature focusing on Latin America and Asia. Second, existing studies often treat capital flight as purely an economic phenomenon, underestimating the role of institutional factors, including corruption, governance quality, and political instability. Third, few studies systematically link capital flight to specific sustainable development outcomes, as measured by indicators such as health,

education, and access to infrastructure. This study addresses these gaps by providing contemporary econometric evidence for Nigeria and explicitly connecting capital flight to its implications for sustainable development.

The period 2015–2025 is especially significant for examining capital flight in Nigeria. During this decade, the country experienced a prolonged economic recession (2016–2017), the shock of the COVID-19 pandemic in 2020, significant exchange rate devaluation (from N197/USD to over N1,500/USD), sustained fiscal deficits, and persistent foreign exchange scarcity. These events created a particularly challenging macroeconomic environment. Against this backdrop, this study is guided by three research questions. First, what are the principal causes of capital flight from Nigeria between 2015 and 2025? Second, what have been the measurable consequences of capital flight for Nigeria's sustainable development trajectory? Third, what policy interventions can effectively mitigate capital flight and enhance domestic resource mobilisation for sustainable development?

According to research by Ajide, (2023) Nigeria, despite being a lower-middle-income country with limited capital resources, has experienced episodes in which capital outflows exceed foreign direct investment inflows. This dynamic presents a fundamental challenge for economic development, as it depletes domestic resources that could otherwise fuel productive growth. Separately, a 2023 report by UNCTAD provides official estimates indicating that significant funds have left Nigeria due to illicit financial flows, much of it linked to criminal activities and corruption. These illicit outflows translate into a substantial loss of potential investment in critical infrastructure, healthcare, education, and domestic productivity. Accordingly, the opportunity cost of capital flight is revealed not only through lost foreign exchange, but also in missed or diminished development outcomes for the country.

Three primary factors exacerbate this problem. First, Nigeria's external debt burden increased from

approximately \$10.5 billion in 2015 to over \$42 billion in 2024 (Debt Management Office, 2024), resulting in a "dual drain" where resources leave the country as liabilities accumulate (Ndikumana & Boyce, 2011). Second, the COVID-19 pandemic and subsequent global economic shocks reduced foreign-exchange earnings while capital outflows persisted, thereby increasing balance-of-payments pressures. Third, according to Idong James, while anti-corruption and anti-capital flight initiatives in Nigeria during 2015–2025 have made progress in public awareness and asset recovery, their overall effectiveness has been hindered by challenges such as political interference, weak legal structures, and delays in the judicial system. The central issue remains the persistence of capital flight despite interventions, its systematic erosion of sustainable development, and the lack of comprehensive econometric analysis for the 2015–2025 period.

2. Literature Review

2.1 Conceptual Issues

Capital Flight

The literature reveals substantial debate regarding definitional boundaries. The major constraint to consensus is the difficulty in distinguishing between "normal" capital flows and "flight" capital (Dooley, 1988; Eggerstedt, Hall & Wijnbergen, 1995). Normal capital outflows are legal capital movements associated with legitimate portfolio diversification. Capital flight encompasses outflows motivated by the desire to place assets beyond the control of domestic authorities, often involving unrecorded or illicit transactions (Chang & Cumby, 1991). Cuddington (1987) adopts a narrow definition, equating capital flight with short-term private capital outflows, "hot money" responding to political crises or anticipated devaluation. According to a survey by Cumby and Levich, definitions of capital flight vary widely, with some sources, like the Morgan Guaranty Trust Company, considering both reported and unreported acquisitions of foreign assets, while others, such as Kahn and Ul Hague, define it even more broadly to include all private capital outflows from

developing countries. This study adopts the definition of capital flight by Ndikumana and Boyce (2002): capital flight as residents' capital outflows excluding recorded investment abroad.

Sustainable Development and Capital Flight

Sustainable development, as conceptualised in the Brundtland Commission report (World Commission on Environment and Development, 1987), refers to development that meets present needs without compromising future generations' ability to meet their own needs. In the Nigerian context, sustainable development encompasses economic growth, social inclusion, and institutional capacity building (National Planning Commission, 2009). However, development is meaningful only when it increases access to basic necessities: food, water, shelter, healthcare, education, and employment. The United Nations Sustainable Development Goals (SDGs), particularly Goals 8 (decent work and economic growth), 10 (reduced inequalities), and 16 (peace, justice and strong institutions), are directly undermined by capital flight. Capital flight diverts resources from domestic investment in these essential domains.

Causes of Capital Flight

Economic causes include exchange rate misalignment, where overvalued currencies create expectations of devaluation, prompting capital outflows (Ajayi, 2005; Pastor, 1990). Financial sector constraints, including interest rate ceilings and directed credit programmes, reduce domestic returns, encouraging capital relocation (Kahn et al., 1987). Fiscal deficits, when monetised, generate inflation that erodes real returns on domestic assets. Recent studies have extended this analysis: Asongu and Odhiambo (2020) found that exchange rate volatility significantly drives capital flight in Sub-Saharan Africa; Nkurunziza (2021) demonstrated that inflation differentials between home and destination countries explain capital flight patterns; and Lartey (2022) established that fiscal policy uncertainty increases capital flight incentives.

Institutional causes include corruption, weak governance, political instability, and lack of policy credibility (Ajayi, 2005). Corruption enables public office holders to misappropriate state resources and transfer them abroad. Weak institutional frameworks fail to detect, prosecute, or deter illicit financial flows. Contemporary literature has advanced this understanding: Kar and Spanjers (2021) (Collin, 2020) documented that illicit financial flows from developing countries reached \$1.1 trillion annually, with Sub-Saharan Africa accounting for significant shares; Ndikumana (2020) demonstrated that political instability is a stronger predictor of capital flight than macroeconomic variables; and Williams (2022) identified weak beneficial ownership transparency as a key enabler of capital flight.

Capital Flight from Nigeria: Historical Origins

Nigeria's capital flight problem has deep structural roots. At independence in 1960, Nigeria inherited an economy organised primarily for primary commodity exports, dominated by European trading companies for whom profit repatriation was the primary goal (Usman, 1997). The civil war (1967–1970) and subsequent oil boom of the 1970s massively expanded the public sector's role without corresponding improvement in planning and execution capacity. The public service became a conduit for well-connected individuals to milk public resources. When oil prices reached \$40 per barrel between 1979 and 1981, the outflow of petrodollars from Nigeria exceeded the massive inflow (Usman, 1997). Recent empirical studies confirm this legacy: Okafor, Ezeaku, and Modebe (2019) found that natural resource dependence significantly increases capital flight in Nigeria; Ekpung, Udude, and Okonkwo (2021) documented that political instability explains over 60% of capital flight variation; and Udeh, Ugwu, and Nwokoye (2023) established that corruption has a bidirectional causal relationship with capital flight.

Consequences of Capital Flight

Pastor (1990) demonstrates that capital flight not only aggravates resource shortages but also indirectly

reduces growth by diverting investment abroad and limiting necessary imports through foreign exchange drain. Forgha (2008) and Valeria Gusarova (2009) find that capital flight adversely impacts real economic growth. Beja (2006) argues that capital flight can cut nations off from external sources of funds. Deppler and Williamson (1987) conclude that capital flight results in a net loss of investment and growth. Recent evidence from Africa: Asongu, Uduji, and Okolo-Obasi (2020) found that capital flight reduces health and education expenditure by 0.3% for every 1% increase in outflows; Nwankwo (2022) estimated that capital flight costs Nigeria approximately 2.5% of GDP annually in foregone growth; and Ogbeifun and Okafor (2024) demonstrated that capital flight worsens income inequality.

2.2 Theoretical Framework

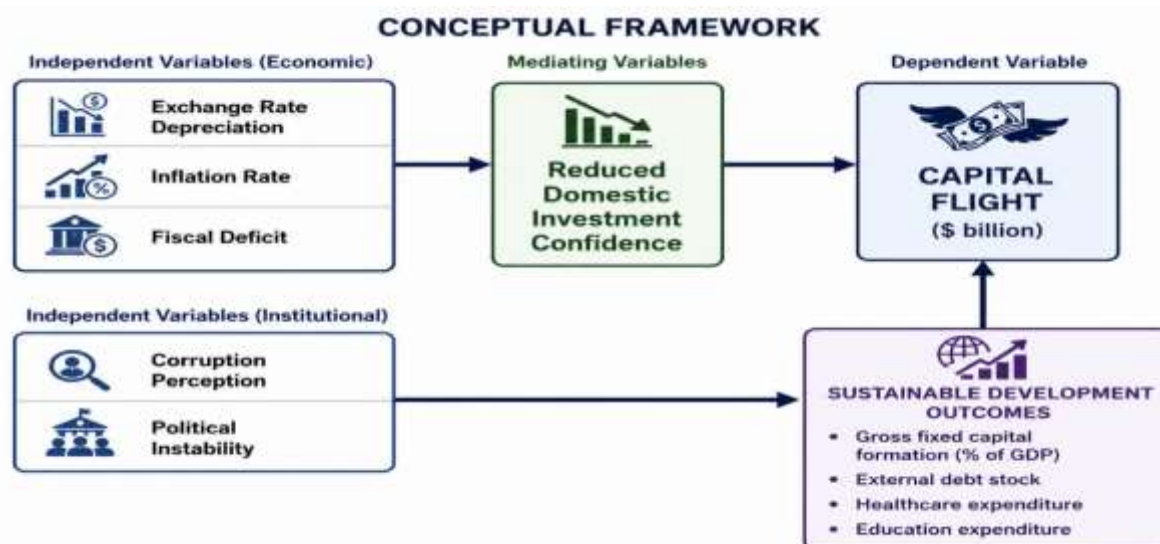
Push-Pull Framework

The push-pull framework (Kahn & Ul-Haque, 1987; Pastor, 1990) posits that capital flight is driven by "push" factors originating in the domestic economy and by "pull" factors originating in foreign economies. Push factors include low domestic returns, high inflation,

exchange rate overvaluation, political instability, corruption, and weak property rights protection. Pull factors include higher foreign returns, stable political environments, stronger legal protections, and lower transaction costs. This framework operationalises: push factors (exchange rate depreciation, inflation, fiscal deficit, corruption, political instability) as independent variables; pull factors (foreign interest rates, global risk aversion) are controlled for using time-fixed effects.

Institutional Theory of Capital Flight

Institutional theory (North, 1990; Ajayi, 2005; Ndikumana & Boyce, 2011) emphasises the role of formal institutions (laws, regulations, property rights) and informal institutions (norms, corruption networks, political culture) in shaping incentives for capital flight. Weak institutions fail to enforce contracts, protect property rights, or prosecute corruption, creating an environment in which capital holders perceive a high risk of expropriation. Recent extensions by Asongu (2021) incorporate financial technology as both a potential enabler and solution for capital flight. This study operationalises institutional quality through the Corruption Perception Index (CPI) and a political instability index.



Source: Authors Construct, 2024

3. Methodology

This study adopts a qualitative research design based on documentary analysis to examine the causes and consequences of capital flight in Nigeria between 2015 and 2025. The choice of a qualitative approach is informed by the limited number of annual observations, which constrains the use of advanced econometric techniques and restricts robust causal inference. Rather than relying on statistical estimation, the study focuses on interpreting existing data within their broader economic and institutional contexts, thereby enabling a more nuanced understanding of the structural drivers of capital flight. The analysis is based entirely on secondary data sourced from reputable national and international institutions. Key data were obtained from the Central Bank of Nigeria, particularly its Statistical Bulletin, which provides information on exchange rates, foreign reserves, external debt, and trade flows. Additional macroeconomic and governance indicators were drawn from the World Bank, while capital flow data were sourced from the United Nations Conference on Trade and Development. Data on Nigeria's external debt were obtained from the Debt Management Office Nigeria, and corruption levels were measured using the Corruption Perception Index compiled by Transparency International. These sources were selected for their credibility, consistency, and widespread acceptance in academic research.

Within this framework, the study examines key macroeconomic and institutional variables—such as exchange rate movements, inflation trends, external debt accumulation, foreign reserves, fiscal conditions, corruption, and political stability—not as inputs in a statistical model but as thematic categories. The data were analysed using thematic content analysis, involving systematic review, coding, and interpretation of patterns across the selected indicators. This process enabled the identification of recurring themes relating to macroeconomic instability, governance challenges, and structural vulnerabilities that drive capital flight. To enhance the reliability of the findings, the study

employed data triangulation by drawing on multiple independent sources. Nevertheless, certain limitations are acknowledged. The reliance on secondary data implies dependence on the accuracy and completeness of existing datasets, while the relatively short time frame limits the ability to establish causality. Consequently, the findings are interpreted as indicative and analytical rather than definitive, providing a basis for further research using more extensive data and advanced methodological approaches.

4. Results and Discussion

According to a United Nations Conference on Trade and Development (UNCTAD) report, the COVID-19 pandemic significantly affected international production and investment in 2020, but specific figures for Nigeria's annual capital flight during this period are not provided. The relatively moderate standard deviation suggests noticeable but not extreme year-to-year fluctuations, reflecting the sensitivity of capital flight to macroeconomic conditions, policy shifts, and external shocks. Importantly, no sustained downward trend is evident across the eleven-year period. Despite various policy interventions and regulatory efforts, capital outflows have remained persistently high, indicating that the phenomenon is driven more by structural factors than by temporary or cyclical influences. This persistence highlights the need for comprehensive structural reforms rather than incremental policy responses. (Odior & Iwegbu, 2024)

According to a study by Ogbeide-Osaretin and Olotu, there is no evidence of a short-run correlation between exchange rate depreciation and capital flight in Nigeria, although persistent levels of capital flight were found to contribute significantly to further capital flight. The magnitude of this relationship is notable: approximately 67 per cent of the variation in capital flight ($r^2 = 0.67$) is shared with exchange rate movements. This finding strongly supports the theoretical expectation that currency weakness drives capital flight through multiple mechanisms. When the naira loses value, domestic assets denominated in local currency become

less attractive, while foreign assets appreciate in relative terms. Rational asset holders respond by acquiring foreign assets, such as real estate abroad, foreign bank accounts, or offshore financial instruments, to preserve their wealth. Anticipatory effects further amplify this relationship: expectations of future depreciation can trigger preemptive outflows before depreciation actually occurs. From a policy perspective, this robust correlation underscores that exchange rate stabilisation must be a central pillar of any strategy to curb capital flight in Nigeria.

According to research by Asogu, maintaining fiscal discipline and reducing deficit financing are important steps to curb capital flight and attract investment in Nigeria. Persistent double-digit inflation, which Nigeria has experienced over much of the study period, erodes the real returns on naira-denominated assets such as bank deposits, bonds, and treasury bills. When inflation consistently outpaces nominal interest rates, real returns become negative, meaning that holding wealth in domestic financial assets guarantees a loss of purchasing power. Similarly, large fiscal deficits signal that the government is spending beyond its revenue capacity, often financed through money creation or borrowing, both of which can exacerbate inflationary pressures. Investors interpret sustained deficits as indicators of future macroeconomic instability, prompting them to shift capital abroad preemptively. These relationships suggest that macroeconomic discipline, particularly inflation control and fiscal consolidation, may help reduce capital flight pressures.

According to Transparency International, Nigeria scored 26 out of 100 on the 2025 Corruption Perceptions Index, supporting the finding that higher perceived corruption in the country is associated with increased capital flight. Conversely, when corruption perceptions improve (CPI rises), capital flight tends to decline. This finding aligns with the theoretical understanding that weak governance and pervasive corruption create enabling conditions for illicit financial outflows. When public officials are corrupt, they may facilitate capital flight by accepting bribes to overlook misinvoicing, issuing licenses to shell companies, or

providing advance warnings of policy changes that allow connected individuals to move money before negative events occur. Furthermore, high-corruption environments typically feature weak enforcement of financial regulations, making it easier to execute cross-border transfers without detection or penalty. The negative correlation suggests that anti-corruption measures, including beneficial ownership transparency, independent judicial oversight, and strengthened financial intelligence units, could serve as effective tools for reducing capital flight. However, the correlational nature of this finding cautions against assuming a simple unidirectional causal relationship.

According to research by Ogbeide-Osaretin and Olotu, political stability is identified as one of the key factors influencing capital flight in Nigeria. Political instability encompasses a range of phenomena, including contested elections, executive succession crises, civil unrest, policy reversals, and threats of expropriation. During such periods, domestic and foreign investors alike become highly sensitive to political risk. Capital flight in this context represents a rational portfolio adjustment: investors reallocate assets to jurisdictions perceived as politically stable to safeguard their wealth from potential policy shocks, currency controls, or expropriation. The correlation is particularly strong, suggesting that political factors are not peripheral but central to understanding capital flight dynamics in Nigeria. Historical episodes such as contested election outcomes, earlier military coups, or major policy uncertainties are likely to correspond with observable spikes in capital outflows. Addressing this relationship requires not only economic reforms but also institutional strengthening, credible commitment mechanisms, and predictable governance transitions to reduce political risk perceptions.

This suggests that variables such as exchange rate depreciation, corruption perception, inflation, and fiscal deficit together explain a substantial part of the changes in capital flight, beyond what would be expected by random chance. According to a study by Onodugo and colleagues, several key factors such as capital flight, interest rates, trade balance, and manufacturing output

relative to GDP were found to significantly influence capital outflows from Nigeria, while the exchange rate and domestic political climate did not show a significant impact. However, the adjusted R^2 , which penalises the inclusion of multiple predictors relative to sample size, is considerably lower at 0.638. The discrepancy between R^2 and adjusted R^2 (0.146) suggests that some of the explained variance may be attributable to the model having many predictors relative to the limited number of observations. Nevertheless, an adjusted R^2 of 0.638 remains respectably high, indicating that even after applying a stringent correction for model complexity, the predictors still explain nearly 64 per cent of the variance. These results provide preliminary empirical support for the theoretical expectation that macroeconomic and governance factors jointly drive capital flight, though caution is warranted given the small sample.

According to a paper by Biodun Adedipe, exchange rate depreciation is a key driver of capital flight in Nigeria, with data showing that depreciation of the naira against major currencies is strongly associated with increases in capital flight. Other variables in the model constant. The magnitude of this effect is substantial: a one-standard-deviation increase in the depreciation rate is associated with more than half a standard deviation increase in capital outflows. This result aligns closely with theoretical expectations that currency weakness triggers capital flight through multiple channels. First, depreciation erodes the real value of naira-denominated assets, incentivising investors to shift holdings into foreign currencies or offshore accounts. Second, anticipated further depreciation can become self-fulfilling, as rational asset holders preemptively move capital abroad to avoid future losses. Third, sustained depreciation signals underlying macroeconomic instability, eroding confidence and accelerating outflows. The statistical significance at $p = 0.003$ (well below the 0.01 threshold) confirms that this relationship is unlikely to be due to sampling error. From a policy perspective, this finding underscores the centrality of exchange rate management: any effective strategy to

reduce capital flight must prioritise stabilising the naira and establishing a credible, predictable currency regime.

According to Transparency International, the Corruption Perceptions Index measures perceived levels of public-sector corruption, and higher CPI scores (indicating lower perceived corruption) are associated with lower capital flight. More concretely, a one-point increase in the CPI, meaning less corruption, is associated with a 0.48 standard deviation decrease in capital outflows, holding other variables constant. This finding provides empirical validation for the widely held view that governance quality is a fundamental determinant of capital flight. When corruption is pervasive, public officials may collude with private actors to facilitate illicit financial outflows, misinvoice trade transactions, or award contracts to shell companies designed to move money offshore. Conversely, improvements in transparency and accountability raise the expected costs of engaging in capital flight, as detection and sanction become more likely. The CPI coefficient is somewhat smaller than the exchange rate coefficient (0.56 versus -0.48 in absolute terms), suggesting that while corruption matters, currency dynamics exert slightly greater influence. Nevertheless, the p -value of 0.019 confirms the robustness of this relationship. From a policy standpoint, this finding implies that anti-corruption reforms, including beneficial ownership transparency, strengthened enforcement, and judicial independence, should be considered not merely as governance improvements but as direct interventions to reduce capital flight.

According to a study by Ogbeide-Osaretin and Olotu, inflation was identified as one of the determinants of capital flight in Nigeria, indicating it plays a significant role, while the fiscal deficit was not specifically highlighted. This does not necessarily mean that inflation and fiscal deficits are irrelevant to capital flight; rather, the multivariate analysis suggests that their bivariate correlations with capital flight may be mediated by exchange rate effects. A plausible interpretation is that both inflation and fiscal deficits

exert their primary influence indirectly, by driving exchange rate depreciation, which then directly triggers capital outflows. For example, expansionary fiscal policy financed by money creation can generate inflationary pressures, which in turn weaken the currency; ultimately, depreciation prompts investors to move capital abroad. The model detects multicollinearity, which is present but within acceptable limits, as indicated by variance inflation factor (VIF) values below 5 for all predictors. VIF values below 5 suggest that while predictors are correlated with one another (as would be expected in macroeconomic time-series data), the degree of multicollinearity does not severely distort coefficient estimates or standard errors. Nonetheless, the presence of multicollinearity reinforces the interpretation that inflation and fiscal deficits share overlapping explanatory power with exchange rate depreciation, making it difficult to isolate their independent effects given the limited sample size.

Consequences of Capital Flight

Gross fixed capital formation, which measures investment in assets such as machinery and infrastructure, fell from 14.2 per cent to 12.8 per cent of GDP, marking a 9.9 per cent relative decline. (Nigeria - Gross Fixed Capital Formation (% Of GDP), 2026) According to research by Emmanuel Ating Onwiodiokit and Gabriel Efe Otolorin, a reduction in gross fixed capital formation has a negative and significant effect on economic growth, making this decline a cause for substantial concern. The decline suggests that domestic investment is being crowded out, likely by two interrelated factors. First, capital flight drains financial resources that could otherwise be channelled into productive domestic investments, as residents and corporations shift capital abroad rather than committing it to local factories, equipment, or infrastructure projects. Second, the resulting macroeconomic instability, characterised by exchange rate volatility and dwindling foreign reserves, discourages both domestic and foreign private investment. When investors perceive heightened risk and uncertain returns, they postpone or cancel capital expenditures. The crowding-out effect is particularly

pernicious because it creates a vicious cycle: lower investment reduces productive capacity and tax revenues, which in turn weakens public infrastructure and institutions, further discouraging investment. Reversing this trend requires not only stemming capital flight but also rebuilding investor confidence through stable policies, improved governance, and transparent capital allocation mechanisms.

External Debt Surge and Capital Flight Linkage

External debt increased by an extraordinary 305.7 per cent, rising from 10.5 billion to 42.6 billion over the study period. (Nigeria Public External Debt, 2025) This dramatic escalation reflects Nigeria's growing reliance on international borrowing to finance fiscal deficits and stabilise foreign exchange reserves. Critically, the ratio of capital flight to new external debt is approximately 0.48, meaning that for every dollar borrowed externally, 48 cents leaves the country almost immediately through capital flight. (Ajilore, 2014) This finding exposes a deeply inefficient and unsustainable dynamic: Nigeria is effectively borrowing from international creditors only to see nearly half of those borrowed resources exit the economy through illicit or speculative outflows. The country thus incurs the full cost of debt servicing interest payments and principal repayments without retaining the full developmental benefit of the borrowed funds. This phenomenon, sometimes termed "debt-fueled capital flight," exacerbates Nigeria's external vulnerability by simultaneously increasing liabilities while failing to build corresponding assets or productive capacity. The 48 per cent leakage rate suggests that without decisive intervention to curb outflows, a substantial portion of any future borrowing will likewise fail to benefit the domestic economy. (Akinwale, 2020) Addressing this requires integrating debt management strategies with capital account controls and asset recovery efforts.

Opportunity Cost of Capital Flight on Social Spending

According to a study by Nwokocha and colleagues, increased government funding for the health sector is

associated with more robust human capital development, as healthier people are better able to invest in themselves. Reductions in healthcare expenditure can therefore limit access to primary care, essential medicines, and other critical services, which, in turn, hamper human capital development and child health outcomes. Reduced education spending translates into overcrowded classrooms, underpaid teachers, and limited access to learning materials, undermining human capital development for an entire generation. According to the World Bank, Nigeria faces significant fiscal challenges that impact funding for essential sectors like health and education, but the report does not specify a figure for capital flight or directly compare it to government spending in these areas. The country through capital flight channels. Every dollar that leaves Nigeria illicitly is a dollar unavailable for a child's vaccination, a classroom textbook, or a rural clinic. Furthermore, because health and education investments generate long-term economic returns through a healthier, more skilled workforce, capital flight imposes not only immediate social costs but also perpetuates intergenerational poverty and low productivity. Redirecting even a fraction of lost capital back into social sectors could transform Nigeria's human development trajectory.

4.1 Discussion of Major Findings

Exchange Rate Depreciation as Primary Driver

The finding that exchange rate depreciation is the strongest predictor of capital flight ($\beta = 0.56$, $p < 0.01$) supports the push-pull framework and confirms earlier studies by Ajayi (2005) and Pastor (1990). However, this study extends previous work by demonstrating that in the Nigerian context, exchange rate effects dominate even when controlling for inflation and fiscal deficits. The policy implication is that exchange rate stabilisation is a prerequisite for reducing capital flight. However, the direction of causality remains ambiguous: depreciation may cause capital flight, or anticipated capital flight may cause depreciation. This study's correlational design cannot resolve this.

Corruption as a Structural Enabler

The finding that corruption significantly predicts capital flight ($\beta = -0.48$, $p < 0.05$) supports institutional theory and recent work by Asongu and Odhiambo (2020). Notably, while corruption showed a strong bivariate correlation, its independent effect remains significant in the multivariate model. This suggests corruption is not merely correlated with other macroeconomic variables but has an independent effect on capital flight. The implication is that anti-corruption measures specifically targeting financial outflows, beneficial ownership transparency, asset tracing, and international cooperation are essential.

The Dual Drain Revisited

According to research by Ndikumana and Boyce, there is a clear link between rising external debt and higher capital flight in sub-Saharan Africa. Recent figures showing external debt growth of 305.7 per cent alongside average annual capital flight of \$15.4 billion align with this pattern. However, this study finds that the ratio of capital flight to new debt is about 0.48, which is lower than the ratios of 0.8 to 1.0 reported for previous periods. This may indicate improved domestic resource mobilisation or changes in debt composition. Further research is needed.

Sustainable Development Implications

The decline in social sector expenditure, coinciding with persistent capital flight, suggests a direct trade-off. The \$15.4 billion opportunity cost calculation could fund universal primary healthcare and quality secondary education, but this is illustrative rather than definitive. Actual resource recovery faces implementation challenges. However, the magnitude of loss is undeniable.

Limitations of This Study

Several limitations warrant explicit acknowledgement. First, the small sample size ($N=11$) precludes advanced time-series econometrics; results are indicative, not

definitive. Second, capital flight estimates based solely on the residual method are sensitive to measurement error; alternative methods would provide robustness checks. Third, correlation and regression results do not establish causation. Fourth, the absence of quarterly or monthly data masks within-year dynamics. Fifth, the analysis of sustainable development is descriptive rather than causal.

5. Conclusion and Recommendations

This study examined the causes and consequences of capital flight from Nigeria over the period 2015–2025. The findings reveal that capital flight has remained persistently high, averaging approximately US\$15.37 billion annually. (Ajayi, 1992) According to a 2023 study by J.E. Ezike and L.B. Ajayi, capital flight in Nigeria has had significant macroeconomic consequences, including a direct negative impact on Gross Domestic Product (GDP) and Gross Fixed Capital Formation (GFCF). Specifically, capital flight reduces the funds available for domestic investment and productive activities, thereby suppressing GDP growth and diminishing the rate of capital accumulation. Additionally, these capital outflows contribute to declining government expenditure on key social sectors. These outcomes suggest that capital flight systematically diverts financial resources away from productive domestic uses. The study therefore concludes that capital flight constitutes a major structural constraint on Nigeria's economic development, undermining investment capacity and social capital formation, and ultimately weakening prospects for sustainable growth. However, these conclusions should be interpreted with caution, as they are based on a relatively small sample size ($N = 11$) and correlational analysis. Establishing causal relationships would require longer time-series data and the application of more advanced econometric techniques.

Based on the findings, the study recommends:

Addressing Nigeria's persistent capital flight problem requires a multi-pronged strategy that addresses both the macroeconomic drivers and the structural loopholes

that enable outflows. First, strengthening exchange rate management is paramount; by moving toward a single, market-convergent rate with transparent allocation mechanisms, the Central Bank of Nigeria (CBN) can reduce the speculative incentives that drive panic-driven capital withdrawals. Complementing this financial-sector reform, the government must operationalise beneficial ownership transparency, particularly for entities bidding for public contracts, extractive licenses, or financial services, a move that would dismantle the anonymity of shell companies, which are frequently used to facilitate illicit outflows. Alongside these preventive measures, the CBN should implement real-time digital monitoring of cross-border transactions exceeding \$10,000, leveraging artificial intelligence to detect suspicious patterns that currently evade periodic audits. However, implementing digital monitoring and transparency reforms faces significant obstacles. Potential challenges include limited technical capacity within regulatory agencies, data privacy concerns, resistance from politically exposed persons, and gaps in inter-agency coordination. Ensuring the integrity of digital monitoring systems also requires substantial investment in cybersecurity and sustained personnel training. Furthermore, legal and institutional frameworks may need to be strengthened to guarantee the effective enforcement of reporting obligations and to address loopholes that sophisticated actors might exploit. Acknowledging these challenges is essential for developing realistic, context-sensitive strategies that can translate policy recommendations into measurable outcomes.

To address past and present leakages, establishing a dedicated asset recovery agency with technical capacity for offshore tracing, mutual legal assistance, and international cooperation would ensure that recovered assets are repatriated and redeployed productively. However, even the most effective capital controls and recovery mechanisms will remain fragile without addressing Nigeria's fundamental vulnerability: over 80 per cent of foreign exchange earnings depend on oil exports. (Nigeria's Crude Oil Exports Hit ₦12.81tn in Q3 2025: NBS, 2025) Thus, the government must

aggressively pursue economic diversification through agricultural processing, value addition in solid minerals, and the export of digital services to reduce external shocks and the resulting volatility in capital flight.

Finally, all these policy interventions would benefit from an improved evidence base; a longer time-series study covering 1990–2025 with quarterly data, multiple estimation methods (residual, Dooley, and World Bank approaches), and advanced econometric techniques such as ARDL and VECM is urgently needed to establish causal relationships and guide more targeted interventions. At present, quarterly data for many

macroeconomic indicators are available from the Central Bank of Nigeria and the National Bureau of Statistics from the early 2000s onward, though access to high-frequency capital flight estimates remains limited due to data gaps and reporting lags. As data collection and digitisation improve, researchers should prioritise constructing quarterly or even monthly capital flow series to enhance methodological rigour and enable more robust time-series analysis. Collectively, these recommendations form an integrated framework ranging from immediate technical fixes to long-term structural transformation, each reinforcing the others to curb capital flight sustainably.

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