

**DETERMINANTS OF CAPITAL FLIGHT IN ZAMBIA
(1970-2004)**

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**A dissertation Submitted to the
University of Zambia in Partial Fulfillment of
Requirement for the Master of Arts (Economics)**

The University of Zambia

Lusaka

2011

DECLARATION

I, EMILY MUKUMBWA KAUSENI, declare that this dissertation:

- (a) Represents my own work
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APPROVAL

This dissertation of EMILY MUKUMBWA KAUSENI has been approved as partial fulfillment of the requirements for the award of Masters of Arts in Economics by the University of Zambia.

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ABSTRACT

While Zambia remains steep in poverty, it is also simultaneously witnessing a large outflow of domestic capital which if, retained and returned would assist in boosting financial resources utilization and improve in social-economical developmental programmes. Capital flight from Zambia was \$16 billion in the 1970s, \$36 billion in the 1980s, and \$43 billion in the 1990 using the Residual Approach Method. Indeed these figures are significant amounts of lost resources that could have been utilized in Zambia to generate additional output and jobs and promote economic development. This scenario possesses serious policy concerns for development. Capital flight is the movement of capital from a resource-scarce developing country to avoid social controls, and measured as net unrecorded capital outflow.

The study investigates the determinants of capital flight in Zambia from 1970 to 2004 utilizing Ordinary Least Square and 2 Stage Least Square Technique after the application of co-integration Error Correction Mechanism of Engle and Granger (1987), using time series data from 1970 to 2004. The main objective of the study was to analyse the levels and trends of capital flight in Zambia and to investigate the key economic and political factors that influence capital flight.

The quantitative results from the study reveal that unfavourable macroeconomic factors, huge external debt, political and policy uncertainty are the significant causes of capital flight from Zambia. Capital flight also reported a negative impact on economic growth. Therefore, economic growth in Zambia can greatly improve and be sustained through alleviation of capital flight. Hence, the combination of maintaining stable and predictable economic environment, good governance, and fiscal discipline are recommended to minimize capital flight in Zambia.

Based on this study, it is also recommended that non-financial aspects of fiscal policy, trade and corruption be investigated as some of the determinants of capital flight in Zambia.

DEDICATION

**To the, Late Geoffrey Mulenga Kauseni, who
unselfishly shared with me his divine wisdom in the
fourteen years we were married**

ACKNOWLEDGEMENT

The preparation of this dissertation has been a long and arduous task that has had many challenges. Nonetheless, I take the pleasure to acknowledge the advice, support and encouragement extended to me at various stages. First and foremost, I would like to thank the Almighty God for enabling me to persevere through the hard times and above all, protecting me up to this time.

I extend my sincere gratitude to my supervisors, Dr. Flexi Masiye and Dr. Samuel Bwalya, who were the source of my endeavors. Their patience, guidance, cooperation and willingness to assist at every moment not only enabled me to complete this work but also made me gain a lot of knowledge in research.

I owe a debt to my parents, Mr. and Mrs. Mukumbwa, for their tireless all round support, brothers, sisters and my children Katongo and Nakamba for their heartfelt support and encouragement.

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ACRONYMS

SSA	Sub-Saharan African
US	United States of America
\$	Dollar
GDP	Gross Development Product
HIPC	Highly Indebted Poor Countries
LDCs	Less Developed Countries
FDI	Foreign Direct Investment
GNP	Gross National product
%	percentage
NERP	National Economic Reform Programme
IMF	International Monetary Fund
SAP	Structural Adjustment Programme
BLUE	Best Linear Unbiased Estimators
OLS	Ordinary Least Squares
DW	Durbin-Watson
i.e.	That is