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An Economic Analysis of Capital Flight from Nigeria

S. Ibi Ajayi

Eliminating distortions in Nigeria's economy could minimize externally held foreign claims and capital flight.

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This paper — a product of the Office of the Director, Western Africa Department — is part of a larger effort in the department to examine the issues of debt, macrostability, and resource flows in the region. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Ofelia Miranda, room J6-255, extension 34877 (October 1992, 78 pages).

Unlike Latin America, there have been no detailed estimates of capital flight or its determinants in Africa. Ajayi addresses this problem and, using several concepts, provides "bands" or a "range" for capital flight in Nigeria. A significant proportion of capital flight can be estimated from recorded data in the balance of payments and debt statistics — but these estimates are only as good as the data are reliable.

Significant amounts of capital flight, relative to external debt, took place between 1970 and 1989. Trade-faking was an important vehicle: exports were underinvoiced to the tune of about US$8.1 billion and imports were overinvoiced about US$6.0 billion.

Econometric analysis shows the culprit to be domestic macroeconomic policy — in the form of inflation, exchange rate misalignment, fiscal deficit, and the lack of opportunities for profitable domestic investments — combined with the relative attractiveness of foreign investments.

Eliminating distortions in the economy could minimize substantially externally held foreign claims and minimize capital flight. Among things that need to be done:

- Ensure that the nation's currency is not overvalued.

- Establish an integrated, unified tariff structure to reduce the rewards for trade-faking.

- Establish fiscal discipline, to maintain macroeconomic stability and reduce inflation.

- Ensure a positive real rate of interest — high enough to attract funds but not so high as to stifle investment initiatives.

- Adopt a realistic exchange rate determined by market forces.

- Foster attitudinal changes that contribute positively to honest government.

AN ECONOMIC ANALYSIS OF CAPITAL FLIGHT FROM NIGERIA [1/]

S. IBI AJAYI

DEPARTMENT OF ECONOMICS

UNIVERSITY OF IBADAN

IBADAN, NIGERIA

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