FOREIGN CAPITAL OUTFLOW AND ECONOMIC GROWTH IN NIGERIA

BY

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BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF FINANCE, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE DEGREE IN FINANCE OF THE UNIVERSITY OF BENIN, BENIN CITY.

FEBRUARY, 2025.

DECLARATION

I declare that this project work is based on a study undertaken by me in the Department of Finance, Faculty of Management Sciences, University of Benin, under the supervision of Dr. F. O.Ogieva. This work has not been previously submitted for award of a degree elsewhere. All ideas and views are product of my personal research efforts and all references to work of others have been duly acknowledged.

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CERIFICATION

This is to Certify that this research work is submitted by **Omobolanle Suzanna Orewole** with matriculation number **MGS2003534** to the Department of Finance, Faculty of Management Sciences, University of Benin, Benin city under the full supervision of Dr. F. O. Ogieva and in accordance with the requirements of the Department of Finance of the University of Benin, Benin City for the Award of Bachelor of Science Degree in Finance.

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DEDICATION

I specially dedicate this research work to the Almighty GOD, who has held my hands from the beginning to this very point

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ABSTRACT

This study explores the relationship between foreign capital outflows and economic growth in Nigeria, with a particular focus on how factors such as Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), interest rates, inflation rates, foreign remittances, and other forms of development assistance contribute to or are impacted by capital outflows. The research investigates the interactions between these factors and their effects on key aspects of economic performance, including investment levels, employment rates, and industrial productivity. By analyzing historical data, the study reveals that foreign capital outflows driven by factors such as fluctuating interest rates, inflation, and weak policy frameworks negatively affect Nigeria's long-term economic growth. Additionally, the role of foreign remittances and development assistance is examined, suggesting that while they offer some economic relief, they are insufficient to counterbalance the broader challenges posed by capital flight. Based on these findings, the study provides policy recommendations aimed at curbing capital outflows, improving the investment climate, and leveraging FDI, FPI, and remittances to foster more stable and sustainable economic growth in Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Nigeria, Africa's largest economy and most populous nation, has long been a key destination for foreign investors, largely due to its vast natural resources, especially its oil reserves. The country's oil wealth has attracted significant foreign direct investment (FDI), making the energy sector a central pillar of the economy. However, despite this attraction, Nigeria has faced numerous economic challenges, including fluctuations in global oil prices, political instability, insecurity, and macroeconomic imbalances. These factors have contributed to a consistent outflow of foreign capital, posing a significant threat to the country's economic growth and development.

Foreign capital outflow refers to the withdrawal or relocation of financial resources, whether by domestic or international investors, from one economy to another. This phenomenon can occur due to various factors, including economic instability, unfavorable government policies, insecurity, and declining investor confidence. In the case of Nigeria, capital outflows manifest in various forms, such as capital flight, profit repatriation, foreign debt repayments, and divestment. When investors move their capital to more stable and profitable economies, it reduces the availability of financial resources needed for domestic investment, further exacerbating the country's economic challenges.

The consequences of foreign capital outflows on Nigeria's economy are far-reaching. They often lead to underdeveloped infrastructure, currency depreciation, increased unemployment, and heightened volatility in global oil prices. These outflows weaken the economy's productive capacity and reduce the funds available for long-term investments, ultimately hindering sustainable economic growth.

Economic growth, on the other hand, refers to an increase in the production of goods and services within an economy over a specified period, typically measured by the percentage increase in real gross domestic product (GDP). For any nation, economic growth is a critical objective, as it directly impacts the standard of living, employment levels, and overall national development. In Nigeria, the relationship between capital outflows and economic growth has been a topic of concern, given the country's historical dependence on oil revenues, which has exposed it to global market shocks.

Historically, Nigeria has experienced periods of rapid economic growth, particularly during oil booms. However, these periods of growth have often been followed by economic downturns due to mismanagement and fluctuating global commodity prices. The over-reliance on oil has left the Nigerian economy vulnerable to external shocks, leading to economic volatility. In recent years, there have been efforts to diversify the economy by promoting other sectors such as agriculture, manufacturing, and technology. However, the continuous outflow of foreign capital has hindered these efforts, reducing the resources available for domestic investment and slowing down economic growth.

The consistent capital flight from Nigeria highlights the need for sound economic policies that can stabilize the economy and attract sustainable investment. Without addressing the underlying causes of foreign capital outflow, such as political instability, insecurity, and economic mismanagement, Nigeria's prospects for achieving sustained economic growth

remain uncertain. Therefore, this study seeks to explore the dynamics of foreign capital outflow and its impact on Nigeria's economic growth, with the aim of providing insights into policy measures that could mitigate its negative effects and promote long-term development.

1.2 Statement of Research the Problem

The continuous outflow of foreign capital from the Nigerian economy has raised concerns about its impact on the long-term economic growth and development of the country. Capital outflow has led to a reduction in investments in key sectors of the economy, a decline in the standard of living, an increase in the unemployment rate, and the devaluation of the Nigerian currency (Naira). The causes of capital outflow are diverse, ranging from political instability and insecurity to economic instability and unfavorable business environments. Its effect on economic growth is highly visible. Nigeria's economic growth has been slow in recent times, with capital outflow playing a significant role in the stunted growth of the economy.

This study aims to analyze the extent to which foreign capital outflow affects Nigeria's economic growth by examining the impact of foreign direct investment outflow, foreign portfolio investment outflow, foreign remittance outflow, and other developmental assistance outflow on Nigeria’s gross domestic product (GDP).

1.3 Research Questions

The following research questions will be addressed in this study:

1. What are the primary driving factors of foreign direct investment from Nigeria?
2. How does foreign direct investment impact the key indicators of economic growth in Nigeria?
3. What are the policy implications and recommendations for managing foreign remittances and foreign aid to ensure sustainable economic growth

1.4Objectives of the Study

The broad objective of this study is to understand the relationship between foreign capital outflows and the growth of the Nigerian economy and to develop actionable insights for improving economic stability and growth. The specific objectives are:

1. To determine the impact of foreign direct investment on the economic growth of Nigeria.
2. To identify the key determinants of foreign direct investment from Nigeria.
3. To examine the policy implications of foreign remittances on the economy.
4. To provide recommendations for managing capital outflow to ensure foreign aid growth.

1.5 Research Hypothesis

The following null hypotheses, in line with the stated objectives, have been outlined:

Ho1: There is no significant impact of foreign direct investment on the Nigerian economy.

Ho2: There are no significant determinants affecting foreign direct investment from Nigeria.

Ho3: Policies aimed at managing foreign remittances have no significant effect on economic growth.

Ho4: Recommendations for managing foreign aid do not have a statistically significant impact on ensuring sustainable economic growth in Nigeria.

1.6 Scope of the Study

This study exclusively focuses on the Nigerian economy to assess the impact of foreign capital outflow, including foreign direct investment outflow, foreign portfolio investment outflow, foreign remittance outflow, and other developmental assistance outflow, on Nigeria's economic growth, as measured by the key indicator of gross domestic product (GDP).

The analysis will utilize secondary data from the Central Bank of Nigeria (CBN) over a period of thirty years, from 1986 to 2021. By examining data over this 35 years period ,it allows for the identification of trends and patterns, providing insights into how foreign capital outflows correlate with economic growth .

1.7 Significance of the Study

In a globalized world where capital moves freely across borders, the ability of a country to retain foreign investment within its borders is of great importance to sustaining economic growth. Using Nigeria as a case study, this research is relevant to various stakeholders.

For academics, the study contributes to a broader understanding of the relationship between capital mobility and economic development, particularly in resource-rich developing nations. For policymakers and the public sector, the study offers insights into the factors driving capital outflow and its impact on the economy, which can aid in the development of policies aimed at encouraging capital retention and improving the business environment. For investors and the private sector, the study provides an understanding of the economic risks associated with capital flight and how it impacts the Nigerian investment climate.

Furthermore, this study contributes to the broader literature on capital outflows and their role in economic development.

1.8 Limitations of the Study

The study on foreign capital outflow and economic growth in Nigeria, like any other research, is constrained in some ways, including reliance on secondary data that may be incomplete or inconsistent. Measuring capital flight can be difficult due to illicit transfers. There is also a time lag between capital outflow and its economic impact, making short-term analysis challenging. Additionally, global economic trends and limitations in econometric models affect the accuracy and generalizability of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The study investigates the impact of capital outflow on Nigeria's economy, evaluating the relationship between capital outflow and the country's economic growth. By reviewing relevant literature and theories, the research highlights how the movement of financial assets, investments, and funds out of a country which is known as capital outflow affects economic growth and development.

Capital outflow occurs when financial resources are transferred from a nation's economy to foreign markets. It is particularly concerning for developing economies, such as Nigeria, where it can undermine growth prospects and hinder sustainable development. As defined by De Boyrie and Kreinin (2012), capital flight is the temporary withdrawal of private capital driven by economic uncertainty and hardship. In essence, it is the deliberate transfer of funds by economic actors in developing countries to foreign markets or their home countries, often as a precautionary measure against perceived risks.

The implications of capital outflow are significant, as it deprives the domestic economy of critical resources necessary for investments in productive sectors like agriculture, manufacturing, and services. In Nigeria, despite its abundant natural resources and position as one of Africa's largest economies, the country has struggled with capital flight for decades. Persistent structural issues such as inadequate infrastructure, political instability, and pervasive corruption has created an environment that discourages investment while incentivizing capital outflow.

This research sheds light on how these challenges not only hamper Nigeria's ability to retain and attract investment but also limit its impact on the economic growth of the country, the study aims to understand the relationship between foreign capital outflow and the growth of the Nigerian economy to develop actionable insights for improving economic growth and development, offer insights into how Nigeria can create a more stable and attractive environment for both domestic and foreign investors

2.2 Conceptual review

a. Foreign Capital Outflow

Foreign capital outflow refers to the transfer of financial resources from one country to another, typically occurring when businesses or individuals move funds abroad for various reasons. In Nigeria, this can happen in several ways, such as when multinational corporations send profits back to their home countries, Nigerians invest in foreign assets, or foreign investors withdraw their investments due to economic or political instability. Each of these scenarios can have significant implications for the country's economy.

One of the most common sources of capital outflow in Nigeria is when multinational companies operating in the country repatriate their profits. These companies often take a large portion of their earnings back to their home countries rather than reinvesting them locally. While this is standard business practice, it reduces the available capital within Nigeria that could otherwise be used for local investments, such as in infrastructure or business expansion. As a result, the opportunity for fostering sustainable growth within the country is limited, as the profits do not contribute to driving domestic development.

Furthermore, Nigerian individuals and businesses are often inclined to invest in more stable foreign economies, especially during times of economic or political uncertainty. When the local environment feels risky, many choose to move their investments abroad by purchasing assets like real estate or stocks in countries with more secure economies. This practice, known as capital flight, exacerbates Nigeria's struggle to maintain a stable flow of financial resources that can fuel economic growth. While it is understandable for individuals to seek safer investment opportunities, this movement of funds limits the resources available to stimulate Nigeria's domestic economy.

Foreign investors also play a role in capital outflows, as they may pull their investments from Nigeria when they perceive risks related to political instability, economic uncertainty, or unfavorable government policies. When investor confidence drops, these capital withdrawals can occur swiftly, leading to an outflow of funds that further destabilizes the economy. This sudden loss of investment can reduce foreign reserves, which weakens the national currency and limits funds available for long-term economic projects. Consequently, such instability makes it more difficult to attract new investment, slowing growth and hindering overall development.

Excessive capital outflows can have various negative effects on Nigeria's economy. One of the most immediate consequences is a reduction in foreign exchange reserves, which are critical for maintaining the value of the country's currency. As foreign reserves decrease, the Central Bank of Nigeria may struggle to stabilize the exchange rate, leading to inflation and increasing the cost of living for citizens. Additionally, a weakened currency makes it more expensive for businesses to import goods and services, further dampening economic growth and contributing to inflationary pressures.

Another significant impact of capital outflows is the limited amount of funds available for important projects that could stimulate economic growth. With less investment flowing into sectors such as infrastructure, healthcare, and education, these areas may remain underdeveloped, contributing to higher unemployment rates, poverty, and a decline in the standard of living. Moreover, without sufficient investment, Nigeria's economy continues to rely heavily on oil, making it vulnerable to fluctuations in global oil prices, which can have severe consequences during periods of market volatility.

However, it’s important to note that not all capital outflows are inherently harmful. Some degree of outflow is natural in a globalized economy, where individuals and businesses seek opportunities in more stable or prosperous markets. In fact, moderate capital outflows can indicate that Nigeria is integrated into the global economy. The key concern arises when outflows become excessive and unmanageable, leading to the negative economic effects described above.

To tackle the issue of capital outflows and minimize their detrimental effects, Nigerian policymakers must work to create a more attractive environment for investment within the country. This involves ensuring political stability, implementing policies that are favorable to businesses, improving infrastructure, and addressing systemic issues such as corruption. By doing so, Nigeria can enhance investor confidence, encourage long-term investments, and ultimately reduce the risks associated with capital flight.

In summary, foreign capital outflow can have serious consequences for Nigeria’s economy by depleting financial resources needed for development and stability. While some level of outflow is expected in a globalized world, excessive capital flight can weaken the economy and hinder growth. For Nigeria to address these challenges, it must focus on creating an environment conducive to investment, thereby reducing the impact of capital outflows and fostering long-term economic prosperity.

b. Economic Growth

Economic growth refers to the increase in a country's production of goods and services, typically measured by changes in Gross Domestic Product (GDP). It is a crucial indicator of a nation's economic health and is associated with improvements in living standards, job creation, and overall quality of life. For Nigeria, economic growth is influenced by a variety of factors, including government policies, the country's natural resources, and the flow of investments from both domestic and foreign sources.

Nigeria's vast natural resources, particularly oil, agriculture, and minerals, play a significant role in driving the country's economic growth. These resources contribute directly to GDP and provide the foundation for industrial development and job creation. Investments—whether domestic or foreign—are also key to fostering growth by providing the necessary capital to develop critical sectors like infrastructure, telecommunications, and energy. Foreign capital inflows, such as investments, remittances, and international aid, provide essential resources for these sectors, helping bridge gaps in the local economy.

However, Nigeria faces challenges in managing the flow of capital. While inflows of foreign investment support economic activity, they can be volatile and influenced by external factors. When global uncertainties arise, such as political instability or fluctuations in oil prices, foreign investors may pull their funds out of the country, resulting in capital outflows. These withdrawals reduce the financial resources available for business growth and infrastructure development, which can impede sustained economic growth. This instability highlights the risks associated with relying heavily on foreign capital, as external factors often dictate the flow of investments.

To ensure Nigeria's economic growth remains steady and sustainable, the government must focus on creating policies that encourage domestic investments, stabilize the financial environment, and reduce the reliance on volatile foreign capital. One important strategy is to foster a business-friendly environment that encourages local entrepreneurship. This can be achieved by improving access to financing for small and medium-sized enterprises (SMEs), offering tax incentives for businesses, and reducing bureaucratic hurdles that may hinder business operations.

In addition, stabilizing the financial environment is crucial for creating a predictable market where both local and foreign investors feel confident in their long-term prospects. Policies aimed at controlling inflation, managing exchange rates, and ensuring fiscal discipline can create an environment where businesses can operate efficiently and with confidence. By addressing corruption and inefficiencies within government institutions, Nigeria can further enhance investor trust and encourage more sustainable economic activity.

Another key area for improvement is Nigeria’s infrastructure. The country’s infrastructure, including roads, power supply, and telecommunications, requires significant upgrades to support businesses and encourage investment. Without reliable infrastructure, companies face higher operating costs, which can deter both domestic and international investors. By investing in modernizing critical infrastructure, Nigeria can create a more conducive environment for business operations and improve the overall efficiency of the economy.

c. Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) refers to investments made by foreign entities in a country's businesses, infrastructure, or industries with the intention of establishing a long-term presence. Unlike short-term investments, FDI often involves substantial capital inflows and control over assets or operations. These investments bring several advantages to the host country, including job creation, technological advancements, and improved efficiency in various sectors.

Nigeria has attracted significant FDI, especially in industries such as oil, agriculture, and telecommunications, thanks to its vast natural resources and large consumer market. The country’s oil reserves have historically drawn substantial foreign investment, but recently, other sectors have gained attention due to Nigeria’s growing population and expanding market. FDI has played a crucial role in boosting the country’s economic growth by injecting capital into industries and providing access to modern technologies and expertise, all of which contribute to improved productivity.

FDI also supports Nigeria's economic development by increasing the availability of capital for local businesses and industries. With more financial resources, Nigerian companies can expand operations, modernize infrastructure, and launch new projects. This economic stimulation leads to job creation and a more competitive market. For example, the telecommunications sector has benefited significantly from FDI, with foreign companies investing in mobile networks and digital infrastructure. This has improved communication and connected more people to the internet, leading to the growth of Nigeria's digital economy. The expansion of digital services, such as fintech and e-commerce, has contributed to broader economic growth in the country.

Despite the positive impacts, there are also challenges associated with FDI. One major issue is that many foreign companies repatriate a significant portion of their profits to their home countries, rather than reinvesting them in Nigeria. This limits the amount of capital that remains within the country, restricting the potential for further economic development. The repatriation of profits can also result in the continued dominance of foreign companies over local industries, rather than encouraging the growth of domestic businesses.

To fully benefit from FDI, Nigeria needs to implement policies that incentivize foreign investors to reinvest profits locally. For instance, the government could offer tax breaks or other incentives for companies that direct their earnings into local businesses or infrastructure projects. This would encourage greater reinvestment and help ensure that foreign investments contribute to Nigeria's long-term economic growth.

Another area where Nigeria can improve is its infrastructure. Inadequate infrastructure—such as poor transportation systems, unreliable power supply, and inefficient public services—can deter foreign investment. By improving infrastructure, the government can create a more attractive environment for foreign companies to operate efficiently, which could, in turn, encourage additional investments.

Addressing corruption is also vital for attracting and retaining FDI. Corruption increases the cost of doing business and creates an unpredictable environment for investors. Strengthening anti-corruption efforts, ensuring greater transparency, and establishing a stable and fair regulatory framework would increase investor confidence and make Nigeria a more appealing destination for foreign capital.

d. Foreign Remittance

Foreign remittances refer to the money sent by Nigerians living or working abroad back to their families in Nigeria. These financial transfers have become an essential source of income for many Nigerian households, helping to cover critical expenses such as education, healthcare, housing, and other basic needs. For a large portion of the population, remittances are a lifeline, providing financial stability and improving living standards.

In terms of its contribution to Nigeria's economy, remittances have a larger impact than foreign aid or foreign investments. Nigeria is one of the largest recipients of remittances in Africa, with these funds playing a crucial role in the country's financial system. In fact, the amount of money Nigerians abroad send back home often exceeds foreign direct investment (FDI) and foreign portfolio investments (FPI) combined. This highlights the vital role remittances play in sustaining Nigeria's economy and supporting household livelihoods.

Remittances significantly improve the income of households, especially during times of economic difficulty. In periods of economic slowdown, high inflation, or rising unemployment, remittances provide a financial cushion for families, helping them cope with the increased cost of living and other unexpected expenses. This external financial support becomes particularly important in rural areas or for families without stable income sources from the local economy.

On a larger scale, remittances also provide Nigeria with foreign currency, which is essential for maintaining the value of the naira and stabilizing the foreign exchange market. These transfers help boost the country's foreign exchange reserves, which are crucial for managing international trade, servicing foreign debts, and maintaining financial stability. As such, remittances help support the national currency and play an important role in the broader economic landscape.

However, while remittances offer clear benefits, an over-reliance on them can mask underlying issues within Nigeria's economy. The heavy dependence on remittances might divert attention from critical economic challenges, such as the high rate of unemployment, inadequate infrastructure, and the lack of industrial development. In some cases, instead of focusing on addressing these issues through local investment and job creation, families may come to depend on remittances as a primary source of financial support, ultimately stalling long-term economic progress.

Another limitation of remittances is that they are often used for consumption rather than investment. While spending on basic needs like healthcare, education, and housing improves quality of life, it does little to stimulate the wider economy or create lasting growth. To truly harness the power of remittances, it is crucial to find ways to encourage their use in productive investments that can generate economic activity, create jobs, and improve infrastructure.

To maximize the economic benefits of remittances, the Nigerian government could implement policies that promote their use for investment purposes. Encouraging remittance recipients to invest in small businesses or local ventures could help generate jobs and stimulate economic growth. Additionally, providing support for financial literacy and business development could help recipients leverage their funds in ways that contribute to long-term economic advancement.

Another avenue for utilizing remittances effectively is through infrastructure projects. The Nigerian government could explore initiatives like diaspora bonds, which would enable Nigerians abroad to invest in essential infrastructure projects. These bonds would channel remittances into areas such as road construction, healthcare, and energy development, benefiting both the local economy and the broader population. By offering incentives and guarantees for such investments, the government could attract significant funds from the diaspora, helping to drive development in the country

e.Foreign Portfolio Investment (FPI)

Foreign Portfolio Investment (FPI) refers to investments made by foreign entities in a country's financial assets, such as stocks, bonds, and other securities. Unlike Foreign Direct Investment (FDI), which typically involves long-term investments in physical assets, FPI is more short-term and can be withdrawn quickly. This makes FPI more volatile, as foreign investors can pull out their money in response to shifts in the market or economic conditions.

In Nigeria, FPI has played a key role in providing liquidity to the country’s financial markets. The influx of foreign capital into stocks and bonds has helped make Nigeria's markets more dynamic and accessible, thereby supporting overall economic growth. By attracting foreign investors, FPI also helps fund domestic businesses, increase access to credit, and boost the performance of Nigeria's financial sector. In essence, foreign investments in these financial instruments support the flow of capital needed to drive economic activity.

However, the nature of FPI also presents challenges for Nigeria's economy. Due to its short-term nature, FPI can be highly volatile, with investors pulling their funds out at the first sign of instability. During periods of economic uncertainty, political unrest, or financial instability, foreign investors tend to withdraw their investments, which can cause significant disruptions. A large-scale exit of foreign capital can lead to a sharp decline in the value of the naira as demand for foreign currencies rises, which in turn can drive inflation and erode the country's purchasing power. This creates additional challenges for Nigerians, as the cost of goods and services increases.

Another potential consequence of sudden withdrawals is the depletion of Nigeria's foreign reserves. These reserves are essential for the country's ability to manage imports, settle international debts, and stabilize the currency. A significant reduction in reserves can limit the Central Bank of Nigeria's (CBN) ability to intervene in the foreign exchange market, further exacerbating the economic instability. Moreover, the unpredictable nature of FPI can create uncertainty in the business environment, making it harder for companies to plan and execute long-term projects. This lack of stability can discourage businesses from expanding or making new investments, ultimately slowing down the pace of economic growth.

To address these challenges, Nigeria needs to implement policies aimed at reducing the volatility of its financial markets and boosting investor confidence. One effective strategy would be to prioritize macroeconomic stability. Ensuring a stable economic environment with controlled inflation, a steady currency, and manageable fiscal deficits would make Nigeria's financial markets more attractive to investors. Stability is a key factor that investors look for when deciding where to place their money, and Nigeria can improve its appeal by maintaining a predictable and secure economic outlook.

Additionally, Nigeria should focus on attracting long-term investments rather than relying too heavily on short-term FPI. By creating policies that encourage sustainable investments—such as tax incentives for long-term investors, enhanced legal protections, and a more business-friendly environment—Nigeria can reduce its dependence on volatile foreign capital. This approach would help foster more stable economic growth and reduce the risks associated with sudden capital flight.

Furthermore, improving the regulatory environment and financial market infrastructure is essential. Strengthening transparency, reducing corruption, and streamlining financial transactions would help build trust in Nigeria's financial markets. Investors are more likely to commit to a market that is efficient, well-regulated, and free from corruption, which would, in turn, promote stability and attract more long-term investment.

f.Other Development Assistance

Development assistance refers to the support provided by foreign governments, international organizations, and NGOs to help improve a country's economic, social, and political conditions. This assistance typically comes in the form of grants, low-interest loans, or technical expertise. The primary objective is to improve key sectors such as healthcare, education, infrastructure, and poverty reduction. For Nigeria, development aid has been a critical resource in addressing pressing issues like poverty, inadequate infrastructure, and underdeveloped healthcare and education systems.

In Nigeria, development assistance has been essential in funding projects aimed at enhancing infrastructure, expanding educational opportunities, and improving healthcare services. Many of these projects have helped fill gaps in critical areas where the Nigerian government has faced challenges due to limited resources. For example, foreign aid has funded the construction of roads, bridges, and power infrastructure, all of which are vital for boosting economic activity and raising the standard of living for many Nigerians. Additionally, aid has supported the expansion of educational and health systems by funding schools, training teachers, and improving medical facilities.

However, the success of development assistance depends not only on the availability of funds but also on how effectively the aid is managed. Nigeria has faced challenges in ensuring that foreign assistance is used in ways that directly address the country's specific needs. A major issue has been the tendency for aid to be directed toward the priorities of donor countries, rather than those of the local population. When aid is aligned with the interests of donors rather than the needs of Nigeria, it can lead to the implementation of projects that are not as relevant or beneficial to the country’s long-term development.

Another challenge Nigeria faces is the mismanagement of aid, which often occurs due to corruption or inefficient governance. In some instances, foreign aid meant for crucial projects has been misused or misdirected, meaning the full potential of these resources is not realized. This lack of accountability can prevent aid from achieving its intended results, and, in some cases, may even hinder development by discouraging good governance practices. Without proper oversight and tracking of how aid is spent, the effectiveness of these resources is significantly diminished.

Furthermore, Nigeria’s reliance on foreign aid presents another concern. While aid plays a vital role in supporting critical development initiatives, over-dependence on it can stall the country's efforts to achieve long-term economic self-sufficiency. Continuous reliance on aid can reduce the urgency to implement essential reforms in areas like governance, economic policy, and public administration. This reliance can also lead to a lack of focus on building the country’s own capacity to generate revenue and fund development projects through domestic resources.

To maximize the benefits of development assistance, Nigeria must ensure that aid is in line with its own development goals. This requires creating a clear, well-defined development plan that identifies the country's needs and strategic objectives. Ensuring transparency in how aid is allocated and used will also help guarantee that resources are spent on projects that provide the most value. Transparency helps to build trust with donors, increasing the likelihood of continued and sustained support.

Strengthening governance and addressing corruption are crucial for ensuring that development assistance is used effectively. When funds are managed transparently and efficiently, aid has the potential to make a significant impact. Strong institutions and effective regulatory frameworks are necessary to reduce corruption and ensure that aid reaches its intended recipients. By improving governance, Nigeria can reduce waste and ensure that development assistance contributes to the country’s long-term growth.

For Nigeria to move beyond aid dependency, it must focus on building self-reliance. This includes diversifying its economy, supporting local industries, and fostering entrepreneurship. By doing so, Nigeria can build its own capacity to fund development projects, reduce reliance on foreign aid, and create a more sustainable path to economic prosperity.

g.Inflation rate

Inflation refers to the rate at which prices for goods and services increase, leading to a reduction in the purchasing power of money. In simple terms, inflation means that over time, the same amount of money buys less than before. The inflation rate is an important indicator of how well an economy is performing. While a small amount of inflation is usually normal and even necessary for economic growth, excessive inflation can be harmful, especially in developing countries like Nigeria.

Nigeria, as one of Africa's largest economies, faces inflation for several reasons. One major cause is the rising demand for goods and services. When demand outpaces supply, prices naturally go up, creating what's called demand-pull inflation. With Nigeria's large and fast-growing population, the demand for basic goods and services is always on the rise, contributing to inflationary pressures.

Another factor at play is the increase in production costs. When the costs of materials, labor, and energy go up, businesses often raise their prices to cover these extra expenses. In Nigeria, the cost of production is affected by several things, including the price of imports, poor infrastructure, and energy costs—especially the price of fuel. Since

Nigeria depends heavily on imports, fluctuations in the exchange rate or disruptions in the global supply chain can push prices higher.

Global oil price changes also have a big influence on inflation in Nigeria. As a major oil producer, Nigeria’s economy depends on oil exports. When global oil prices rise, Nigeria’s oil revenues increase, which can drive economic growth and raise inflation. However, if oil prices fall, Nigeria earns less from oil exports, which can lead to a weaker currency and higher costs for imported goods. These external factors make inflation in Nigeria vulnerable to global economic shifts.

While inflation can have negative effects, it’s important to note that high inflation isn't always bad. Excessive inflation can decrease the value of investments, as rising prices erode returns. For investors, this means that the value of their assets might decrease, which can make Nigeria a less attractive place to invest. If inflation gets too high, it can even lead to capital outflow, where investors move their money elsewhere to avoid losing value. This can hurt the economy even more by reducing investment and financial stability.

On the other hand, moderate inflation can be a sign of a growing economy. It usually happens when demand for goods and services increases due to higher employment, rising wages, or more business activity. As long as inflation is kept under control, it’s often seen as a sign that the economy is expanding.

The role of the Central Bank of Nigeria (CBN) in managing inflation is key. The CBN uses tools like adjusting interest rates and controlling money supply to keep inflation in check. However, inflation in Nigeria is complicated by external factors like global oil prices and domestic issues such as food and fuel prices, which are often difficult to control. While inflation can be influenced by various forces, the central bank's efforts to keep it manageable are essential to maintaining economic stability.

In extreme cases, if inflation spirals out of control, it can lead to hyperinflation, where prices increase rapidly, and the value of money plunges. This creates an environment where people lose confidence in the currency and may start trading goods instead of using money. Although Nigeria has not experienced hyperinflation recently, the country has faced periods of high inflation that have made life more difficult for ordinary people, especially those in the lower-income brackets.

h.Interest rate

Interest rates represent the cost of borrowing money and are an essential tool used by central banks to regulate the economy. In Nigeria, the Central Bank sets these rates, which influence investment, savings, and borrowing. Higher interest rates may attract foreign investments as they offer better returns. However, high rates can also increase borrowing costs for local businesses, potentially discouraging investment. On the other hand, lower rates could boost local spending and borrowing but might reduce savings.

Thus, interest rates must strike a balance that encourages investment while avoiding excessive inflation.

Interconnections between Concepts

a. Capital Outflow and Growth: Persistent capital outflows deplete domestic investment funds, slowing economic growth. On the other hand, a thriving economy tends to attract and retain capital, reducing the risk of outflows.

b. Foreign direct investment and Growth: Foreign direct investment drives growth by expanding productive capacity and transferring expertise. However, high capital outflows or weak domestic environments can deter foreign investors.

c. Remittances and Development: While remittances alleviate poverty and spur consumption, their potential to sustain long-term growth is limited compared to FDI, which focuses on building durable economic assets.

d.Foreign portfolio investment and Stability: Foreign portfolio investment offers short-term liquidity but may destabilize financial markets during sudden withdrawals. Stable policies and regulations are critical for balancing the benefits and risks of portfolio investments.

e. Development Assistance as a Complement: Aid can enhance development by filling resource gaps, especially in education, healthcare, and infrastructure. However, over-reliance on aid without addressing structural issues may hamper sustainable progress.

f. Integrated Development Strategy: Sustainable economic growth requires a strategic balance of foreign capital inflows, including Foreign direct investment, Foreign portfolio investment, and remittances, along with effective utilization of external aid. Policymakers must focus on creating an environment that attracts stable investments and leverages external funds to drive long-term growth.

g. Interest Rates, Inflation, and Economic Growth

The relationship between interest rates, inflation, and economic growth is complex and intertwined. High interest rates can be appealing to foreign investors, but they can also discourage domestic businesses from borrowing and investing. Meanwhile, low interest rates might stimulate spending but could lead to inflation if not carefully managed. Similarly, high inflation undermines the value of investments, increasing uncertainty for both local and foreign investors, which can lead to capital outflows.

Capital outflows, in turn, reduce the money available for domestic investment, slowing economic growth. Therefore, managing inflation, setting appropriate interest rates, and maintaining stability are critical for fostering an environment conducive to growth and attracting the investment needed to drive the economy forward.

The interplay between foreign capital outflows and economic growth in Nigeria is a critical area of study, as it holds significant implications for the country’s development, these mechanisms are linked, collectively influencing economic development. While foreign capital inflows and remittances can provide critical resources, unchecked capital outflows or dependency on aid can slow down progress, foreign capital outflows can have detrimental effects on economic growth by draining financial resources and destabilizing the economy, sound policy interventions can help mitigate these negative impacts. Ultimately, addressing the root causes of capital flight, including political instability and governance challenges, will be essential for fostering a stable and growing economy in Nigeria.

2.3 Theoretical Review

This aspect examines various theories that shows the relationship between capital outflows and economic growth. It provides an understanding of how capital movement affects domestic investment, foreign exchange reserves, and overall economic development and growth with a particular focus on their relevance to the Nigerian economy.

a. Dependency theory

Dependency theory is a critical framework that explains the economic disparities between nations, particularly focusing on the exploitative relationships between developed (core) and developing (peripheral) countries. In the context of capital outflows and economic growth, dependency theorists argue that such outflows perpetuate underdevelopment in peripheral nations by draining resources that could be used for domestic investment and sustainable growth. This dynamic sustains a cycle of dependency, where peripheral nations remain subordinate to the economic interests of core nations.

Capital outflows, often in the form of profit repatriation by multinational corporations, debt servicing, or illicit financial flows, are a significant manifestation of dependency. Multinational corporations, predominantly headquartered in core nations, invest in peripheral countries to exploit their natural resources, cheap labor, and emerging markets. While such investments can contribute to initial economic growth, the repatriation of profits to parent companies in core nations limits the reinvestment of capital in the host country, stifling long-term economic development (Prebisch, 1950). This creates a paradox where the presence of foreign capital generates wealth, but the outflow of that wealth exacerbates economic stagnation.

Moreover, the reliance on foreign capital often leads peripheral nations to accumulate external debt. Servicing this debt diverts significant portions of national revenue away from developmental projects and into payments to creditors in core nations. Dependency theorists highlight how these mechanisms reinforce structural inequalities in the global economy. For example, debt crises in many developing countries during the 1980s led to the adoption of structural adjustment programs (SAPs) imposed by international financial institutions like the International Monetary Fund (IMF) and the

World Bank. These programs prioritized liberalization and privatization, further opening peripheral economies to capital outflows while reducing their capacity for independent economic growth (Cardoso & Faletto, 1979).

In the context of economic growth, dependency theory posits that the outflow of capital undermines the potential for industrialization and technological advancement in peripheral nations. By siphoning off surplus capital, these nations remain reliant on low-value-added industries and the export of primary commodities, which are subject to declining terms of trade. As Prebisch (1950) noted, the revenue generated from primary commodity exports often fails to match the cost of importing manufactured goods, leaving peripheral nations in a perpetual state of economic subordination. Empirical evidence supports these claims. For instance, studies show that African countries lose billions annually to illicit financial flows, often facilitated by multinational corporations engaging in trade mispricing and tax evasion. This capital flight exacerbates budget deficits and reduces the resources available for infrastructure, healthcare, and education—key drivers of economic growth (Ndikumana & Boyce, 2011). Additionally, the dependency on foreign direct investment (FDI) creates a "race to the bottom" as peripheral nations compete to attract investors by offering tax incentives and weak regulatory frameworks, further eroding their economic sovereignty.

This theory highlights how these financial flows often exacerbate economic dependency rather than fostering sustainable growth. Foreign direct investment, while providing initial capital inflows, often leads to capital outflows through profit repatriation by multinational corporations. In Nigeria, companies extracting resources or operating in manufacturing sectors frequently send profits back to their home countries, depriving the domestic economy of reinvestment opportunities. This aligns with dependency theory's assertion that Foreign direct investment benefits core nations disproportionately.Foreign portfolio investment, which involves investments in stocks, bonds, and other financial assets, is highly volatile and subject to global market dynamics. In Nigeria, portfolio investments can lead to rapid capital outflows during periods of economic or political instability, further destabilizing the economy. Dependency theorists argue that this volatility reflects the peripheral nation's subordination to global financial markets. Other development assistance, intended to support development, often comes with conditions that prioritize donor countries' interests. In Nigeria, aid programs frequently focus on projects aligned with the geopolitical or economic goals of developed nations, limiting their transformative impact. Dependency theory critiques such assistance as a tool for maintaining control over peripheral economies.

Dependency theory is important in understanding the adverse effects of capital outflows on economic growth in developing countries. It challenges the neoliberal assumption that foreign capital and globalization automatically lead to development. Instead, it brings to light the need for policies that prioritize domestic resource mobilization, equitable trade practices, and the regulation of capital flows. Without such measures, peripheral nations risk remaining locked in a cycle of dependency, where economic growth benefits core nations at their expense.

b. Neo-Classical Growth Theory

The neoclassical growth theory, developed by Robert Solow and Trevor Swan, explains how labor, capital, and technology contribute to long-term economic growth. It highlights that while increasing capital can initially boost production, the benefits decrease over time due to diminishing returns. This means that sustainable growth depends on technological progress, which the theory assumes comes from outside the economy (exogenous).

Neoclassical growth theory emphasizes the importance of capital accumulation, technological progress, and efficient allocation of resources in driving economic growth. Foreign direct investment, Foreign portfolio investment, Other development assistance and remittances play critical roles in this context.

Foreign direct investment can enhance capital accumulation and technology transfer, both of which are essential for long-term growth. In Nigeria, FDI in sectors like telecommunications or energy has contributed to infrastructure development. However, the theory also notes that excessive capital outflows through profit repatriation reduce the stock of domestic capital, slowing growth. Policies encouraging local reinvestment of foreign direct investment profits could mitigate this issue.

Foreign portfolio investment provides access to global financial markets and supports capital formation. However, its volatility poses risks to economic stability. In Nigeria, large-scale FPI withdrawals during economic crises have led to currency depreciation and financial instability. Neoclassical theory highlights the need for stable macroeconomic policies to attract and retain foreign portfolio investment.

Other development assistance, if efficiently allocated, can support investments in human and physical capital, fostering long-term growth. However, in Nigeria, aid dependency and mismanagement often reduce its effectiveness. Neoclassical theory advocates for channeling aid into productive sectors to maximize its impact on growth.

Remittances contribute to capital accumulation by increasing household savings and investments. In Nigeria, remittances are often used to fund education, housing, and small businesses, aligning with neoclassical principles of capital utilization. However, overreliance on remittances can reduce incentives for domestic production, slowing economic diversification.

In Nigeria, the neoclassical theory helps explain how capital outflows negatively affect the country's economic growth. Capital outflows, such as the profits sent abroad by multinational corporations, debt repayments, and illegal financial transfers, reduce the amount of money available for domestic investments. According to this theory, if capital is constantly leaving the economy, there is less funding for important sectors, like infrastructure and industries, slowing down growth. For example, when foreign companies operating in Nigeria take profits out of the country instead of reinvesting them, it limits the amount of capital that could have been used to grow local businesses or create jobs.

Debt repayment is another way capital outflows affect Nigeria’s growth. Neoclassical theory emphasizes that savings and investments are necessary for building capital and driving economic growth. However, because Nigeria spends a significant portion of its revenue on paying back debts, there is less money left to invest in things like roads, schools, or hospitals. This matches the theory’s prediction that without enough investment, growth slows down. For instance, in recent years, Nigeria's debt servicing costs have taken up a large part of the national budget, leaving fewer resources for development.

Illegal financial transfers, such as tax evasion and corruption, make the problem worse by reducing the money that stays in Nigeria's economy. This lowers the savings rate, which is crucial for funding investments. Neoclassical theory suggests that when too much capital leaves an economy, it creates a gap that is hard to fill, especially if the country depends on foreign loans. For Nigeria, relying on external funding often leads to more outflows, which traps the country in a cycle of low investment and slow growth.

Solow (1956) and Swan (1956) introduced the neo-classical growth theory, which identifies capital accumulation, labour, and technological progress as key drivers of economic growth. However, the theory points to diminishing returns to capital, meaning that sustained growth requires technological innovation and productivity improvements. In Nigeria, significant capital outflows reduce the availability of domestic capital, stifling investments in critical sectors such as manufacturing and technology. This aligns with Solow's (1956) proposition that encouraging savings and reinvestment is crucial for counteracting the adverse effects of capital flight. Nigeria must implement policies that promote local investment and technological advancement to sustain long-term economic growth in the face of capital outflows.The theory also stresses the importance of technology in overcoming the limits of capital accumulation. However, Nigeria's limited resources, due to capital outflows, make it hard to invest in new technologies or improve productivity. For example, the country struggles with poor infrastructure and outdated equipment in industries like farming and manufacturing, which slows its economic progress. Without these investments, Nigeria cannot move to a higher growth level as the theory suggests is possible with technological improvement.

In conclusion, neoclassical growth theory explains how capital outflows hurt Nigeria's economy by reducing the resources needed for investment and technological progress. To address this, Nigeria needs policies that stop illegal financial flows, reduce dependence on foreign loans, and encourage the reinvestment of profits in the local economy. These steps would help the country build up its capital, adopt new technologies, and achieve steady economic growth.

c. Keynesian Theory

Keynesian theory, developed by British economist John Maynard Keynes(1936), emphasizes the role of aggregate demand in determining economic output and employment levels. Keynes argued that in the short run, particularly during periods of economic downturn, market forces alone cannot ensure full employment or optimal economic growth. Instead, government intervention through fiscal and monetary policies is essential to stabilize economies and stimulate growth. Central to Keynesian theory is the idea that spending—whether by households, businesses, or the government—drives economic activity. A lack of adequate demand can lead to unemployment, underutilization of resources, and slower economic growth.

In Nigeria, Keynesian theory can be used to analyze the relationship between capital outflows and economic growth. Capital outflows, including foreign direct investment (FDI repatriation), debt servicing, and illicit financial transfers, drain resources that could otherwise circulate within the domestic economy, stimulating demand and fostering growth. When significant portions of national revenue or foreign exchange reserves are directed abroad, the multiplier effect—a core Keynesian concept—weakens. This occurs because money leaving the economy reduces the potential for domestic reinvestment, consumption, and job creation, thereby limiting economic expansion.

Nigeria has historically grappled with substantial capital outflows, which have adversely affected its economic growth trajectory. For instance, multinational corporations operating in Nigeria frequently repatriate profits to their home countries. While such investments initially boost GDP, the repatriation of profits reduces the funds available for reinvestment in the local economy. Keynesian theory suggests that if these profits were retained and reinvested domestically, they could enhance aggregate demand by financing infrastructure development, industrialization, and job creation. This, in turn, would stimulate further economic activity, creating a virtuous cycle of growth.

Debt servicing represents another significant channel of capital outflow in Nigeria. According to Keynesian principles, high debt servicing obligations constrain government spending, particularly on critical sectors like education, healthcare, and infrastructure. For example, Nigeria's external debt servicing, which has consumed a substantial share of its national revenue in recent years, limits the government's ability to implement Keynesian-style fiscal stimulus. As a result, aggregate demand remains subdued, hampering economic recovery and growth. Keynes emphasized that government spending, particularly during economic slumps, is crucial for boosting demand and fostering growth. However, Nigeria's fiscal space is often constrained by its debt obligations, leaving limited resources for such interventions.

Illicit financial flows, including tax evasion, trade mispricing, and corruption, further exacerbate the challenges of capital outflows in Nigeria. These outflows undermine domestic resource mobilization, reducing the funds available for public investment. Keynesian theory underscores the importance of public investment in driving economic growth, especially in developing economies like Nigeria. The loss of capital through illicit channels reduces the government's capacity to invest in public goods, leading to underutilization of resources and weaker economic performance.

Empirical evidence illustrates the adverse effects of capital outflows on Nigeria's economic growth. For instance, Ndikumana and Boyce (2011) highlight that African countries, including Nigeria, lose billions annually to illicit financial flows, leading to reduced public spending and slower economic growth. Similarly, Okonjo-Iweala (2020) notes that Nigeria's high debt servicing costs constrain its fiscal capacity to invest in critical sectors, undermining long-term growth prospects. Keynesian economics suggests that policies aimed at reducing capital outflows, such as improved tax compliance, stricter financial regulations, and targeted incentives for local reinvestment, can help boost aggregate demand and stimulate growth.

To address these challenges, Keynesian theory advocates for proactive government intervention. Nigeria could implement policies to encourage domestic reinvestment of capital, reduce dependence on external debt, and curb illicit financial flows. Increased public investment in infrastructure, education, and healthcare—financed through better resource management—would create jobs, stimulate demand, and foster inclusive economic growth. Additionally, policies to strengthen financial transparency and accountability could help reduce capital outflows, ensuring that more resources remain within the domestic economy.

In conclusion, Keynesian theory provides valuable insights into the relationship between capital outflows and economic growth in Nigeria. It emphasizes the importance of domestic demand and public investment in driving economic activity and highlights how capital outflows weaken these critical drivers. By adopting Keynesian-inspired policies to curb capital outflows and enhance domestic investment, Nigeria can foster sustainable economic growth and development.

d. Portfolio Theory

Portfolio theory, developed by Harry Markowitz in 1952,it is a framework that helps investors optimize their investment portfolios by balancing risk and return. The theory emphasizes diversification, which involves spreading investments across various assets to minimize overall risk. According to portfolio theory, the risk of an individual asset does not matter as much as how that asset interacts with others in a portfolio. By combining assets with different risk levels and returns, investors can achieve an efficient portfolio that maximizes returns for a given level of risk or minimizes risk for a given return. Markowitz's portfolio theory (1952) provides a framework for understanding capital outflows as rational decisions by investors to maximize returns and minimize risks. In Nigeria, factors such as high inflation, volatile exchange rates, and political instability create an environment where investors are incentivized to move their funds abroad. According to Markowitz (1952), creating a stable macroeconomic environment is essential to retain and attract capital. For Nigeria, this means addressing inflation, stabilizing the currency, and ensuring consistent and transparent economic policies. Offering competitive returns on investments, such as through interest rates or incentives for local industries, can also encourage investors to maintain their capital within the country.

In the context of capital outflows and economic growth in Nigeria, portfolio theory offers insights into how financial decisions by domestic and foreign investors can impact the economy. Capital outflows, such as profit repatriation, external debt repayments, and foreign investors withdrawing funds, directly reduce the financial resources available for domestic investment. For an emerging economy like Nigeria, which relies heavily on foreign capital to bridge investment gaps, these outflows can create significant challenges for economic growth. According to portfolio theory, when foreign investors perceive Nigeria as a high-risk environment due to factors such as economic instability, weak infrastructure, or poor governance they may move their capital to safer markets, leading to capital flight.

Capital outflows affect Nigeria's economic growth by reducing investment in productive sectors such as agriculture, manufacturing, and infrastructure. Portfolio theory suggests that investors, including foreign entities, aim to maximize returns while minimizing exposure to risk. However, if Nigeria's macroeconomic environment is perceived as unstable, investors may choose to withdraw funds or avoid reinvesting profits, opting instead for safer or more stable economies. This withdrawal of capital limits the country's ability to finance critical projects, leading to slower economic growth and reduced employment opportunities. For example, multinational corporations operating in Nigeria often repatriate their profits to home countries, depriving the local economy of reinvestment opportunities that could spur growth.

Portfolio theory focuses on balancing risk and return in investments, providing insights into how Foreign direct investment, Foreign portfolio investment, other development assistance and remittances impact capital outflows and economic growth in Nigeria.

Foreign direct investment seen as a long-term investment with relatively lower risk compared to foreign portfolio investment. However, profit repatriation by foreign investors creates significant capital outflows, reducing resources available for domestic reinvestment. Portfolio theory suggests diversifying FDI sources to reduce dependency on specific sectors and countries, enhancing economic stability.

Foreign portfolio investment is inherently more volatile, as foreign investors may withdraw funds during periods of instability. In Nigeria, this volatility has caused capital outflows that destabilize financial markets. Portfolio theory emphasizes creating a stable investment environment to reduce perceived risks and attract more stable portfolio investments.

Other development assistance can be a low-risk source of funding for development projects, but its effectiveness depends on efficient allocation. In Nigeria, aid funds are often tied to donor priorities, limiting their impact on economic diversification. Portfolio theory suggests diversifying funding sources and focusing on projects that yield high economic returns.

Remittances provide a relatively stable inflow of foreign exchange, contributing to economic resilience. Portfolio theory supports strategies that channel remittances into productive investments, such as small businesses or infrastructure, to maximize their economic impact. In Nigeria, remittances have been used for consumption and investment, but their potential for growth-enhancing projects remains underutilized.

External debt servicing also contributes to capital outflows, further exacerbating the issue. As Nigeria allocates significant portions of its revenue to repay foreign debts, fewer resources are available for domestic investment. From a portfolio perspective, the country's high debt burden increases perceived risk for investors, discouraging long-term investment. This aligns with the principle of portfolio theory, which emphasizes the importance of risk assessment in investment decisions. When capital flows out of Nigeria to service debt or satisfy investor preferences for safer markets, the economy loses the multiplier effect of domestic investment, weakening growth prospects.

Illicit financial flows, including corruption and tax evasion, further reduce the capital available for domestic use. Portfolio theory highlights the importance of efficient capital allocation in achieving optimal returns. In Nigeria, however, significant funds are lost through illegal channels, undermining the country’s ability to allocate resources effectively. This leakage of capital reduces the funds available for public and private investment, slowing down economic growth and increasing dependence on foreign capital. For instance, studies have shown that Nigeria loses billions annually to illicit financial flows, which could otherwise be used to build infrastructure or fund social programs.

Portfolio theory also underscores the importance of creating a stable and attractive investment environment. If Nigeria implements policies to reduce risks such as improving governance, strengthening financial institutions, and ensuring macroeconomic stability it could encourage both domestic and foreign investors to retain and reinvest their capital in the economy. Diversifying the economy and reducing reliance on volatile sectors like oil could also help mitigate risks, making Nigeria more appealing to a broader range of investors.

In conclusion, portfolio theory provides a useful analysis for understanding how capital outflows influence economic growth in Nigeria. By emphasizing risk and return, the theory explains why investors may choose to withdraw capital in response to perceived economic instability or high risk. Addressing these challenges requires policies that create a more stable investment climate, reduce illicit financial flows, and encourage reinvestment of capital within the country. These steps would help Nigeria retain financial resources, promote domestic investment, and achieve sustainable economic growth.

e. Theory of Investment Diversion:

This theory has been studied by various scholars, including Richard Baldwin, Rickard Forslid, Kindleberger (1996), Viner (1950), and Dunning and Robson (1998). It examines how investment creation can be influenced by the diversion of funds through regional integration and trade agreements. The theory suggests that foreign direct investment can lead to additional investment, create new economic activities, and promote growth. The transfer of funds can bring new technology, management skills, experience, expertise, resources, and human capital that will complement investment in the domestic economy.

Ahert (2014) argues that when savings increase more than investment, it results in severe capital movement. He claims that the consequences are a drop in developing countries' capital and investment funds, which can disrupt critical macroeconomic infrastructure, such as the exchange rate and path to economic growth. Jude (2014) believes that such outflows cause external reliance and indebtedness, crowd-out effect, and devaluation of the home currency. Skare and Sinkovic (2013) also emphasize that this worsens the savings gap, compels collective speculation, and constrains monetary expansion.

f. Theory of Portfolio Diversification:

This theory, proposed by Markowitz in 1952, states that investors can minimize risks and increase returns by spreading their investments over a variety of assets and geographic locations. The theorist agrees that by diversifying their portfolios, investors can reduce overall investment volatility and enhance their risk-return trade-off. He posits that investing in a diverse portfolio of assets with imperfect correlations lowers risk. By holding a variety of asset classes (stocks, bonds, real estate, etc.) and in different geographic locations, the investor mitigates loss. He further expounds that investors can minimize the impact of poor investment performance in any one asset or place in the whole array of portfolio or in a single portfolio.

Portfolio diversification, as a financial theory, advocates spreading out investments over a variety of assets, industries, and geographical areas. Investors can reduce risk and boost profits by adopting this strategy.

The reviewed theories show that foreign capital outflows can greatly affect economic growth, especially in developing countries like Nigeria. While moving capital across borders is a normal part of a global economy, excessive outflows can harm the local economy. These outflows are often caused by economic instability, weak policies, or poor governance, which drain resources needed for domestic growth and development. Excessive capital outflows reduce the funds available for investments in infrastructure, technology, and industries.

The theories highlight the need to create a stable and attractive environment for investment. Stability includes solving problems like inflation, unstable currency, and poor infrastructure. When the economy is predictable and well-managed, it builds trust among both local and foreign investors, reducing the risk of capital leaving the country.

The theories also stress the importance of relying less on foreign capital to become more self-sufficient. This involves developing industries beyond oil, strengthening local businesses, and preparing the economy to handle external shocks. By reducing dependence on foreign aid or loans, Nigeria can better control its economic future.

Encouraging people and businesses to save more and adopt new technologies is also crucial. Higher savings mean more money is available for local investments, reducing the need for foreign funds. Technology improves productivity and competitiveness, making Nigeria more attractive to foreign investors who can support long-term development. This includes supporting innovation, better education, and protecting intellectual property to boost technological progress.

In conclusion, while foreign capital outflows are normal in global trade, excessive levels can hurt countries like Nigeria. To address this, Nigeria needs to stabilize its economy, reduce reliance on foreign funds, and focus on building its own resources and industries. These steps will help limit the negative effects of capital outflows and support sustainable growth.

2.4 Empirical review

Nigeria is one of Africa's largest economies, endowed with vast natural resources and a population that offers significant potential for economic growth. The country, however, faces persistent economic challenges such as volatile growth rates, high unemployment, weak infrastructure, and excessive reliance on oil exports. Over the years, one critical issue exacerbating these problems has been the outflow of capital from the economy. Foreign capital outflow occurs when financial resources leave the country through channels like profit repatriation, portfolio investment withdrawals, and illicit financial flows. The negative implications of these outflows, such as diminished investments and depleted reserves, make them a significant concern for policymakers. This review examines the causes, effects, and possible solutions to foreign capital outflows in Nigeria while referencing empirical studies.

Research consistently shows that foreign capital outflows negatively affect investment and economic productivity in Nigeria. Ajakaiye and Fakiyesi (2020) observed that the persistent movement of capital out of Nigeria significantly reduces the financial resources available for domestic investments, particularly in critical sectors such as infrastructure, healthcare, and education. Their findings emphasize that the lack of investment in these areas limits the country's ability to achieve sustainable economic growth. Similarly, Ndikumana and Boyce (2011) highlighted that capital flight from African economies, including Nigeria, denies these nations the opportunity to channel resources into industrialization and innovation. As a result, productivity remains low, and the economy struggles to diversify beyond its traditional dependence on oil exports.

One of the direct impacts of foreign capital outflows is exchange rate instability. Oladipo and Akinbobola (2021) demonstrated that significant outflows of foreign capital create pressure on the naira, leading to depreciation. This depreciation causes inflation, increases the cost of imports, and reduces the purchasing power of businesses and households. Exchange rate volatility also discourages foreign investors who might otherwise contribute to the economy. This instability complicates monetary policy management and creates an unfavorable environment for economic growth.

Frank Ogieva (2020) conducted a detailed analysis of foreign capital outflows and their impact on Nigeria's macroeconomic performance. His study highlighted that large-scale outflows during periods of political and economic instability severely deplete foreign reserves, destabilize exchange rates, and limit the country's ability to finance key projects. Ogieva also noted that Nigeria's overdependence on external capital flows increases its vulnerability to global shocks, such as rising interest rates in advanced economies. His findings emphasize the need for better governance, institutional reforms, and policies to retain capital within Nigeria's economy.

Another critical consequence of foreign capital outflows is the depletion of Nigeria's foreign exchange reserves. Uchenna and Ezeji (2022) pointed out that episodes of capital flight lead to a significant reduction in reserves, which limits the Central Bank of Nigeria's capacity to stabilize the economy. The depletion of reserves makes it challenging to finance essential imports, further weakening the economy. For instance, when reserves are low, the government struggles to import vital goods such as medical supplies and machinery, undermining public services and industrial productivity. Furthermore, declining reserves negatively impact investor confidence, leading to reduced foreign direct investment (FDI) inflows.

The outflow of capital also erodes government revenue by reducing the tax base. Ogujiuba and Adeniyi (2015) explained that profit repatriation by multinational corporations deprives the government of taxable income that could have been used for developmental projects. In Nigeria, where revenue generation is already constrained, these outflows further limit the ability to invest in public infrastructure and social services. Illicit financial flows, such as tax evasion and money laundering, exacerbate the problem by draining resources needed for economic development. These illegal practices create inequalities, as the wealth generated within the country benefits only a few while the majority of the population remains underserved.

The causes of foreign capital outflows in Nigeria are multifaceted, involving both domestic and external factors. Domestically, political instability, corruption, and policy inconsistencies discourage long-term investment. Asiedu (2002) emphasized that weak governance structures and frequent policy reversals make Nigeria an unattractive destination for foreign and local investors. Frank Ogieva (2020) also noted that a lack of transparency and poor enforcement of regulatory frameworks increase investors' perception of risk, leading them to seek more stable environments. Externally, global economic conditions significantly influence capital flows. For example, Adeleke and Taiwo (2023) found that rising interest rates in advanced economies, particularly the United States, often trigger the withdrawal of portfolio investments from Nigeria as investors seek higher returns abroad.

While foreign capital outflows pose significant challenges, economic diversification offers a potential solution. Onuoha et al. (2020) observed that economies with diverse revenue streams are less vulnerable to the adverse effects of capital flight. For Nigeria, reducing its overreliance on oil and expanding sectors such as manufacturing, agriculture, and services could foster more sustainable growth. Diversification would also create employment opportunities and attract investments that are less susceptible to global shocks. For example, developing the agricultural sector could increase exports, enhance food security, and generate revenue while insulating the economy from oil price volatility.

Policy reforms are also crucial in addressing capital outflows. Adegbite and Ogunleye (2018) argued that improving governance, enhancing institutional capacity, and creating an investor-friendly environment are essential for curbing capital flight. Their study recommended implementing transparent tax systems, enforcing anti-corruption laws, and promoting financial accountability as critical steps toward building investor confidence. Additionally, targeted fiscal policies, such as tax incentives for reinvestment, could encourage multinational corporations to retain their earnings in Nigeria instead of repatriating profits.

Empirical evidence underscores the detrimental effects of foreign capital outflows on Nigeria's economic growth. The outflows reduce investment, exacerbate exchange rate volatility, deplete foreign reserves, and diminish government revenue. These challenges create a vicious cycle where economic instability leads to more capital flight, perpetuating underdevelopment. Policymakers must address these issues through comprehensive reforms that prioritize macroeconomic stability, institutional strengthening, and economic diversification. Strengthening domestic resource mobilization, improving the ease of doing business, and fostering regional and international cooperation are also necessary to retain capital within the economy.

In conclusion, foreign capital outflows remain a significant barrier to Nigeria's economic growth and development. Research highlights the importance of addressing both internal and external factors driving capital flight. By implementing effective reforms and creating a stable economic environment, Nigeria can mitigate the adverse effects of capital outflows and unlock its growth potential. Future research should explore sector-specific impacts of capital outflows and propose innovative strategies for leveraging foreign investments to promote sustainable development

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter explains the research methodology used to examine the connection between foreign capital outflows and economic growth in Nigeria. This chapter provides a detailed explanation of the research design, data sources, model formulation, and techniques for data analysis employed in this study.

This chapter presents a detailed account of how the study will be carried out, while revealing the research methods to be used in the study. The study focuses specifically focuses on analyzing how foreign capital outflows comprising Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI),Foreign remittances(FR),interest rate (INTR),inflation rate (INFR)and other development assistance (ODA)affect Nigeria's economic performance.It is sub-divided into a number of sections which include research design,sources of data collection, model specification and operationalization of variables and techniques of data analysis.

3.2 Research Design

The research employs an explanatory research design to identify and explain the probable cause and effect relationship between foreign capital outflows and economic growth in Nigeria. This approach is chosen to explore how various forms of foreign capital, such as Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), remittances, and development assistance, contribute to the country's economic development. The design is particularly focused on understanding the specific ways in which capital flows influence Nigeria's overall economic performance.

This study follows a quantitative methodology, using secondary data collected over the period from 1986 to 2021. By examining data over this 35 year period,it allows for the identification of trends and patterns, providing insights into how foreign capital outflows correlate with economic growth. This methodology will not only measure the strength or quantify the relationship between the variables but also provide insights into the factors that drive these effects.

3.3 Sources of Data Collection

This study relies on secondary data gathered from reliable sources, including:

a. Central Bank of Nigeria (CBN): For data on foreign capital outflows, including FDI and foreign portfolio invest.
b. World Bank: Provides data on Nigeria's real GDP, remittance inflows, and official development assistance (ODA).
c. National Bureau of Statistics (NBS): Provides national economic performance data and other key macroeconomic indicators.

d. International Monetary Fund (IMF): Supplies data on foreign remittances, external debt, and other financial indicators.

The variables examined in the study will include:

a. Foreign Capital Outflow (FCO): This is measured by net outflows of capital, including FDI, FPI, remittances, and development assistance.

b. Economic Growth (EG): This will be measured by the annual real GDP growth rate of Nigeria.

c. Foreign Direct Investment (FDI): The total amount of foreign capital invested directly in Nigerian businesses and assets.

d. Foreign Remittance (FR): The financial transfers sent by Nigerians working abroad to their families in Nigeria.

e. Foreign Portfolio Investment (FPI): Investments made by foreign entities in Nigeria's financial markets, such as stock exchanges and bonds.

f. Other Development Assistance (ODA): Official development aid and financial assistance from foreign governments and international bodies to Nigeria.

g. Interest rates(INTR):Influences investment decisions; higher rates attract foreign capital.

h. Inflation rate(INFLR) :The rate at which prices rise; high inflation can lead to capital outflows.

i. Gross domestic product (GDP): Measures economic output; foreign capital impacts growth

3.4 Variables and Hypotheses

The study main variables include:

a. Dependent Variable (Y):

-Economic Growth (EG)–Represented by the annual percentage change in Nigeria's real GDP.

b. Independent Variables (X):

-Foreign Capital Outflows (FCO): Total capital outflows, including FDI, FPI, remittances, and development assistance.

-Foreign Direct Investment (FDI): The total foreign investments made directly in Nigerian industries and assets.

-Foreign Remittances (FR): Money sent back to Nigeria by Nigerians living abroad.

-Foreign Portfolio Investment (FPI): Investments made in Nigerian securities, such as stocks and bonds, by foreign investors.

-Other Development Assistance (ODA): Financial assistance provided by international organizations and foreign governments to support Nigeria's development initiatives.

-Interest rates(INTR): Influences investment decisions; higher rates attract foreign capital.

-Inflation rate(INFLR) :The rate at which prices rise; high inflation can lead to capital outflows.

3.5 Model Specification

To analyze the effect of foreign capital outflows on economic growth, the study uses an econometric model based on multiple regression analysis. This method allows the examination of the relationships between several independent variables (foreign capital inflows) and the dependent variable (economic growth).

The model is formulated as:

$$EGt=\alpha+\beta 1FDIt+\beta 2FPIt+\beta 3FRt+\beta 4INTRt+\beta 5ODAt+ \beta 6INFLRt+\epsilon t$$

Where:

- EGt = Economic growth (real GDP growth rate) at time t

- FDIt = Foreign direct investment at time t

- FPIt = Foreign portfolio investment at time t

- FRt = Foreign remittances at time t

- INTRt = Foreign portfolio investment at time t

- ODAt = Other Development assistance at time t

-INFLRt =Inflation rate at time t

- α = Constant term

- β1, β2, β3, β4, β5, β6= Estimated coefficients for the respective variables

- ϵt = Error term= Error term

This equation will allow the study to analyze the individual and combined effects of foreign capital outflows, including Foreign Direct Investment, Foreign Portfolio Investment, Foreign remittances, and other development assistance, inflation rate and interest rate on gross domestic product .

3.6 Estimation Technique

The research applies the Autoregressive Distributed Lags (ARDL) model. This model was chosen because it can work with variables that have different stationarity levels (I(0) or I(1)) and allows for an analysis of both short- and long-term relationships. ARDL is particularly helpful when variables are not all stationary at the same level, which was confirmed by the unit root test in the study. Additionally, the Error Correction Model

(ECM), which comes from the ARDL approach, is useful for understanding short-term dynamics and long-term adjustments to equilibrium, making it well-suited to explore the impact of foreign capital outflows on economic growth.

3.7 Techniques of Data Analysis

The collected data will be analyzed using E-Views or STATA, both of which are widely used for econometric analysis. Regression results will be interpreted to understand the relationship between foreign capital outflows and economic growth. Special attention will be given to the coefficients and significance levels of the variables related to foreign capital flows (FDI, FR, FPI, DA) to determine how they influence economic growth.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter empirically examined the effect of foreign capital outflows and economic growth in Nigeria using the ECM and the Autoregressive Distributed Lags (ARDL). As earlier stated in previous section, the unit root test was first conducted in order to test for the stationarity property of the data set, followed by correlation coefficient to enable us examine the background characteristics of the data, as well as the Johansen cointegration test. Thereafter, the Autoregressive Distributed Lags (ARDL) is used for the main analysis of the study.

4.2 Unit Root Testing

The Augmented Decay Fuller test (ADF) is employed to test the stationarity properties of the data set in levels and the outcome of the result is presented in Table 4.1, panel 1. The result obtained revealed that three of the variables FPI, ODA and INTR have ADF test values that are more than the 95 percent critical ADF value (in absolute values). The implication of this is that these time series are non-stationary in their levels. However, the result of the unit root test on these variables in first differences is presented in panel 2. From the result, it is seen that the ADF test statistic for each of the variables is greater than the 95 percent critical ADF values (in absolute values). With these result, these variables are adjudged to be stationary. This implies that the variables attained stationarity after the first differences of the variables and are integrated of order one (i.e. I[1]).

Table 4.1 Unit Root Test for Variables in Levels

**(Panel 1)	In Levels			**(Panel 2)	At First	Difference
Variable	**ADF Test Statistic**	**95% Critical ADF Value**	**Remark**	**ADF Test Statistic**	**95% Critical ADF Value**	**Remark**
GDP	2.516507	-2.948404	Non-Stationary	-4.667902	-2.951125	Stationary
FDI	-2.028912	-2.948404	Non-Stationary	-6.621312	-2.951125	Stationary
FPI	-3.951085	-2.948404	Stationary	-7.718196	-2.951125	Stationary
ODA	-3.022973	-2.948404	Stationary	-6.230476	-2.954021	Stationary
FR	-0.795872	-2.948404	Non-Stationary	-4.999110	-2.951125	Stationary
INTR	-4.058943	-2.948404	Stationary	-9.371405	-2.951125	Stationary
INFLR	-2.485376	-2.948404	Non-Stationary	-5.965364	-2.951125	Stationary

Source: Author's Computations (2025).

4.3 Correlation Analysis

The result of the correlation tests is presented in Table 4.2. In the result, economic growth (EG) proxied with gross domestic product (GDP) is seen to have a strong positive correlation values of 0.67020 and 0.73566 with foreign direct investments

(FDI), foreign remittances (FR), and a strong negative correlation value of -0.51069 with interest rate (INTR), a moderate correlation value of 0.41069 with official development assistance (ODA), and a weak negative correlation value of -0.33054 with inflation rate (INFR) respectively. Also, foreign direct investment (FDI) has a strong positive correlation value of 0.60270 with foreign remittances (FR). On the other hand, official development assistance (ODA) has a strong positive correlation with foreign remittances (FR). Those of foreign remittances (FR), interest rate (INTR) and inflation rate (INFR) are negative and moderately correlated with values of -0.42483 and -0.49678. Thus, a cursory glance at the results below indicates that there is actually no indication of the problem of multicollinearity amongst the variables used in the model.

Table 4.2: The Pairwise Correlation Matrix

	MCAP	FDIO	FPIO	ODAO	FRO	INTR	INFLR
GDP	1						
FDI	0.67020	1					
FPI	-0.34768	-0.30303	1				
ODA	0.41069	0.16833	-0.13645	1			
FR	0.73566	0.60270	-0.38413	0.63408	1		
INTR	-0.51069	-0.28322	0.13319	-0.24774	-0.42483	1	
INFLR	-0.33054	-0.22545	0.17537	-0.32298	-0.49678	0.39983	1

Source: Author's computations (2025).

4.4 Bound Test for Cointegration

The bounds test result (for cointegration) is carried out in order to test for existence of a long run relationship among the variables. Accordingly, the null hypothesis under this bounds test is that no levels relationship exists. Therefore, if the calculated *F*-statistic is greater than the critical value for the upper bound *I(1)*, then we can conclude that there is cointegration (i.e there is long-run relationship); but if it falls below the lower bound I(0), no cointegration exist. Thus, the results from Table 4.3 shows that the *F*-statistic value of 6.330673 is greater than the upper bound *I(1)*value of 3.62 at the 5% significance level. Thus, we conclude that a long run relationship exist among the hypothesized variables in the model.

Table 4.3: Bounds Test for Cointegration Result

Test Statistic	Value	Significant	I(0)	I(1)
F-statistic	6.330673	10%	2.33	3.25
K	6	5%	2.63	3.62
		2.5%	2.9	3.94
		1%	3.27	4.39

Source: Author's Computations (2025).

4.5 The ARDL Error Correction Regression Result (Short Run Result)

The short-run dynamics of the behaviour of economic growth in the context of short term movements in foreign capital outflow variables in Nigeria is captured within an error correction model (ECM). The Autoregressive Distributed Lags (ARDL) approach is used for the ECM. The R-Bar squared criterion was used for the selection of the parsimonious equation. The result of the estimated error correction representation is presented in Table 4.4. The results show a strong diagnostic outcome; the R-squared value of 0.88 is very high and it indicates that over 88 percent of the systematic variation in financial sector development over the short term is explained by short term movements in the explanatory variables including the ECM. Even the R-Bar squared value of 0.79 is also very high. The overall goodness of fit for the model is observed through the F-statistic. The F-values of 10.78061 is high and easily passes the significance test at the 1 percent levels. Thus, we accept the hypothesis of a significant linear relationship between financial sector development and all the explanatory variables combined.

A close examination of the coefficients of the variables in terms of their significance and impact reveals that, the coefficient of foreign portfolio investments (FPI), foreign remittances (FR) and official development assistance (ODA) have weak negative and positive relationship with economic growth. This implies that, in the short run, FPI, FR and ODA are not relevant factors in determining the economic growth in Nigeria. However, it was observed that their lag values actually impact economic growth in Nigeria. More specifically, while the previous values of FPI and ODA has significant negative impact on economic growth, as they were significant at the 1 percent levels, that of FR was positively signed and also passed the significance test at the 1 percent level. The implication of this result is that, in Nigeria, previous values of FPI, ODA and FR significantly impact economic growth than their current values.

On the other hand, the coefficient of interest rate (INTR) and the lag value has significant negative impact on economic growth. The variable was significant at the 1 percent level. This means that INTR plays significant role in economic growth in Nigeria. However, the negative sign is an indication that as INTR rise, overall economic growth falls by approximately -0.873004 percent in the short run. The coefficient of inflation rate (INFR) is weak and does not have any significant effect on economic growth. The coefficient of the error correction (ECM) term (represented by CointEq(-1)*) in Table 4.4 below has the correct negative sign and is also significant at the 1 percent level. This goes to show that any short-term deviation of the hypothesized economic growth variables from equilibrium in the short-run can be restored in the long run. The high value of -0.656670 of the error correction term, means that adjustment to equilibrium in the long run is moderate. The ECM term shows that about 65 percent of long run adjustment to equilibrium is made during the first year. The DW statistic value of 2.20 shows the absence of autocorrelation problem in the model.

Table 4.4: ARDL Short Run Foreign Capital Outflows and Financial Sector Development In Nigeria

ECM Regression			
Case 4: Unrestricted Constant and Restricted Trend			
Variables	Coefficient	T-Ratio	Prob.
Constant	6.406171	8.250516	0.0000
D(FPI)	-0.088821	-1.342769	0.2042
D(FPI(-1))	-0.321113	-4.604241	0.0006**
D(ODA)	0.071632	0.808628	0.4345
D(ODA(-1))	-0.639726	-7.642894	0.0000**
D(FR)	-1.168198	-1.528486	0.1523
D(FR(-1))	3.274351	4.314712	0.0010**
D(INTR)	-0.873004	-5.288773	0.0002**
D(INTR(-1))	-1.424900	-7.586285	0.0000**
D(INTR(-2))	-0.856353	-5.704688	0.0001
D(INFLR)	0.019223	0.496733	0.6284
D(INFLR(-1))	0.039231	1.292094	0.2207
D(INFLR(-2))	0.102894	2.982899	0.0114
CointEq(-1)*	-0.656670	-8.954805	0.0000**
$R^2 = 0.88$	$\bar{R}^2 = 0.79$	F = 10.78061	D.W.= 2.20

Source: Author's computations (2025). Note: ** sig at 1% level; * sig at 5% level.

4.6 ARDL Long Run Result

Since the bounds test result for cointegration earlier conducted in Table 4.3 indicted the existence of a long run relationship among the variables, we therefore conducted the ARDL long run test. The result is presented in Table 4.5 below. A close examination of the table reveals that the coefficient of foreign direct investments inflow (FDI) has significant positive relationship with financial sector development in Nigeria; the variable passes the 1 percent significance level. This suggests that in the long run, the aggregate amount of foreign direct investments inflow (FDI) plays very potent role in the determination of economic growth. Indeed, it is seen that a unit increase in total FDI leads to about 2.848101 percent increase in the overall economic growth within the period of investigation. This finding is seen to corroborate the findings of Saheed and Ayodeji (2010), Ameer and Xu (2017), Reichert and Weinhold (2019), Noman (2019) and Spencer (2020), who observed that FDI significantly and positively affect financial sector development in their respective studies. It however disagreed with those of Busari (2010), Al-Sadiq (2017) and Umoru (2020) who submitted a significant negative relationship between FDI and performance and growth. It also disagreed with the findings of Obwona (2017) who concluded a weak impact of FDI on economic growth.

The coefficient of foreign portfolio investments outflow (FPI) though positively signed failed the 5 percent significance level. The impact was weak and it further suggests that this variable (FPI) does not play any significant role in the determination of economic growth in Nigeria. Given the crucial role of FPI in economic growth, there is the need for policy makers and regulators to review current policy for PFI outflows that will at the same time discourage capital outflows though not significant. The finding is seen to effectively align with those of Tiago and Caldeira (2015), Koskei (2017) who find that FPI has a weak impact on economic growth in general. However, the finding disagreed with the findings of Noman (2019) who finds significant positive relationship between FPI and performance, and those of Atobrahh (2015) and Spencer (2020) who submitted significant negative relationship between FPIO and economic growth.

On the other hand, the coefficient of foreign remittances (FR) has significant negative relationship with economic growth. The variable was significant at the 1 percent level. This means that in the long run, FRO plays significant role in economic growth in Nigeria. However, the negative sign suggests that as FR rises, it reduces the level of economic growth in Nigeria by -9.119061 percent approximately. The implication of this result is that, in the long run, FR has a rather detrimental effect on the overall economic growth. This finding agrees with those of Uguru (2011), Uguru (2016), Khan, Nallareddy and Rouen (2018) who found that FR has significant negative relationship with growth and economic growth. On the other hands, the finding disagreed with the submission of Bachmann and Baumann (2016) who could not find any significant impact of FR on economic growth.

Other development assistance (ODA) has significant negative relationship with economic growth, and the variable was significant at the 5 percent level. This means that in the determination of economic growth in the long run in Nigeria, other development assistance (ODA) are crucial factors that cannot be ignored by policy makers and the government. Indeed, the result indicates that as the total amount of ODA rises, the overall level of economic growth reduces by 0.960289 percent approximately. This finding therefore corroborate the findings of Addison, Asiedu and Anyanwu (2015), Moolio and Kong (2016), Arndt, Jones and Tarp (2020), who found that foreign development assistance reduces economic growth. On the other hands, the finding is strongly opposed to those of Mallik (2008), Khan and Ahmed (2017), Rajan and Subramanian (2018) who find significant positive relationship between ODA and economic growth. According to them, foreign assistance and other forms of development assistance have a strong and positive influence on economic growth and economic development.

The coefficients of interest rate (INTR), inflation rate (INFR) has weak positive and negative relationship with economic growth. This implies that these variables do no play any relevant role in economic growth in Nigeria within the period of investigation. Therefore, based on the above findings of this study, we conclude that in Nigeria and within the investigating period, foreign capital outflow such as FDIO, ODAO and FRO are the major determinants of economic growth in the long run.

Table 4.5: ARDL Long Run Result

Levels Equation			
Case 4: Unrestricted Constant and Restricted Trend			
Variables	Coefficient	T-Ratio	Prob.
FDI	2.848101	3.318080	0.0061**
FPI	0.166040	0.702220	0.4959
ODA	-0.960289	2.238894	0.0449*
FR	-9.119061	-4.296656	0.0010**
INTR	0.968579	1.051904	0.3136
INFLR	-0.233780	-1.316403	0.2126
@TREND	3.135641	7.250257	0.0000

Source: Author's computations (2023). Note: ** sig at 1% level; * sig at 5% level.

4.7 Breusch-Godfrey Serial Correlation LM Test

To test whether the residuals from the model are serially correlated in the estimation, we used the Breusch-Godfrey Serial Correlation LM Test as indicated in Table 4.6 below. Indeed, from the result, since the null hypothesis is that the residual are serially uncorrelated, and the F-Statistic p-value of 0.1125 indicates that we will fail to reject the null. Therefore, the residuals are serially uncorrelated.

Table 4.6: Breusch-Godfrey Serial Correlation LM Test

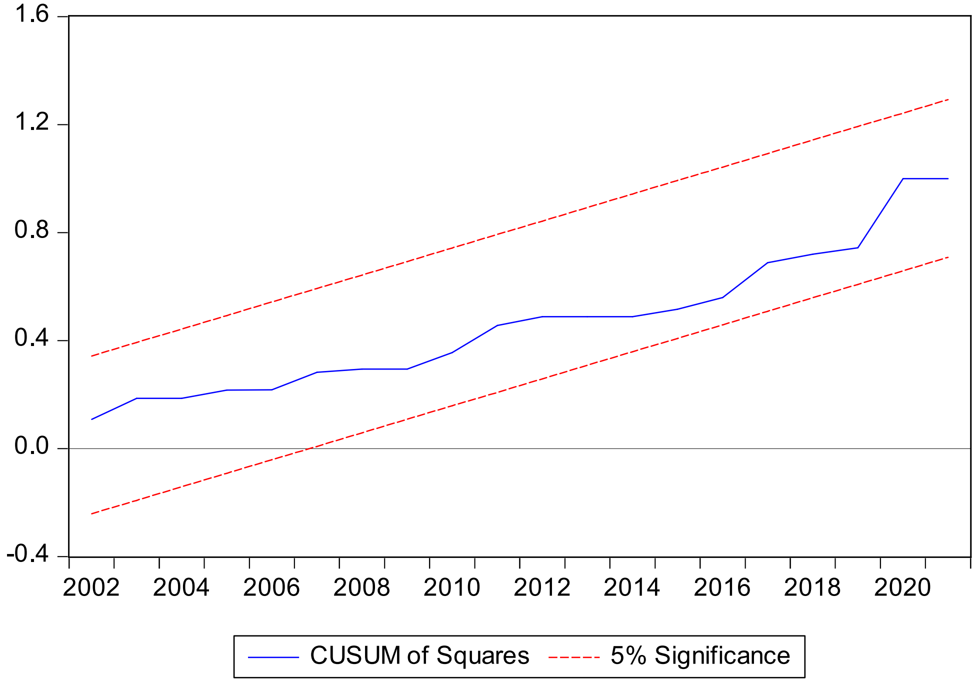
F-statistic	3.271580	Prob. F(2,10)	0.0807
Obs*R-squared	13.05218	Prob. Chi-Square(2)	0.0015

Source: Author's Computation (2023).

4.8 Stability Test

The cusum of squares test was conducted to test for stability of the hypothesized model. The standard requirement is that, for the model to be stable, the green line must lie within the two red lines otherwise, the model is unstable. Thus, from the result in Figure 4.1, it is seen that the green line is actually lying within the two red lines hence we conclude that the model for stock market performance for the study is stable.

Figure 4.1: Cusum of Squares Test (For Stability Test)



4.9 Test of Hypotheses

Hypothesis One: we hypothesized that foreign portfolio investment (FPI) has no significant effect on economic growth in Nigeria. However, from the empirical analysis, it was discovered that both in the short run and in the long run, foreign portfolio investment (FPI) does not significantly affect economic growth in Nigeria overtime. Hence, while the null hypothesis is accepted, the alternative hypothesis is rejected in this regard.

Hypothesis Two: We hypothesized that foreign direct investments (FDI) do not significantly impact economic growth in Nigeria. However, from the empirical analysis, it was observed that economic growth was significantly affected by foreign direct investment (FDI). Therefore, while the null hypothesis is rejected, the alternative hypothesis is accepted.

Hypothesis Three: It was hypothesized that foreign remittances (FR) do not significantly affect economic growth in Nigeria. However, from the empirical analysis, it was discovered in the short run FR does not affect economic growth; but in the long run, foreign remittances (FR) significantly affect economic growth in Nigeria. Hence, while we reject the null hypothesis, the alternative hypothesis is accepted.

Hypothesis Four: It was hypothesized that Official development assistance (ODA) does not significantly impact economic growth in Nigeria. However, from the empirical analysis, it was observed that economic growth was highly driven by Official development assistance (ODA) in Nigeria. Therefore, while the null hypothesis is rejected the alternative hypothesis is accepted.

4.10 Discussion of Findings

One of the outcomes of this study was that foreign direct investment (FDI) has significant positive effect on economic growth in Nigeria. By implication, outward movement of capital into a country have a positive effect on economic growth and by extension the economy. Foreign portfolio investment (FPI) has a weak positive impact on economic growth, suggesting that it does not play any significant role in the determination of economic growth in Nigeria. However, this weak impact of FPI on economic growth in this study is probably due to the fact that the amount of FPI involved is either not huge enough to cause significant effect on economic growth or is simply a confirmation of the underdeveloped nature of the financial sector in Nigeria. Therefore, given the crucial role of FPI to financial markets, there is the need for market operators and regulators to review current policy to improve the quantum of PFI outflows that will at the same time discourage outflows in form of capital flight. The finding is seen to effectively align with those of Tiago and Caldeira (2015), Koskei (2017) who find that FPI has a weak impact on financial sector development and economic growth in general. However, the finding disagreed with the findings of Noman (2019) who finds significant positive relationship between FPI and economic growth, and those of Atobrahh (2015) and Spencer (2020) who submitted significant negative relationship between FPI and economic growth.

Foreign remittances (FR) has significant negative relationship with economic growth This means that in the long run, FR plays significant role in economic growth in Nigeria. However, the negative sign suggests that as FR rises, the level of economic growth in Nigeria is reduced. The implication of this result is that, in the long run, FR has a rather detrimental effect on economic growth. This finding agrees with those of Uguru (2011), Uguru (2016), Khan, Nallareddy and Rouen (2018) who found that FRO has significant negative relationship with growth and financial sector development. On the other hand, the finding disagreed with the submission of Bachmann and Baumann (2016) who could not find any significant impact of FR on economic growth.

With respect to other developmental assistance (ODA), it represents government assistance intended to aid developing nations' economic development and welfare. In grants form or technical assistance. In this study, other development assistance (ODA) has significant negative relationship with economic growth, and the variable was significant at the 5 percent level. This means that in the determination of economic growth in the long run in Nigeria, other development assistance (ODA) are crucial factors that cannot be ignored by policy makers and the government. Indeed, the result indicates that as the total amount of ODA rises, the overall level of economic growth reduces by 0.960289 percent approximately. This finding therefore corroborate the findings of Addison, Asiedu and Anyanwu (2015), Moolio and Kong (2016), Arndt, Jones and Tarp (2020), who found that foreign development assistance reduces GDP. On the other hands, the finding is strongly opposed to those of Mallik (2008), Khan and Ahmed (2017), Rajan and Subramanian (2018) who find significant positive relationship between ODA and economic growth. However, the finding from this study has proven that ODA is very crucial and central to the economic growth. The fact that other development assistance (ODA) has significant negative relationship with economic growth means that the Nigeria government must develop a strategic approach to harness the gains accruable from ODA inflows. In particular, it must put in more commitment to meeting the policy target of 0.7 percent of GNP in ODA (Moolio & Kong, 2016). This is true because, the moral case for additional development assistance is founded on a number of issues like solidarity of humanitarian needs, reduction of acute poverty and inequality in developing economies (Riddell, 2007). ODA also has the capacity to increase human liberty and contribute to peaceful and creation of a more secured world (Sen, 1999).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

In view of the empirical analysis carried out in chapter four, the following specific findings are made:

a) Foreign direct investment (FDI) has significant positive relationship with economic growth in Nigeria; the variable passes the 1 percent significance level. This suggests that in the long run, the aggregate amount of foreign direct investments (FDI) plays very potent role in the determination of financial sector development.

b) Foreign portfolio investment (FPI), though positively signed but failed the 5 percent significance level. The impact was weak and it further suggests that this variable (FPI) does not play any significant role in the determination of economic growth in Nigeria.

c) Other development assistance (ODA) has significant negative relationship with economic growth, and the variable was significant at the 5 percent level. This means that in the determination economic growth in the long run in Nigeria, other development assistance (ODA) are crucial factors that cannot be ignored by policy makers and the government.

d) Foreign remittance (FR) has significant negative relationship with economic growth. The variable was significant at the 1 percent level. This means that in the long run, FR plays significant role in economic growth in Nigeria.

e) Interest rate (INTR) has a weak positive relationship with economic growth in Nigeria.

f) Inflation rate (INFR) has a weak negative impact on economic growth in Nigeria.

5.2 Conclusion

This study has empirically examined the relationship between foreign capital outflows and economic growth in Nigeria for the period 1986 to 2021. The rationale for the study was based on the realization that foreign capital outflows play significant role in economic growth. To this end, foreign capital outflows variables such as foreign direct investments (FDI), foreign portfolio investments (FPI), foreign remittances (FR), official development assistance (ODA), interest rate (INTR) and inflation rate (INFR) were used as explanatory variable while economic growth was proxied with gross domestic product. The Autoregressive Distributed Lags (ARDL) was employed for the analysis of data, and the results generally indicate that, foreign direct investment (FDI) and other development assistance (ODA) have significant positive relationship with economic growth in Nigeria. While foreign portfolio investments (FPI) and interest rate (INTR) has a weak positive relationship with economic growth in Nigeria. That of inflation rate (INFR) is negative and does not have any significant impact on economic growth in Nigeria. The study therefore concludes that foreign capital outflows are relevant factor in the determination of the economic growth in Nigeria.

5.3 Recommendations

The main policy recommendations that may be deduced from the above results are imperative.

Firstly, since the finding of this study has shown that economic growth is significantly affected by foreign direct investment (FDI), it therefore follows that there is the need to improve the investment climate in Nigeria because, one of the major factors that promotes foreign capital inflow is the sane and peaceful investment climate. This can be done by formulating deliberate investment policy to strengthening the productivity of the monetary system especially the financial market which main goal is to move funds from the surplus unit of the economy to its deficit unit. This will definitely go a long way to discourage huge capital flight in the country.

Secondly, the current process of trade in the financial sector need to be expanded and deepened in order to continue to attract more foreign portfolio investors. This will enable the market to efficiently allocate and facilitate financial resources for domestic investment purposes, this will in turn boost investors' confidence on the ability of the financial sector; because, a well-functioning financial sector would attract foreign investment inflows.

Thirdly, the significant inverse impact of foreign remittances (FR) on economic growth is a clear indication of its detrimental effect, which is capable of increasing domestic financial constraints, weaken domestic investment and bring about a reduction in aggregate tax income. Therefore, policies that will encourage capital inflow in the form of remittances inflow, such as capping the repatriation of a proportion of domestic earnings to reduce financial constraints, strengthen investment domestically as well as increase tax revenue should be vigorously pursued by policy makers and the government. This way, FRO will have the much needed positive impact on financial sector development in the country.

Lastly, since we have observed a negative and significant relationship between other developmental assistance (ODA) and economic growth in Nigeria, all government assistance in the form of ODA inflows intended to aid developing nations' economic development and welfare by way of grants or technical assistance, should be vigorously pursued and sustained in this direction because of its critical role in eradicating poverty and building foundation for long-term economic growth.

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