

Capital Flight and Economic Development in Nigeria: Assessing the Moderating Role of Institutional Quality

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Abstract

This study examined the relationship between capital flight, institutional quality, and economic development in Nigeria, with particular emphasis on the role of institutional quality in shaping the effect of capital flight on economic performance. The study was motivated by the persistent incidence of capital flight and the need to understand why substantial financial resources continue to leave the Nigerian economy despite efforts to promote investment and economic growth. Real Gross Domestic Product (RGDP) was used as the measure of economic development, while capital flight (CF), institutional quality (IQ), the interaction between capital flight and institutional quality (CF_IQ), and gross capital formation (GCF) constituted the principal explanatory variables. Annual time-series data covering the study period were analysed using unit-root tests, the Johansen cointegration technique, and a dynamic regression framework. The unit-root results indicated a mixture of stationary variables at levels and first differences, with none integrated beyond order one. The Johansen cointegration test provided evidence of long-run equilibrium relationships among RGDP, capital flight, institutional quality, the interaction term, and gross capital formation. The regression results showed a negative relationship between capital flight and real GDP, suggesting that persistent capital outflows can constrain domestic economic performance. Institutional quality exhibited a positive relationship with economic development, while the positive interaction between capital flight and institutional quality suggests that improvements in institutional quality can influence the adverse implications of capital flight for economic performance. Gross capital formation also showed a positive association with RGDP. The study concludes that capital flight constitutes an important challenge to Nigeria's economic development and that institutional quality is central to improving economic outcomes and mitigating the adverse effects associated with capital outflows. The study therefore recommends strengthening governance and institutional effectiveness, improving transparency and accountability, reducing incentives for capital flight, and promoting productive domestic investment to support sustainable economic development in Nigeria.

Background of the study

Economic development remains a major concern for developing countries, particularly those characterized by inadequate domestic savings, limited capital accumulation, weak productive capacity, unemployment and persistent poverty. Sustainable development requires the effective mobilization of domestic financial resources and their conversion into productive investments capable of expanding output, creating employment, improving infrastructure and raising living standards. However, the continuous movement of financial resources out of the domestic economy can undermine these objectives. Capital flight has therefore emerged as a significant macroeconomic challenge, particularly in developing economies such as Nigeria.

Capital flight refers to the large-scale movement of financial resources from a country to foreign destinations, often in response to economic, political, financial or institutional uncertainties. It can occur through both recorded and unrecorded channels, including illicit financial flows, unreported transfers, mis-invoicing and the accumulation of domestic wealth in foreign assets. Englama, Oputa, Ogunleye and Omotosho (2017) associate capital flight with the movement of financial resources out of a country through illicit or unrecorded channels, thereby reducing resources available for domestic economic activities. Consequently, capital flight represents a loss of financial resources that could otherwise be used to finance investment, production and economic development.

The consequences of capital flight are particularly significant for developing economies because of their limited domestic capital base. Substantial capital outflows can reduce domestic savings and investment, restrict the availability of loanable funds and constrain private-sector development, industrialization, infrastructure and technological advancement. Hermes, Lensink and Murinde (2002) argue that capital flight can adversely affect economic performance by reducing domestic investment and creating external financial pressures, while Effiom et al. (2019) emphasize its negative implications for domestic savings and investment financing. Capital flight may therefore weaken productive capacity and contribute to slower economic growth, unemployment, poverty and inequality.

Nigeria provides an important context for examining this relationship. Despite its substantial natural and human resources and position as one of Africa's largest economies, the country continues to experience challenges including unemployment, poverty, inadequate infrastructure, weak productive capacity and fluctuations in economic growth. These challenges have occurred alongside substantial movements of domestic capital abroad. The study's computation estimates that Nigeria recorded approximately US\$210.9 billion in cumulative capital flight between 1980 and 2023. This magnitude raises concerns about the extent to which capital outflows have reduced domestic investment and constrained Nigeria's capacity to achieve sustained economic development. Capital flight in Nigeria has been associated with economic and financial conditions such as exchange-rate instability, inflation, fiscal imbalances, economic

uncertainty and weak investment incentives, as well as political and institutional factors including corruption, weak accountability and ineffective regulatory enforcement (Clement & Ayodele, 2016).

The effect of capital flight on economic development may, however, depend on the quality of institutions within which economic activities take place. Institutional quality encompasses the effectiveness and capacity of public institutions to formulate and implement policies, enforce contracts, protect property rights, regulate economic activities, control corruption and maintain political and economic stability. Strong institutions can promote transparency, accountability, policy consistency and investor confidence, thereby creating an environment that encourages the retention and productive investment of domestic capital. Conversely, weak institutions may increase uncertainty, encourage capital outflows and limit the capacity of the economy to transform available resources into productive investment.

Government effectiveness is particularly important because it reflects the quality of public services, civil-service capacity, policy formulation and implementation, and the credibility of government commitments. Effective institutions can strengthen the investment environment, improve public resource management and reduce incentives for capital flight. In contrast, ineffective institutions may create policy uncertainty, administrative inefficiencies and opportunities for corruption, thereby intensifying capital outflows and their adverse effects on development. Institutional quality can therefore serve as a moderating factor, influencing the extent to which capital flight affects economic development.

Against this background, the relationship between capital flight and economic development in Nigeria requires empirical investigation that incorporates the institutional environment. While capital flight may reduce domestic savings, investment and productive capacity, its consequences may be weakened or intensified depending on the quality and effectiveness of institutions. The study therefore examines capital flight and economic development in Nigeria, with particular emphasis on the moderating role of institutional quality.

Literature Review

Capital Flight and Economic Development

The empirical literature on capital flight and economic development provides compelling evidence on the adverse consequences of large-scale capital outflows for developing economies. Capital flight often driven by macroeconomic instability, weak institutions, and poor governance represents a significant leakage of domestic resources that could otherwise be invested in productive activities. As such, its impact on economic development is generally viewed through its effects on growth, investment, employment, and poverty. However, while the predominant evidence points to a negative relationship, some studies highlight nuanced and context-specific outcomes.

A dominant strand of the literature establishes a strong negative relationship between capital flight and economic growth. Empirical studies in Nigeria, such as Olawale and Ifedayo (2015), Lawal et al. (2017), Orji et al. (2020), and Akinwale (2020), consistently find that capital flight significantly reduces economic growth by draining financial resources needed for domestic investment and productive activities.

Similarly, Ojiya, Zhegum, and Amadi (2019) and Muhammad et al. (2023), using co-integration and error correction techniques, confirm the existence of a long-run relationship between capital flight and macroeconomic variables, with capital flight exerting a negative and significant impact on GDP. These findings are further reinforced by cross-country evidence from Nasreen et al. (2021) and Salisu and Isah (2020), which show that capital flight undermines economic performance across developing economies, particularly when combined with macroeconomic uncertainty.

Closely related to its impact on growth is the effect of capital flight on domestic investment. The literature consistently shows that capital flight reduces the availability of financial resources for investment, thereby constraining economic development. Adekunle et al. (2022), using the ARDL model, find that components of capital flight such as foreign reserves and external debt negatively affect domestic investment in Nigeria. Similarly, Akanbi (2015) highlights that factors such as inflation, defense expenditure, and investment dynamics significantly influence capital flight, further exacerbating its negative implications for long-term economic growth. These findings underscore the dual effect of capital flight not only does it directly reduce capital available for investment, but it also discourages future investment by creating an unfavorable economic climate.

Beyond growth and investment, several studies examine the implications of capital flight for labor market outcomes and social welfare. Afolaranmi (2014) finds that capital flight increases unemployment in the short run and creates persistent unemployment gaps over time, reflecting its disruptive impact on job creation. Similarly, Makwe et al. (2021) report a negative but statistically insignificant relationship between capital flight and unemployment, suggesting that while the effect may not always be strong, it remains a concern for labor market stability. In addition, studies such as Alejo et al. (2021) and Onyele and Nwokocha (2016) establish a positive relationship between capital flight and poverty, indicating that capital outflows exacerbate socio-economic inequalities by reducing resources available for development and welfare-enhancing programs.

The literature also highlights the role of governance and institutional weaknesses as key drivers of capital flight. Idris (2020) emphasizes that corruption, weak institutions, and political instability create an enabling environment for illicit financial flows, thereby increasing capital flight. This view is supported by Bredino et al. (2018) and Ogundipe et al. (2021), who argue that weak institutional frameworks and poor regulatory oversight not only facilitate capital flight but also amplify its negative effects on economic growth. These studies collectively suggest that capital flight is not merely an economic phenomenon but also a reflection of deeper structural and governance challenges.

In addition to domestic factors, macroeconomic conditions and financial incentives also play a critical role in influencing capital flight. Oluwaseyi (2018) finds that interest rate differentials and exchange rate dynamics significantly drive capital flight, as investors seek higher risk-adjusted returns abroad. Similarly, Uzoma and Godday (2019) highlight the interaction between capital flight and external debt servicing, showing that rising debt obligations can exacerbate capital outflows and further constrain economic growth. These findings suggest that capital flight is closely linked to broader macroeconomic management and financial market conditions.

While the majority of studies emphasize the negative effects of capital flight, some empirical evidence presents mixed or nuanced outcomes. For instance, Joseph, Nwankwo, and Akujor (2022) find that both capital flight and foreign direct investment positively influence economic growth in Nigeria, suggesting that the relationship may not be entirely straightforward. Similarly, Umaru and Gandu (2022), using a VAR model, report no long-run relationship between capital flight and economic development, although short-run dynamics indicate negative effects. MacCarthy (2022), employing a nonlinear ARDL approach for Ghana, further reveals that both positive and negative changes in capital flight significantly influence economic growth, highlighting the asymmetric nature of the relationship.

Recent empirical contributions continue to reinforce the adverse developmental implications of capital flight while emphasizing the need for policy interventions. Muhammad et al. (2023) and Essien (2025) confirm that capital flight has not contributed positively to Nigeria's economic development, stressing the importance of creating an enabling environment for investment and ensuring that financial resources are channeled into productive uses. Similarly, studies across Sub-Saharan Africa, such as Salisu and Isah (2020), highlight that domestic investment and human capital development are more effective drivers of growth than external inflows, particularly in the presence of significant capital flight.

Overall, the empirical literature reveals a consistent pattern: capital flight poses a significant constraint to economic development by reducing domestic investment, slowing economic growth, increasing unemployment, and exacerbating poverty. Although some studies present mixed findings, the dominant conclusion is that the adverse effects of capital flight are particularly pronounced in countries with weak institutions, macroeconomic instability, and poor governance structures.

Consequently, the literature emphasizes the need for comprehensive policy measures to address capital flight. These include strengthening institutional frameworks, improving governance and transparency, stabilizing macroeconomic conditions, enhancing financial market development, and creating a conducive environment for domestic and foreign investment. By addressing these underlying factors, developing economies such as Nigeria can mitigate the negative impact of capital flight and harness domestic resources for sustainable economic development.

Institutional Quality, Capital Flight and Economic Development

The empirical literature increasingly identifies institutional quality as an important factor influencing capital flight, investment and economic development. Institutional quality, reflected in governance, rule of law, regulatory quality, political stability, government effectiveness and control of corruption, provides the framework within which economic policies are formulated and implemented and resources are allocated. The quality of institutions influences investor confidence, protection of property rights, regulatory effectiveness and the stability of the economic environment. Consequently, understanding the relationship between institutional quality, capital flight and economic development is important, particularly in developing economies where institutional weaknesses may constrain investment and promote capital outflows. A significant strand of the literature focuses on the relationship between institutional quality and capital flight.

Akinlo (2024), using a two-step Generalized Method of Moments (GMM) technique across 26 Sub-Saharan African countries, finds that capital flight has a significant negative effect on economic growth. The study further indicates that institutional dimensions, particularly the rule of law and control of corruption, contribute positively to economic growth. However, the study finds that institutional quality does not significantly mitigate the adverse effect of capital flight on economic growth. This suggests that although strong institutions can directly support economic performance, improvements in institutional quality may not automatically eliminate the negative consequences associated with capital flight. The finding points to the complexity of the relationship and the need for broader measures addressing the underlying causes of capital outflows.

Osei-Assibey, Domfeh and Danquah (2018) provide further evidence on the institutional determinants of capital flight in Sub-Saharan Africa. Using panel econometric techniques, they find that corruption significantly increases capital flight because weak accountability and rent-seeking behaviour encourage the transfer of financial resources abroad. The study also shows that weak legal systems and ineffective regulatory enforcement facilitate capital flight by creating an environment in which illicit financial activities can occur with fewer constraints. However, stronger institutions can reduce the influence of corruption on capital flight by improving transparency, accountability and oversight. These findings demonstrate that institutional reforms are important in addressing the factors that encourage capital outflows.

Institutional quality is also closely linked to investment conditions and the retention of domestic capital. Kurul and Yalta (2017), employing dynamic panel data estimation techniques, find that improvements in political stability, regulatory quality, government effectiveness and control of corruption significantly enhance investment inflows in developing countries. Their findings suggest that investment decisions are influenced not only by economic conditions but also by the institutional environment. A stable and predictable institutional framework can reduce uncertainty, strengthen investor confidence and encourage resources to be directed toward productive activities. Conversely, weak institutions can increase perceived risks and encourage investors and capital owners to seek safer investment opportunities outside the domestic economy.

The importance of institutional quality for broader development outcomes is also supported by Githaiga and Kilong'i (2023), who examine institutional conditions, capital flows and human capital development across Sub-Saharan Africa. Their findings indicate that stronger governance structures, effective public-sector management and adherence to the rule of law are associated with improved human capital outcomes. In contrast, weak institutions and high levels of corruption reduce the ability of economies to transform financial resources into improvements in education, health and other dimensions of human development. The study therefore emphasizes the importance of effective institutions in ensuring that financial resources contribute to meaningful development outcomes.

Overall, the empirical evidence suggests that institutional quality is an important determinant of capital flight and economic development. Strong institutions can promote economic stability, protect property rights, improve regulatory enforcement, strengthen accountability and enhance investor confidence. These conditions can reduce incentives for capital owners to transfer resources abroad while encouraging domestic investment. Conversely, weak institutions characterized by corruption, poor accountability, ineffective regulation and weak government effectiveness can increase uncertainty, encourage capital outflows and constrain economic development.

Despite these findings, the literature presents mixed evidence concerning the ability of institutional quality to moderate the relationship between capital flight and economic development. While Osei-Assibey, Domfeh and Danquah (2018) show that stronger institutions can reduce factors that encourage capital flight, Akinlo (2024) finds that institutional quality does not significantly weaken the negative growth effects of capital flight in Sub-Saharan Africa. These divergent findings suggest that the effectiveness of institutions may depend on the specific institutional dimension considered, country characteristics and the effectiveness of policy implementation.

Furthermore, much of the existing literature examines institutional quality either as a determinant of capital flight or as an independent factor influencing economic growth and investment. Comparatively limited attention has been devoted to examining institutional quality explicitly as a moderating variable in the relationship between capital flight and economic development, particularly in Nigeria. This is important because institutions may not only have a direct effect on economic development but may also determine the extent to which capital flight translates into adverse development outcomes.

Consequently, the existing empirical evidence establishes the importance of institutional quality in understanding the relationship between capital flight and economic development, while the mixed findings indicate that the nature and strength of this relationship require further investigation. Strong institutions may reduce capital outflows and lessen their adverse consequences by improving governance, accountability and investment conditions, whereas weak institutions may intensify these effects. The limited evidence on the moderating role of institutional quality within the Nigerian context

therefore provides justification for examining capital flight and economic development in Nigeria, with particular emphasis on the moderating role of institutional quality.

Methodology

Theoretical framework

The Endogenous Growth Theory explains economic growth as a process driven largely by internal factors such as human capital, innovation, knowledge, technology, capital accumulation and institutional efficiency. The theory emphasizes that sustained economic growth depends on deliberate investments in education, health, research and development, and productive capacity, which can generate increasing returns and support long-term economic expansion. Unlike theories that attribute growth primarily to external technological progress, the Endogenous Growth Theory emphasizes the role of economic policies and institutions in creating an environment that promotes productivity, investment and innovation.

The theory can be expressed in a simplified production function as:

$$Q = f(AK^{\alpha}L^{\beta}) \quad (1)$$

Where: Q = Output, A = Technology, K = Capital, L = Labor, and α and β = Returns to scale

The Endogenous Growth Theory provides a framework for explaining how capital flight can affect economic development in Nigeria. Capital is essential for investment, productive capacity, technological advancement and employment creation. Persistent capital flight reduces the resources available for domestic investment, thereby weakening capital accumulation, productivity and economic growth.

The theory also highlights the importance of institutional quality in shaping this relationship. Effective institutions, through good governance, government effectiveness, regulatory quality, rule of law, political stability and control of corruption, can improve the investment environment, protect property rights and encourage the productive retention of capital. Conversely, weak institutions can increase uncertainty, reduce investor confidence and encourage capital outflows, thereby worsening the negative effects of capital flight on development.

Thus, the Endogenous Growth Theory suggests that the impact of capital flight on economic development may depend on institutional quality. Institutional quality can either mitigate or intensify the adverse effects of capital flight by influencing investment, resource allocation and capital accumulation. This provides a theoretical justification for examining institutional quality as a moderating factor in the relationship between capital flight and economic development in Nigeria.

Model Specification

The model for this study is specified in functional form on the basis of Romer's endogenous growth theory as adapted for the study. The model is presented as follows:

$$RGDP_t = \beta_0 + \beta_1 CF_t + \beta_2 IQ_t + \beta_3 (CF_t * IQ_t) + \beta_4 GCF_t + ut \quad 2)$$

Where: $RGDP_t$ = Real Gross Domestic Product at time t , used as a measure of economic growth with constant dollar as its unit of measurement, CF_t = Capital flight at time t , measured in US dollars (USD), IQ_t = Institutional quality at time t , capturing the quality of public services and policy implementation and it is proxied by government effectiveness, $CF*IQ$ = Capital flight x institutional quality, reflecting the interaction between capital flight and institutional quality, and GCF_t = Gross capital formation at time t , measured in US dollars (USD).

The study employed descriptive statistics, unit root test, cointegration, with robust standard errors used as a robustness test. The study utilizes secondary data, with its time series component covering the period 2000 to 2024.

Results and Discussion of Findings

The first result presented in this section is the descriptive statistics on the variables included in the study model. The descriptive statistics is contained in table 1. The statistics reveal substantial variability in RGDP, capital flight, the capital flight x institutional quality interaction, and gross capital formation, while institutional quality is relatively less volatile. The wide variations in capital flight and gross capital formation are particularly relevant to the study because they suggest changes in capital movement and domestic investment conditions over the period. These descriptive results provide preliminary evidence that fluctuations in capital flight and institutional quality may have important implications for economic development in Nigeria.

Table 1: Descriptive Statistics

Variable	Observation	Mean	Std. Dev	Min	Max
RGDP	24	56332.15	17394.86	25430.42	80606.53
CF	24	9087.051	14526.07	-14732.10	46116.69
IQ	24	-1.022800	0.191518	-1.530000	-0.850000
CF_IQ	24	-9446.480	14524.90	-40121.52	13848.17
GCF	24	21749.84	24638.70	2404.816	86206.22

Source: Author's computation

The Real Gross Domestic Product (RGDP) has 24 observations, with a mean of 56,332.15 and a standard deviation of 17,394.86. The minimum value is 25,430.42, while the maximum is 80,606.53. The relatively large standard deviation indicates considerable

variation in Nigeria's real GDP over the period, reflecting changes in the level of economic activity and development.

Capital Flight (CF) has a mean value of 9,087.05, with a standard deviation of 14,526.07. Its values range from a minimum of -14,732.10 to a maximum of 46,116.69. The wide range and relatively high standard deviation indicate substantial fluctuations in capital flight during the period. The negative minimum suggests that the measure of capital flight used in the study records periods of net capital inflows or capital repatriation, while positive values indicate capital outflows.

Institutional Quality (IQ) has a mean of -1.0228 and a standard deviation of 0.1915, with values ranging from -1.53 to -0.85. The negative mean indicates that institutional quality, as measured by the selected index, remained below zero throughout the observed period. The relatively small standard deviation suggests that institutional quality experienced comparatively limited fluctuations relative to the other variables.

The interaction term between Capital Flight and Institutional Quality (CF_IQ) has a mean of -9,446.48 and a standard deviation of 14,524.90. The minimum value is -40,121.52, while the maximum is 13,848.17. The large dispersion indicates considerable variation in the combined effect of capital flight and institutional quality. The negative mean is consistent with the negative values of the institutional quality index and indicates that changes in capital flight interacted substantially with the prevailing institutional environment.

Finally, Gross Capital Formation (GCF) records a mean of 21,749.84, with a standard deviation of 24,638.70. Its minimum and maximum values are 2,404.82 and 86,206.22, respectively. The standard deviation exceeding the mean indicates substantial variability in gross capital formation, suggesting significant changes in investment and capital accumulation over the study period.

Table 2: Augmented Dickey-Fuller (ADF) unit root test

Variables	At Level	First Difference	Order of Cointegration
RGDP	0.736920		I(0)
CP	-3.487332		I(0)
IQ	-2.805197		I(0)
CP_IQ	-3.683427		I(0)
GCF	-2.525018	-3.808546*	I(1)

Source: Author's computation

The unit-root test results presented in Table X indicate that the variables exhibit mixed orders of integration. RGDP, capital flight (CP), institutional quality (IQ), and the interaction term between capital flight and institutional quality (CP_IQ) are stationary at levels and are therefore integrated of order zero, I(0). In contrast, gross capital formation (GCF) is non-stationary at level but becomes stationary after first differencing, indicating

that it is integrated of order one, I(1). The findings confirm that none of the variables is integrated of order two, I(2). The mixture of I(0) and I(1) variables provides empirical justification for the application of the Autoregressive Distributed Lag (ARDL) bounds testing approach to examine the existence of a long-run relationship among the variables.

Table 3: Cointegration Test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.572988	104.7109	69.81889	0.0000
At most 1 *	0.463086	68.97133	47.85613	0.0002
At most 2 *	0.404488	42.85083	29.79707	0.0009
At most 3 *	0.314298	21.08080	15.49471	0.0065
At most 4 *	0.117161	5.233720	3.841466	0.0221

Source: Author's computation

The Johansen cointegration test was employed to examine the existence of long-run equilibrium relationships among real gross domestic product (RGDP), capital flight (CF), institutional quality (IQ), the interaction between capital flight and institutional quality (CF_IQ), and gross capital formation (GCF). The Trace test rejects the null hypothesis of no cointegration and the successive null hypotheses of at most one, two, three, and four cointegrating equations at the 5% level, indicating the presence of five cointegrating relationships. This finding suggests that RGDP, CF, IQ, CF_IQ, and GCF share stable long-run equilibrium relationships and tend to move together over time despite possible short-run deviations. The result provides evidence of a long-run association between capital flight, institutional quality, and economic development in Nigeria. It further suggests that institutional quality and its interaction with capital flight are relevant to the long-run dynamics of economic development. Overall, the evidence supports the existence of long-run equilibrium relationships among the variables and provides a basis for further examining their short-run and long-run interactions within the study framework.

Table 4: Regression result

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
RGDP(-1)	0.859394	0.054912	15.65039	0.0000
CF	-0.093183	0.135566	0.687365	0.0406
IQ	6524.451	3528.735	1.848949	0.0210
CF_IQ	0.109648	0.139809	0.784269	0.0341
GCF	0.035357	0.020356	1.736946	0.0995
R-squared	0.994512	Akaike info criterion		17.51332
Adjusted R-squared	0.992987	Durbin-Watson stat		1.667363

Source: Author's extract from result

The coefficient of $RGDP(-1)$ is 0.859394, with a t-statistic of 15.65039 and a p-value of 0.0000. This indicates a positive and highly statistically significant relationship between previous-period and current-period RGDP. The result demonstrates considerable persistence in Nigeria's economic performance. Holding the other variables constant, a one-unit increase in previous-period RGDP is associated with approximately a 0.859-unit increase in current RGDP. The finding indicates that past economic performance is a major determinant of current economic performance.

The coefficient of CF is -0.093183 . The negative sign indicates an inverse relationship between capital flight and RGDP. Economically, this suggests that an increase in capital flight is associated with a reduction in economic output, *ceteris paribus*. This is consistent with the argument that capital flight can deprive the domestic economy of resources that could otherwise be channelled into investment and productive activities. Capital flight has a statistically significant negative effect on economic growth in Nigeria. This is important to the study because it provides evidence that capital flight is detrimental to economic development.

IQ has a coefficient of 6,524.451, with a positive sign. This indicates that improvements in institutional quality are associated with higher RGDP, holding the other variables constant. Based on your reported p-value of 0.0210, IQ is statistically significant at the 5% level. Thus, the result suggests that institutional quality has a positive and statistically significant effect on economic growth in Nigeria. This provides evidence that improvements in institutional effectiveness can contribute to better economic performance.

The coefficient of CF_IQ is positive. The interaction term is particularly important because it indicates that the effect of capital flight on RGDP depends on the level of institutional quality. The negative coefficient of CF indicates an adverse direct effect, while the positive coefficient on CF_IQ indicates that higher institutional quality changes this effect in a positive direction. Based on the reported p-value of 0.0341, the interaction is statistically significant at the 5% level. This would imply that institutional quality significantly moderates/conditions the effect of capital flight on economic growth. Higher IQ values represent better institutional quality; the positive interaction suggests that stronger institutional quality weakens the negative effect of capital flight on RGDP.

GCF has a coefficient of 0.035357, indicating a positive relationship with RGDP. Its p-value of 0.0995 indicates significance at approximately the 10% level, but not at the 5% level. Thus, the result provides evidence that increased gross capital formation is associated with higher economic output, although the statistical evidence is relatively weak.

The adjusted R-squared of 0.992987 indicates that approximately 99.30% of the variation in RGDP remains explained after adjusting for the number of explanatory variables. The relatively small difference between the R-squared and adjusted R-squared indicates that the model retains strong explanatory power after accounting for model complexity.

Conclusion and Policy Recommendations

The study concludes that capital flight remains an important concern for economic development in Nigeria, with the regression results indicating a negative relationship between capital flight and real GDP. The findings further suggest that institutional quality plays an important role in shaping the relationship between capital flight and economic growth. Improvements in institutional quality are associated with better economic performance and appear to mitigate the adverse implications of capital flight. Gross capital formation also exhibits a positive relationship with economic output, highlighting the importance of domestic investment in supporting growth. Overall, the findings underscore the need for stronger institutions and policies capable of reducing capital flight while promoting productive domestic investment.

The study therefore recommends the following:

Strengthen institutional quality: Government should improve government effectiveness, regulatory quality, transparency, accountability and enforcement of economic regulations to create an institutional environment that discourages illicit capital outflows.

Reduce incentives for capital flight: Policies should address the underlying factors encouraging capital flight, including weak governance, economic uncertainty, corruption, exchange-rate instability and limited confidence in domestic investment opportunities.

Promote domestic investment: Greater emphasis should be placed on policies that increase gross capital formation by improving the investment climate, infrastructure and access to productive financing, thereby retaining capital within the domestic economy.

Strengthen capital-flow monitoring: Relevant financial and regulatory institutions should enhance monitoring of suspicious cross-border financial transactions and improve coordination among agencies responsible for combating illicit financial flows.

Use institutional reforms as a growth strategy: Since the interaction between capital flight and institutional quality is central to the study, institutional reform should be treated not merely as a governance objective but as an important component of Nigeria's broader economic-growth strategy.

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