
The Effect of Capital Flight on Economic Growth in Rwanda

Wilson Bashaija

Department of Finance and Accounting, University of Rwanda, Kigali, Rwanda

Email address:

wilsonbashaija17@gmail.com

To cite this article:

Wilson Bashaija. The Effect of Capital Flight on Economic Growth in Rwanda. *Journal of Investment and Management*. Vol. 12, No. 3, 2023, pp. 35-44. doi: 10.11648/j.jim.20231203.11

Received: May 31, 2023; **Accepted:** June 27, 2023; **Published:** September 15, 2023

Abstract: Capital is the most important factor of production particularly in a developing economy. Capital flight is probable to have negative influences on equality, with wealthy residents escaping better taxation, or decrease after-tax returns at domestic, at the same time as poorer citizens face better taxation and cuts in social offerings. The study adopted the Investment Diversion Theory and Debt Overhang Theory. The study adopted an ex-post facto research design with a sample length of 32 years from 1990 to 2022 and trusted secondary statistics from Rwanda country wide statistics (RNS), the applicable financial group of Rwanda (NBR) and the Ministry of Finance and economic making plans (MINECOFINE). Findings, indicate correlation between paying off external debt and economic development. Profits Repatriations had a coefficient and a great opportunity rate both of which had been large. This showed that Rwanda experiences economic growth in the same year that profit repatriations decrease annually. The foreign portfolio investment outflow has a coefficient and a non-significant probability. This indicates that the relationship between the outflow of overseas portfolio investment and economic. The study encourages Rwanda to comply with its current external debt policy through international credit standards. Governments should issue guidelines to encourage foreign portfolio investors to invest in offshore markets to optimize national economic growth and foreign portfolio investment outflows. Capital controls should be put in place to prevent capital outflow from the country. Furthermore, critical, and conscious efforts may be made to deal with the contemporary macroeconomic conditions uncertainty to mitigate the effect on capital flight.

Keywords: Capital Flight, Economic Development, Rwanda

1. Introduction

Capital flight, described because the cash or assets lost from one country to some other specifically through tax evasion, fraud, and corruption, changed into highlighted as one of the principal challenges to infrastructural growth in many countries on the continent [1]. Capital flight, in economics, occurs when assets or money rapidly flow out of a country, due to an event of economic consequence or as the result of a political event such as regime change or economic globalization. Capital flight can be identified when the total level of money and assets is negative. For example, the US may have \$2 trillion coming in from investors, but if other investors remove over \$2.5 trillion, then it is experiencing capital flight. This is because more investment is leaving than coming in. Furthermore, capital flight increases government insolvency through both flight of private wealth (tax base erosion) and embezzlement of public resources as a result of

corruption—also known as corruption-induced capital flight. Consequently, private agents worried about future tax burdens and let their capital to flight to abroad for safety. This would reduce the demand for domestic assets, leading to lower private domestic investment. Given the investment-growth nexus, capital flight has contributed to the sluggish boom in affected economies via reduction in government tax sales and its debt servicing capacity since earnings earned abroad cannot be taxed [2]. Maximum of the international locations in the Sub-Saharan area are commodity-structured, particularly on agriculture which bureaucracy the principal contributor to the annual gross domestic product, that is an indicator of the infancy degree of development product, which is an indicator of the infancy level of development. According to the World Bank Residual measure of capital flight, which is defined as a difference between recorded sources of funds and recorded uses of funds, capital flight from developing European countries reached 145 249 million US dollars in 2006, which constituted 44.8% rise to the value

of 2005 [3]. Similarly, a report of World Financial Integrity Fund, indicates that for most of the countries in transition, capital flight exceeds ten Percent of GDP [4].

According to another estimate, for Ukraine, from 2004 to September 2006 the capital flight according to the narrowest Hot Money Method totaled 12.9 billion US Dollars. The issue of capital flight has been a recurrent topic of discussion among researchers especially in Africa. The cause, magnitude, and consequences of this undesirable outflow of domestic capital have been a persistent concern among scholars. Capital flight is a major issue in developing economies; the problem is more severe in Africa, where domestic investment has been affected. Much attention has been given to the effect of legal and foreign capital flows in the international capital movement, disregarding illicit capital outflows (capital flight) from developing countries including Africa. Nigeria among other African countries has been a victim of massive capital outflow to other developed nations. The authors [5] investigated the effect. They also applied different types of debts other than external debt especially long-term debt, short-term debt, total debt service, and multilateral debt. The empirical results illustrated that an increase in the level of external debt had an impact on the economic performance of countries with better financial systems had greater success in absorbing private capital inflows rather than capital outflows. In short, the decrease in the external debt eventually drew investors to invest in a country due to better economic performance.

Policymakers have struggled with personal capital flight from developing nations, especially in light of the advent of the debt crisis and the ensuing sharp fall in capital inflows from developed nations. [6]. Capital flight has been viewed as a constraint on monetary increase because it implies a lack of resources that might be used for home funding. Furthermore, it's miles often argued that a reversal of those capital outflows may want to extensively contribute to the solution of the debt disaster, and thereby to renewed get entry to with the aid of growing international locations to global capital markets.

Global perspective

Around \$1 trillion of capital has been pulled out of Russia due to the fact the fall of the USAS. R. International financial Fund (IMF) had chosen suggestions which endorsed the huge-scale withdrawal of capital from Russia and the rest of the previous Soviet Union [7]. According to the economist, during the past 30 years, a total of \$1 trillion has also flowed from the other 14 post-Soviet countries. A record high of 79659.84 USD million was reached in the second quarter of 2022, and a record low of -47789.81 USD million was recorded in the fourth quarter of 2014. From 1994 to 2022, capital flows in Russia averaged 11157.58 USD million, with the highest amount ever recorded occurring in that quarter. From 1994 through 2022, France's capital flows had an average annual growth rate of -1766.87 million euros, with record highs of 36458 million euros in March 2006 and -31626 million euros in October 2006. In October and November last year £44 billion more flowed out of France

than flowed in, according to data from the Banque de France [8]. The French money supply has also been contracting ever since Francois Hollande was sworn in as president in May.

The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008," released today from Global Financial Integrity (GFI), estimates that tax evasion, crime, and corruption have removed gross illicit assets from India worth US \$462 billion [9]. The report also finds that the faster rates of economic growth since economic reform started in 1991 led to a deterioration of income distribution which led to more illicit flows from the country. Moreover, the report finds that the poor state of governance is reflected in a growing underground economy which in turn has fueled more transfers of illicit capital from India.

Regional perspective

Nigeria lost \$233.9 billion in capital flight transactions between 1970 and 2010. The estimated outflow of capital from Nigeria between 1986 and 1990 is \$9.8 billion, with \$77 billion leaving the country during 1989 and 1990 alone. [10]. Nigeria lost a significant sum extra than \$37 billion through capital flight. The trend inside this period changed into very great among September and November 2009 while numerous billions people greenbacks were bought through banks and bureau de-adjustments [11]. Statistics show that things got worse in 1999 and 2011, with net capital flight flows reaching \$1.1 trillion and \$8.8 trillion, respectively. The reasons of the above increasing trend of capital flight in Nigeria are regularly traced to disincentives created in particular by distortions in home macroeconomic policy. Corruption on a part of public officials, varying threat notion, susceptible establishments, rising taxes, weak financial growth, fiscal deficit, and economic zone constraints.

From 1980 to 2000 on average, capital flight as a percentage of GDP was 6.6 percent a year. During the last 13 years of apartheid, from 1980 to 1993, average capital flight as a percentage of GDP was 5.4 percent a year [12] Post-apartheid, from 1994 to 2000 capital flight rose to an average of 9.2 percent of GDP per year. Capital flight of such magnitude will continue to impede South Africa's development. Capital flight negatively impacts the economy in the form of foregone private investment, tax revenue and potential public investment. The extent of accumulated capital flight from 1980 to 2000 was 37 percent of the value of cumulative gross fixed capital formation for the same period [13].

Ghana's capital flows averaged \$707.76 million from 2005 to 2022, reaching a record high of \$3.2994 billion in Q2 2021 and a record low of \$3.2994 billion in Q2 2022. -Recorded \$1.288 billion. Capital Studies show that Africa has a much lower private capital stock than other regions, with 40% of Africa's private capital stock held abroad in the form of capital flight, and capital flight imposes a severe burden on these economies in terms of forgone and capital flight to GDP ratios [14]. Flight can take the form of an illegal movement of capital from one country to another. Kenya's capital flows averaged -\$1,647.11 million from 2001 to 2022, hitting a record high of \$2,284.2 million in June

2014, and reaching a record high of \$2,284.2 million in May 2022. It recorded the lowest -\$771 million. Financial globalization spurs economic growth by availing additional capital to the economy, leverages the effects of capital flight in the economy and generates foreign exchange rate for a country [15]. However, in Kenya this seems not to happen. Kenya continues to receive foreign capital inflows and lose billions of dollars to capital flights at the same time. The annual economic growth rate averaged 5.43 percent from the year 2004 until 2016, which lags the Vision 2030's main economic pillar that aims at an economic growth of 10% p. a. Research by the African [16].

National perspective

Research by the African Development Bank (AfDB) shows that \$1.4 trillion was lost by Africa in form of capital flight within three decades between 1980 and 2009 [17]. Rwanda lost more than \$9 billion to capital flight between 1970 and 2010. [18] Kenya was the least affected of the East African Community, suffering losses of US\$4.9 billion, while Tanzania suffered the largest loss of US\$14 billion. The other members to the bloc, Burundi and Uganda, lost \$6.9b and \$8.6b, respectively in the same period. In 2012, external debt of Rwanda increased at a rate of 35% of the total GDP which led to a double-digit capital flight percentage of 20.9 percent of the real GDP (US \$1.6 billion). Regarded as one of the world poorest nations, Burundi is struggling to rebuild after a decade's long civil war that ended in 2006. Capital flight increased in the year 1990 to 1992 from 11.3 percent (US \$12.8 million) to 13.0 percent of the total GDP (US \$140.7 million) because of a negative economic growth that was caused by civil war [18].

1.1. Statement of the Problem

Capital flight is an increasing concern for policy makers in developing countries because it entails the loss of resources that can be used to fuel economic growth and development. The scale of the problem is huge. Massa, [19], estimate that, because of capital flight, developing countries lost on average between US\$586 billion to US\$919 billion per annum over the period 2001–2010. In 2010, they lost from a minimum of US\$859 billion up to US\$1,138 billion. The Rwanda's GDP averaged was 7.16 percent from 2000 until 2022, reaching an all-time high of 20.60 percent in the second quarter of 2021 and a record low of -12.50 percent in the second quarter of 2020 during Covid-19 epidemics. He said that despite the country's GDP growth, the growth rate in 2015 remained robust at 6.9%, but one of the challenges faced by the landlocked country was the decline in primary commodity export earnings, consequently a huge loss.". However, Rwanda has the potential to grow its economy by over 10% and achieve Vision 2030 if it can regulate and achieve the optimum level of capital flight that positively affects the economy [20].

The main challenge Rwanda faces today is to regulate capital flight and spur economic growth. The numerous publications and research papers on capital flight in Rwanda have not adequately addressed the effect of capital flight on

Sustainable Development Goals, Vision 2030 as well as the Big Four Agenda. To survive in this turbulent and dynamic global economic environment, Rwanda must deliberately formulate policies that will analyze, monitor, measure and track an optimum level of capital flight allowable in the economy to spur economic growth and at the same time leverage the effect of foreign exchange rate volatilities. The investment diversion theory, which argues that capital flight occurs when investors in underdeveloped countries hedge the losses of overseas investment by investing in developed countries, which are considered to be less risky, is based on macroeconomic uncertainty in developing countries. challenged by the risks associated with it. Its attendant presence confirms better investment opportunities in developed countries. Macroeconomic instability, which can be seen in higher external debt repayments, outbound foreign direct investments, outbound foreign portfolio investment outflows, and profit repatriations, can result from unchecked capital flight. However, their analysis did not examine how fiscal policies affect capital flight and, ultimately, economic growth. In their study of the impact of public debt on economic growth in Rwanda. [21] showed that there is a negative correlation between public debt and economic growth. The quantity and implications of this type of capital flight on economic growth, however, were not discussed in the study along with the repayment of external debt. The impact of capital flight on economic expansion was not discussed, though. This study fills in the knowledge gap that previously existed. The fact that this issue has been brought to light as a significant but until now mostly ignored aspect of current capital flight research is one of the study's main contributions. The management and policy proposals produced in this study will serve as a useful handbook for decision makers working to realize the Vision 2030, the Four Major Agendas, the Sustainable Development Goals and the Africa 2063 Agenda, and will have an impact on the region and the Rwanda have the potential to improve the international situation of Competitiveness.

1.2. General Objective

The general objective of this study was to investigate the effect of capital flight on economic growth in Rwanda.

1.3. Specific Objectives

- i. To determine the effect of external debt repayments on economic growth in Rwanda
- ii. To assess the foreign portfolio investment outflows and economic growth in Rwanda
- iii. To establish the effect of profit repatriations on economic growth in Rwanda.

1.4. Research Hypotheses

H01: There is a negative relationship between external debt repayments and economic growth in Rwanda.

H02: There is a negative relationship between foreign portfolio investment outflows and economic growth in

Rwanda.

H03: There is a negative relationship between profit repatriations and economic growth in Rwanda.

2. Literature Review

2.1. The Investment Diversion Theory

He established the investment diversion theory, arguing that the coexistence of macroeconomic and political uncertainties in developing countries and the growing number of better investment opportunities in developed countries are driving investors away from developing countries. We are assuming that you have decided to invest in a developed country Less risk [22]. Clearly, the repatriation of profits is seen from this perspective of a benchmark portfolio balance sheet in which investors own both domestic and foreign assets [23]. Their aim is to generate higher returns, protect already-earned profits from volatility, diversify their assets, and enjoy confidentiality [26]. Proponents of the diversion theory provide one of the well-known negative consequences of capital flight in the countries concerned [24]. The relationship between income repatriation and economic growth is also driven by the high cost of capital and the limited access of domestic entrepreneurs to financial markets, which increases risk due to personal savings. Different levels of financial market development led to imbalances globally, as savers in underdeveloped financial markets seek safe havens among international financial assets. This provides a haven for investors and promotes safe investment in protected financial markets [25]. The theory is that repatriated profits are usually not available for investment in the receiving country. [26]. This widens the savings gap and constrains overall investment and economic growth. Investment growth policies promote and sustain long-term growth, while capital flight does the opposite [27]. These macroeconomic impacts often require countries to borrow from abroad to restart their economies. This is another drain that often commits external dependencies and liabilities. A crowding-out effect can lead to the devaluation of a domestic currency and attempts to defend it often led to losses in international reserves [28]. According to this theory, when a country's growth rate rises, aggregate savings often rise immediately, while aggregate investment lags behind, followed by capital flight. This reduces the capital of developing countries and their investment funds, ultimately impacting exchange rates and economic growth. This theory therefore studies well the possible impact of repatriation of profits on Rwanda's economic growth [29].

2.2. Debt Overhang Theory

Myers published this theory in 1977. The theory focuses on corporate finance and was first applied to development economics after the Latin American debt crisis of the 1980s. Karagol, E. [30] argued that when a country's external debt exceeds the expected present value of potential future

payments to creditors, the country has the financial and financial resources needed to improve economic growth and repay creditors, argue that they no longer have incentives to implement macroeconomic change. Over indebtedness refers to a situation in which corporate debt is so high that all revenue is generated from new investments that are fully absorbed by holders of existing debt, and projects with positive NPV are above national debt levels does not explain. The Debt Excess Hypothesis assumes that future external debt may exceed a country's ability to repay, and that the expected cost of debt service in may deter both domestic and foreign investment [31]. This theory shows that government debt and debt servicing affect economic growth, shift public spending priorities, and discourage domestic investment. Timuş-Iordachi, V. et al. [32], discussed debt overhang as a country's expected debt service exceeding the originally agreed level.

The concept of overhang debt into the international financial literature in the mid-1980s. He argued that the incumbent government was paying off its foreign debt by increasing future tax burdens, which prevented her from investing in Based on this theory. Jilenga, M. T. et al. [33], developed the Debt Laffer Curve, which relates a country's debt level to repayments. The higher a country's debt level, the more it sacrifices today for future growth. large debts discourage investors. The value of foreign debt servicing increases up to a certain threshold above which 's investment returns decrease, and economic growth slows. Over debt occurs when a country's total stock of external debt exceeds its ability to repay. Expected debt service costs slow economic growth [34]. External debt need not necessarily be negative for the economy, as it can benefit both creditors and debtors, depending on the application of a borrowing country's external debt policy [35]. This theory was relevant to this study because it showed how increasing debt service burdens hamper economic growth. Theory suggests that if the external debt exceeds the country's ability to repay with some probability in the future, the expected debt service is most likely to be viewed as an increasing function of its output. The economy utilized by foreign creditors in is indirectly taxed in the form of debt service [36]. The result is an unstable economy, discouraging foreign investment and reducing the level of private investment in the economy. [37]. The theory shows how tightly developing countries are stuck in a debt trap, with almost all their foreign exchange earnings likely to be spent on servicing external debt. As a result, the country's foreign exchange reserves are depleted, eventually resulting in a devaluation of its foreign currency and lower economic growth [38]. Portfolio Management Theory Harry Markowitz introduced this theory of finance and investment in 1952 to show that investors hedge against financial risks. He advocated analyzing individual security vehicles to determine how they contributed to the portfolio's overall risk. Investors are always looking for low-risk investments in their portfolios. Financial globalization offers a pool of investment options that offer high expected returns at low levels of risk. This encourages investors to review their investment

portfolios. Investors often choose to move their investments abroad to achieve higher returns and minimal risk in foreign assets [39]. Advocates of Proponents of this theory believe that investors have the right to choose where their assets are stored. A risk-reward trade-off influences this choice. Mismatches in perceived risk-adjusted returns in countries of origin and countries of destination accelerate foreign investment [40].

Argue that global capital flight is a response to portfolio choice and risk. Exchange rates and returns always influence portfolio selection [41]. Hypothesize that the existing portfolio composition of foreign net assets is the main driver of capital flows. In relation to portfolio selection, these factors point to a heightened risk of loss of real value of domestic financial assets for retail investors, favoring foreign financial assets [42]. This theory is important to this study because it explains the relationship between risk and reward in foreign investor portfolios. It shows that what matters to investors is not the risk of the security itself, but the contribution of the security to the diversification of the investor's overall portfolio, which directly reflects the economic conditions of the investee country [43]. This allows the impact of the outflow of offshore portfolio investment on the growth of the Rwandan economy to be assessed in relation to the total public and private assets, considering the share of private assets held abroad. can be inserted. It provides insight into the impact of foreign portfolio investment outflows on economic growth and suggests strategies Rwanda may take to regulate this capital flight aimed at promoting economic growth.

3. Methodology

3.1. Introduction

This chapter presents the methodology and research design that was adopted in conducting the research study and collecting the desired data. The chapter defines the target population of the study, the sampling size to be used, sampling procedure to be followed as well as the type of instrument that were used. The data collection procedures and data analysis techniques used in analyzing the results of the study are also discussed. This research study used both descriptive and quantitative data.

3.2. Research Design

A research design is a plan, a research structure designed to obtain answers to research questions and to control variance [44] Research creates a plan or program for what to do, from developing hypotheses to analyzing data. As notes, a blueprint for collecting, measuring, and analyzing data that provides an overview of what needs to be done, from developing hypotheses and their operational implications to the final analysis of the data.

There are different types of research designs available for research. However, in the social sciences, historical study designs, case and field study designs, descriptive studies,

correlation study designs, post hoc study designs, time series study designs, experimental study designs, and quasi-experimental study designs are most used [45]. Each study design has its own merits, since this study design seeks to explore the relationships that were intended to be made, we used a correlation study design. A correlation study design is also appropriate, as he used only one set of six-variable subjects. This study design was therefore used to identify, explain, demonstrate, and analyze capital flight variables influencing economic growth in Rwanda [46]. A primary goal of correlation study designs is to discover associations between different variables. Correlative study design used in similar previous studies used a correlation study design in their study to examine the association between capital flight and economic growth in Rwanda.

3.3. Target Population

Population as the group of factors that a study uses to make its decisions. Three regional and five global accredited and reputable financial data collection organizations and institutions were the subject of the study [47]. The National Bank of Rwanda (NBR), the Ministry of Finance and Economic Planning (MINICOFINE), and Rwanda National Statistics (RNS) are a few of the local organizations from whom data was gathered. The International Financial Statistics (IFS), International Monetary Fund (IMF), World Bank, which compiles data on development indicators from officially recognized international sources, the United Nations, and African Development Indicators were among the international organizations that participated in this study (ADI). These three organizations covered the years 1990 to 2022 in reports on capital flight, exchange rates and economic growth. The purpose of the study is to examine how capital flight affects Rwanda's economic expansion. The selection of this target group made it possible to create a sample population of three institutions with the goal of learning more about the population under consideration, particularly for the purpose of statistical inference.

3.4. Sampling Frame

A sampling frame is a list of target populations from the selected samples [48]. In descriptive research designs, sampling frames were typically composed of limited populations. His three locally respected government agencies, the Rwanda National Statistics (RNS), the Central Bank of Rwanda (NBR) and the Ministry of Finance and Economic Planning (MENECOFINE), have been selected as Rwanda's official data custodians. Targeted sampling techniques in a study of capital flight and economic development in Rwanda. Another study in Rwanda using targeted sampling techniques looks at the impact of capital flight on private investment in Rwanda. This period was chosen because it reflects a reasonable length for interpreting the relationship between capital flight and economic growth in Rwanda. In addition, the study aimed to assess capital flight before and after the massive debt crisis in which the Rwandan government made

great efforts to boost economic growth from the late 2000s to 2022.

Table 1. Sample Sizes.

Institutions	No of Departments	No of Percentages
Rwanda National Statistics (RNS)	5	30
Central Bank of Rwanda (NBR)	6	40
Ministry of Finance and Economic Planning (MENEKOFINE)	7	30
Total	18	100

3.5. Data Collection Procedures

Data were collected online by the Central Bank of Rwanda, Rwanda National Statistics Office (RNS) and Ministry of Finance and Economic Planning (MENEKOFINE). The data collected for this study were in secondary form. This data was used to investigate the impact of capital flight on economic growth in Rwanda.

4. Data Processing and Analysis

This chapter presents results and discusses studies by detailing general aspects of study sample characteristics, descriptive studies, variable aggregation, correlation analysis, and logistic regression for dependent and independent variables. The chapter examines research and discussion of the strengths of the model. Hypothesis testing and overview. Results are displayed in the form of tables.

4.1. The Effect of External Debt Repayments on Economic Growth

As a result, the foreign debt service coefficient is -0.233 and the probability value is 0.760, which is negligible. This means that there is a slight negative correlation between foreign debt service and economic development, but it did not exist. We therefore agreed with the null hypothesis that there is no meaningful relationship between Rwanda's economic growth and external debt service. This means that during the time of the study in Rwanda, the repayment of external debt had no impact on economic development. The results of this study corroborate with the findings of a joint report by the International Monetary Fund and the International Development Association, which found that Rwanda continued to face low risk of external debt distress and that external debt under the baseline and standard stress tests scenarios showed. This meant that although there was a little negative correlation between paying off external debt and economic development, it did not exist. Therefore, we agreed with the null hypothesis that there was no meaningful connection between Rwanda's economic growth and the repayment of external debt. This means that during the time of the study in Rwanda, the repayment of external debt had no impact on economic development. The results of this study support a joint report from the International Monetary Fund and the International Development Association, which found that Rwanda continued to face a low risk of external debt distress and that external debt was within sustainable bounds under baseline and standard stress test scenarios.

Various IMF and World Bank external debt stress tests indicated that the sustainability of the country's public debt was vulnerable to shocks in real GDP.

4.2. The Effect of Foreign Portfolio Investment Outflows on Economic Growth

The results show that the outflow coefficient for foreign portfolio investment is 0.031 and the non-significant probability value is 0.782. This suggests that although there is a positive relationship between the outflow of overseas portfolio investment and economic growth, the effect is small. From now on, the null hypothesis is accepted. There was no significant association between foreign securities investment and capital outflows from Rwanda's economic growth. This means that the outflow of foreign portfolio investment from Rwanda will boost the economy and boost its potential for economic growth. If Rwanda had boosted economic growth and increased the potential for foreign portfolio investment to accelerate its realization vision 2030 economic pillar with 10% annual GDP growth.

4.3. The Effect of Profits Repatriations on Economic Growth

The results show that the profit repatriation coefficient is -0.477 and the significance value is 0.003, both of which are significant at the 1% significance level. This shows that Rwanda experienced economic growth in the same year that repatriation of profits fell by 0.48% annually. As a result, the null hypothesis holds that a causal link between profit repatriation and economic development could not be proven. According to diversion theory, investors in developing countries are less risky due to the simultaneous existence of macroeconomic uncertainties in developing countries and better investment opportunities in developed countries choose to invest the profits generated in Rwanda has not experienced this in recent years. According to investment diversion theory, investors in developing countries are more likely to move to developed countries, which are perceived to be less risky, due to the simultaneous existence of macroeconomic uncertainties in developing countries and better investment opportunities in developed countries choose to invest the profits generated.

Rwanda did not experience this during the study period as repatriation of profits decreased, leading to economic growth. This shows that the profits of multinational corporations are mainly reinvested in the economy. If governments fostered an environment conducive to investment, the frequency of repatriation of profits would decrease and economic growth

would be achieved. Rwanda did not experience this during the study period as the repatriation of profits decreased, leading to economic growth. This shows that most of the profits of multinational corporations are reinvested in the

economy. If governments promote an investment-friendly environment, the frequency of repatriation of profits could be reduced and economic growth could be achieved.

Table 2. Model Summary.

	coefficient	probability value
Foreign Portfolio Investment	0.031	0.782.
External debt repayments	-0.233	0.760.
The Effect of Profits Repatriations on Economic Growth	-0.477	0.003

Recommendation and Conclusions

This study explores the impact of capital flight on economic growth in Rwanda and presents a summary of its findings, conclusions, and recommendations for areas of further research.

5. Conclusion

5.1. Effect of External Debt Repayments on Economic Growth in Rwanda

The study found no significant negative association between the amount of foreign debt service and its impact on economic growth over the same period. This means that Rwanda's external debt service did not slow down economic growth during the study period. In this way, Rwanda is indebted easily and not so high that debt can be reduced without jeopardizing the economy or impeding economic growth in Rwanda. Governments determined to boost economic growth as part of their Big Four agenda need to control the level of external debt in their economies. Paying off debt can turn a small effect into a big one. Finally, the correct maximum allowable level of foreign debt is not discussed.

5.2. Effect of Foreign Portfolio Investments Outflows on Economic Growth in Rwanda

Foreign portfolio investment outflows were found to be positively correlated with Rwanda's economic growth, but the effect was not significant. An increase in foreign portfolio investment would boost economic growth. Therefore, a country supporting foreign portfolio investment must have positive economic growth. The overall investor or country portfolio is a more important consideration in the country's decision-making process than the directly reflected risk. Nevertheless, there is Rwanda's overall investment portfolio diversification. Results on foreign portfolio investment outflows are clear evidence, capital flight boosts a country's economic growth. The empirical results confirmed a feedback impact between Foreign Portfolio Investment and economic growth in terms of real Gross Domestic Product in support of the widely acclaimed postulation that foreign investments fuel local productivity. Emerging markets will experience some degree of capital flight until the economy is fully opened and some countries receive direct inflows from abroad. Outflows by deliberately increasing outflows from

foreign portfolio investments. This will have a large positive effect on economic growth. Foreign Portfolio Investment Outflow Spurs Economic Potential, according to study annual GDP growth of 10%, one of the pillars of Rwanda's economy.

5.3. The Effects of Profit Repatriations on Economic Growth

The results of this study indicate that countries should pursue profit-return policies. Rwanda does not have a sophisticated profit repatriation policy. The Company has the discretion to choose and distribute excess earnings as dividends. Dividend payments are subject to a 10% withholding tax. For now, Rwanda guarantees repatriation of capital and remittance of dividends, allowing foreign investors to freely exchange and repatriate profits. This is because most profits are repatriated through dividends, interest, or royalty payments. The study recommends strict guidelines to limit the percentage of profits multinationals can repatriate and invest relax on the spot. To achieve this, data-driven planning is imminent, as envisioned in Africa's Agenda 2063. To track the number of multinational companies available in the country, their revenue base, funding sources, repatriated income, and audited financial statements. In addition, the government offers common types of repatriation such as royalties, dividends, and cost sharing, which serve as the main route for profit repatriation. Repatriation of capital flights Should be prominently featured on the agenda for mobilizing domestic resources and advancing international resources help accelerate growth and fight poverty in Africa.

6. Recommendations

6.1. The Effect of External Debt Repayments on Economic Growth

The results suggest that Rwanda's current debt policy is equally well structured. The study encourages Rwanda to comply with its current external debt policy through international credit standards. International credit standards set the indicator and threshold for the Debt Sustainability Framework at 50% of the present value of gross domestic product debt growth. This is a strong assessment of the organizational strength and quality of debt policy implementation that will benefit Rwanda in the long term.

But the new strategy requires action to prevent another cycle of foreign lending. This will lead to additional capital flight through increased external borrowing to service debt. This requires major reforms at the national and international level. The Treasury Department and lenders encourage responsible lending and debt. To reduce external debt, the Treasury will strengthen existing public-private partnerships (PPPs) and private sector strategies to enable investors to implement and manage public infrastructure that complements foreign infrastructure financing. To get the maximum benefit from this policy, resources need to be developed within the framework of the Africa 2063 Agenda. It is an attempt to provide a political, legal, regulatory, and institutional framework for private sector and industrial development. This should be properly formulated together with a mobilization strategy (RMS). Developing specific framework conditions (PPP, creating alternative forms of financing for public investment projects) while simultaneously reducing external debt service.

6.2. Effect of Foreign Portfolio Investments Outflows on Economic Growth in Rwanda

The results of this study will inform the government of the need to strengthen its external portfolio investment. Governments should issue guidelines on foreign portfolio offerings. Incentives for investors (up to one) to encourage investment in offshore markets, allowance limits to optimize national economic growth and offshore portfolio investment outflows. To achieve this, politics must be well oriented towards statistics data. Rwanda's economic policy path should continue to attract foreign capital to increase foreign direct investment, which, in turn, will facilitate greater economic growth that ought to translate into social development and welfare. Additionally, governments need to design policies that drive the economy globally connecting financial markets to create lower risk investment opportunities. We guarantee the safety of investors' funds, therefore, governments should strive to enhance Rwanda's investment in foreign markets by implementing an African strategy opening trade partnerships with global markets through agenda 2063 sustainable development goals. This will consolidate the domestic capital market. Working with global capital markets to bring Rwanda closer to reality 10% annual GDP growth under Vision 2030. The capital market should be further deepened through the introduction of derivatives as stock index future, interest, and currency future as well as options on individual stock. Furthermore, the regulators of the capital market must continue to strengthen the transparency of the market through effective oversight, professionalism and improved operational facilities to boost the confidence of both local and foreign investors in the market.

6.3. The Effects of Profit Repatriations on Economic Growth

Profits that multinationals are allowed to repatriate and

invest in their home countries are reconciled domestically. Achieving this will require data-driven planning, as envisioned in Africa's Agenda 2063. A summary of the number of multinational corporations in the country and their revenue base, funding sources, repatriated revenues, and audited financial statements is required. In addition, there are government-established types of repatriation, such as royalties, dividends, and cost sharing. This service is the main route for returning profits. Strengthening transfer policy guidelines and achieving positive economic growth targets will take a long time. The data also helps governments make informed policy decisions to manage and achieve Vision 2030 return on 10% GDP growth. In addition, policy makers should use sophisticated, data-driven can draft and legislate profit repatriation policies. Capital controls should be put in place to prevent capital outflow from the country. Moreover, Serious and conscious efforts can be made to address the current macroeconomic conditions Country uncertainty to mitigate the impact on capital flight. finally, Better governance reduces capital flight, improves quality Need to promote institutions and a stable political environment.

References

- [1] Fjeldstad, Odd-Helge, et al. *Lifting the veil of secrecy: Perspectives on international taxation and capital flight from Africa*. Chr. Michelsen Institute, 2017.
- [2] Otieno, S., Mose, N., & Matundura, E. (2022). External Debt and Capital Flight in East Africa. *Journal of Economics and Sustainable Development*, 13 (6), 23-29.
- [3] Nerea, A. (2017). *The Impact of Illicit Financial Flow on Economic Growth of Ethiopia A Time Series Empirical Analysis, 2000-2015* (Doctoral dissertation, St. Mary's University).
- [4] Integrity, G. F. (2014). *Hiding in Plain Sight*.
- [5] Orji, A., Ogbuabor, J. E., Kama, K., & Anthony-Orji, O. I. (2020). Capital Flight and Economic Growth in Nigeria: A New Evidence from ARDL Approach. *Asian Development Policy Review*, 8 (3), 171-184.
- [6] Bailliu, J. (2000). *Private capital flows, financial development, and economic growth in developing countries (No. 2000-15)*. Bank of Canada.
- [7] Bond, I., Odendahl, C., & Rankin, J. (2015). *Frozen: The politics and economics of sanctions against Russia*. Centre for European Reform.
- [8] Baubeau, P., Monnet, E., Riva, A., & Ungaro, S. (2021). Flight - to - safety and the credit crunch: a new history of the banking crises in France during the Great Depression. *The Economic History Review*, 74 (1), 223-250.
- [9] Integrity, G. F. (2010). *The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008*. 2014-09-17]. <http://www.gfintegrity.org/report/country-case-study-india>.
- [10] Owusu, F. A. (2016). *The impact of capital flight on economic development: Ghana and Nigeria compared* (Doctoral dissertation).

- [11] Fish, T., & Whymark, R. (2015). How has cash usage evolved in recent decades? What might drive demand in the future?. *Bank of England Quarterly Bulletin*, Q3.
- [12] Undji, V. J. (2018). The effect of fiscal policy on capital flight in Namibia (Doctoral dissertation, University of Namibia).
- [13] Ndikumana, L. (2014). Capital flight and tax havens: impact on investment and growth in Africa. *Revue d'economie du developpement*, 22 (HS02), 99-124.
- [14] Leykun Fisseha, F. (2022). Effect of capital flight on domestic investment: Evidence from Africa. *Cogent Economics & Finance*, 10 (1), 2105975.
- [15] Ngunjiri, J. M. (2019). Effects of Capital Flight on Economic Growth in Kenya (Doctoral dissertation).
- [16] Kar, D. (2013). Illicit financial flows and the problem of net resource transfers from Africa: 1980-2009. Available at SSRN 2334910.
- [17] Otieno, J., Kiprop, K., & Muluvi, S. (2021). Determinants of Capital Flight in the East African Community. *Journal of Economics and Sustainable Development*, 12 (10), 1-9.
- [18] Massa, I. (2014). Capital flight and the financial system. *Capital Flight from Africa: Causes, Effects, and Policy Issues*, 200.
- [19] Khan, M. F., Pervez, A., Modibbo, U. M., Chauhan, J., & Ali, I. (2021). Flexible fuzzy goal programming approach in optimal mix of power generation for socio-economic sustainability: A Case Study. *Sustainability*, 13 (15), 8256.
- [20] Bredino, S., Fiderikumo, P., & Adesuji, A. (2018). Impact of capital flight on economic growth in Nigeria: An econometric approach. *Journal of Business and Economic Development*, 3 (1), 22-29.
- [21] Moran, T. H. (1998). Foreign direct investment and development: The new policy agenda for developing countries and economies in transition. Peterson Institute.
- [22] Jordà, Ò., Knoll, K., Kuvshinov, D., Schularick, M., & Taylor, A. M. (2019). The rate of return on everything, 1870–2015. *The Quarterly Journal of Economics*, 134 (3), 1225-1298.
- [23] Vannukul, V. (2003). Thailand's economic crisis of 1997: Its continuation and possible cure. A case study. Capella University.
- [24] Naceur, S. B., Cherif, M., & Kandil, M. (2014). What drives the development of the MENA financial sector?. *Borsa Istanbul Review*, 14 (4), 212-223.
- [25] Kerner, A., & Lawrence, J. (2014). What's the risk? Bilateral investment treaties, political risk and fixed capital accumulation. *British Journal of Political Science*, 44 (1), 107-121.
- [26] Ndikumana, L. (2014). Savings, capital flight, and African development. *Political Economy Research Institute Working Paper Series*, (353).
- [27] Yusuf, A., & Mohd, S. (2021). The impact of government debt on economic growth in Nigeria. *Cogent Economics & Finance*, 9 (1), 1946249.
- [28] Kadozi, E. (2019). Remittance inflows and economic growth in Rwanda. *Research in Globalization*, 1, 100005.
- [29] Gomez, G., Rivas, A. M., & Bolaños, E. R. L. (2014). The determinants of capital structure in Peru. *Academia Revista Latinoamericana de Administración*.
- [30] Karagol, E. (2012). The causality analysis of external debt service and GNP: The case of Turkey. *Central Bank Review*, 2 (1), 39-64.
- [31] Umaru, A., Hamidu, A., & Musa, S. (2013). External debt and domestic debt impact on the growth of the Nigerian economy. *International Journal of Educational Research*, 1 (2), 70-85.
- [32] Timuş-Iordachi, V., & Ciobu, S. (2019). External debt implications on the development of national economy. *Economie și Sociologie*, (2), 32-41.
- [33] Jilenga, M. T., Xu, H., & Gondje-Dacka, I. M. (2016). The impact of external debt and foreign direct investment on economic growth: Empirical evidence from Tanzania. *International Journal of Financial Research*, 7 (2), 154-162.
- [34] Omodero, C. O., & Alpheaus, O. E. (2019). The effect of foreign debt on the economic growth of Nigeria. *Management Dynamics in the Knowledge Economy*, 7 (3), 291-306.
- [35] Julio, B., & Yook, Y. (2016). Policy uncertainty, irreversibility, and cross-border flows of capital. *Journal of International Economics*, 103, 13-26.
- [36] Akinwunmi, A. A., & Adekoya, R. B. (2016). External reserves management and its effect on economic growth of Nigeria. *International Journal of Business and Finance Management Research*, 4 (1), 36-46.
- [37] Prasad, E. S., & Rajan, R. G. (2008). A pragmatic approach to capital account liberalization. *Journal of Economic Perspectives*, 22 (3), 149-72.
- [38] Mccauley Jr, M. S. (2018). Providing Retirement Savings Plans with Alternative Investments to Allow Participants Greater Diversification (Doctoral dissertation, Baker College (Michigan)).
- [39] Sengupta, R., Mukherjee, S., & Gupta, M. (2015). Financing for infrastructure investment in G-20 countries. *National Institute of Public Finance and Policy Working Paper*, 144, 1-45.
- [40] Koepke, R. (2019). What drives capital flows to emerging markets? A survey of the empirical literature. *Journal of Economic Surveys*, 33 (2), 516-540.
- [41] Huberman, G. (2001). Familiarity breeds investment. *The Review of Financial Studies*, 14 (3), 659-680.
- [42] Mohamed, I. A., Evans, K., & Tirimba, O. I. (2015). Analysis of the effectiveness of budgetary control techniques on organizational performance at Dara-Salaam bank headquarters in hargeisa Somaliland. *International Journal of Business Management and Economic Research (IJBMER)*, 6 (6), 327-340.
- [43] Rovai, A. P., Baker, J. D., & Ponton, M. K. (2013). *Social science research design and statistics: A practitioner's guide to research methods and IBM SPSS*. Watertree Press LLC.
- [44] Osei-Assibey, E., Domfeh, K. O., & Danquah, M. (2018). Corruption, institutions and capital flight: evidence from Sub-Saharan Africa. *Journal of Economic Studies*.
- [45] World Health Organization. (2015). *Global status report on road safety 2015*. World Health Organization.

- [46] Acharya, A. S., Prakash, A., Saxena, P., & Nigam, A. (2013). Sampling: Why and how of it. *Indian Journal of Medical Specialties*, 4 (2), 330-333.
- [47] Ndikumana, L., & Sarr, M. (2019). Capital flight, foreign direct investment and natural resources in Africa. *Resources Policy*, 63, 101427.
- [48] Battaile, B., Hernandez, F. L., & Norambuena, V. (2015). Debt sustainability in sub-Saharan Africa: Unraveling country-specific risks. *World Bank Policy Research Working Paper*, (7523).