RULE OF LAW AND STOCK MARKET PERFORMANCE: EVIDENCE FROM SELECTED AFRICAN COUNTRIES

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Abstract

The stock markets play a vital role in the financial sector of the economy. Studies have established the impact of the rule of law on the stock markets in the developed and some emerging markets, however, the continuous poor performance of stock markets in Africa and shortage of empirical evidence on the subset of the rule of law (property right, government integrity and judicial effectiveness) in Africa necessitated this study to examine the impact of the rule of law on the performance of some selected African stock markets. Twelve (12) countries were selected for the study covering year 2017 to 2022. Secondary data was used for the study which was sourced from Heritage Foundation and World Bank's World Development Indicators (WDI). System Generalized Method of Moment (SGMM) was used for estimating the model regression. The findings from the study showed that rule of law (RL), government integrity (GI) and GDP growth rate with coefficient values of (1.048, 0.861, and 0.392) and p-values of (0.095, 0.091, and 0.064) were all positively significant in determining the performance of stock markets in the selected African countries respectively. On the contrary, the results showed that property right and judicial effectiveness were not significant in influencing the performance of the stock markets in the selected African countries. The study therefore concluded that rule of law has a significant influencing on the performance of stock markets in the selected African countries. Finally, the governments of the selected African countries should make efforts to sustain and improve on the rule of law and the adherence to the rule of law.

Keywords: Rule of law; Equity index; Property right; Judicial effectiveness; Government integrity

1.0 Introduction

The relevance of the rule of law, its efficacy, and the enforcement of the law by the judiciary in relation to the performance of the stock market throughout the world has recently received a lot of attention in finance research. The rule of law (here-after, ROL) is now one of the most crucial ideas in public law, which assesses the legal and political systems of nations across the world (Savari, et al., 2022).

Boadi and Hayford (2017) observe that the ROL assesses the efficacy, predictability, and most importantly the enforcement of contract and property rights in a nation.

Modugu & Dempere (2020) and May (2018) note that there is a widespread conviction among academics and some policymakers that a nation's ability to successfully build a market economy depends on the strength of its legal system. As the promotion of a free market economy would increase openness in commercial transactions, an effective ROL system is crucial. Bufford (2006) went on to underline the significance of the ROL for business and commercial operations because it fosters prosperity, encourages investors to make investments, and supports economic stability.

Within the financial sector of an economy, the equity markets are crucial for raising money for businesses, encouraging savings, and allocating financial resources among different users. Due to the significance of the stock market, several studies were carried in other to ascertain factors affecting the performance of the stock market in various nations throughout the world. It's interesting to see that macroeconomic variables dominated the investigation. The stock markets in Africa have been confronted with different form of challenges ranging from low capitalization, weak liquidity, poor listing and low turnover. The report of United Nations Economic Commission for Africa (UNECA), (2020) revealed that major stock exchange markets in Africa were weak in market capitalization and it is only four stock market in Africa that have nominal market capitalization value of $30 billion and above which are South Africa, Egypt, Morocco and Nigeria. The available data revealed that most of the stock markets in Africa are not having up to $6 billion as their market capitalization (PwC, 2021; Soumaré, et al., 2021). Similarly, European Investment Bank (EIB) (2022) affirms that stock markets in African countries suffer from low stock market capitalization as a percentage of their GDP but with the exception of South Africa. These challenges affect the depth of the stock markets in the continent and their trading activities.

Numerous studies have also looked at the effect of the ROL on the stock markets, including Savari, et al. (2022); Modugu and Dempere (2020); Matadeen (2019); La Porta (1976, 1997, 1998, 2002); Beck (2003); Lombardo and pagamo (2000); Djankou (2003). This study is distinct from the past studies because the past works focused on the effect of legal origin, shareholders protection and dynamic of the rule of law. But the current study focus on the composite value of the ROL and the assessment of it sub-components (judicial effectiveness, government integrity and property right) as captured in the economic freedom index of Heritage Foundation which other studies have not captured together especially in Africa studies.
Aluko and Azeez (2018) and Asongu (2012) noted that the continent of Africa has suffered from dearth of empirical literature in the area of law and stock market performance. This was attributed to challenge of data constraint on cross country studies on African stock market. The challenge of poor performance in African stock markets and the dearth of empirical literature in the area of law and stock market performance necessitate the need to carry out this study.

2.0 Literature Review

Theoretical background

The law and finance theory offered by La porta et al. (1996) serves as the foundation for this investigation. The analysis confirmed that disparities in legal origin caused variances in financial development across various countries. The idea focused on two main areas. The first area is concerned with the legal system that is in place in a given nation and highlights how effective and efficient it is in enforcing commercial agreement responsibilities.

According to the second part of the law's history, nations with an English common law background have had more financial progress as compared with those of French civil law background (La Porta et al., 1998). According to Rosenberg and Birdzell (1986),

London's history of impartiality in the resolution of legal disputes helped the city become the world's foremost financial hub. Levine (2002) claimed that legal and accounting changes that strengthen contract enforcement, creditors' rights, and best accounting standards promote a country's financial prosperity. The financial industry and the economy as a whole benefit from financial sector flexibility and high-quality legal institutional policies (Chinn & Ito, 2006). The theory tries to link the relationship existing between law in a given country and the performance of the financial market. The theory postulate that effective law and its enforcement bring confidence to the financial market which will promote investment and enhance performance of the capital market.

Eldomiaty et al. (2015) found that effective and efficient law and regulation lower the volatility in stock prices. According to the study, factors affecting regulatory effectiveness were positively significant in predicting the volatility of stock prices. Savari et al. (2022); Modugu and Dempere (2020); Matadeen (2019) all affirmed that the ROL is essential in determining stock market performance. Property right and control of corruption were also factors of rule of law identified in the literature influencing the performance of stock markets (Smimou and Karabegovic, 2010; Burnie, 2019).

Empirical Review

Studies in the developed and emerging markets have affirmed an existing relationship between of ROL on the stock market in different parts of the world. Savari et al, (2022) evaluated ROL and capital market using a system GMM method. Iran and some selected emerging nations were covered in the study. Findings from the study showed that ROL favourably influence the stock market. Tag, (2021) in his assessment of the judicial institutions, property rights protection and foreign direct investment inflows to a sample of 150 countries covering the period 2000 - 2016 with the use of system GMM found positive and significant relationship between FDI and judicial independence and impartiality. The study concluded that the protection of property right enhance the inflows of capital into nations. In support of ROL in an economy, Ozieli (2021) asserts that worth of the legal structure revealed the degree of protection which the less privileged in the society enjoy from being exploited by formal financial institutions.

Imran et al, (2020) measured the influence of governance quality and the stock market in the advanced nations. The study covered 25 nations ranging from 1996 to 2018. The study affirmed that ROL positively influence returns on stock market in the selected countries. Modugu and Dempere (2020) in their investigation of the effect of governance quality on capital market in the Gulf corporation council (GCC) with the use of panel data covering 2006 to 2017. The results from the study reveal that ROL influence the stock market positively. Burnie (2019) examined democracy, dictatorship, and economic freedom signals in stock market. The study covered 87 stock market from 1995 to 2016 across the world. With the use of regression method, the findings from the study show that changes in overall economic freedom index, freedom from corruption and the system of government practiced in a nation affect the performance of stock market in such a nation. The property right index does not determine the capital market performance.

Matadeen (2019) assessed macroeconomic indicators, institutional factors and stock market growth in Mauritius. Dynamic vector error correction model was used and the study covered 1989 to 2016. Results from the study revealed economic growth, banking sector development and capital formation as the macroeconomic factors influencing the stock market. In addition, political stability, ROL and control of corruption also enhance the expansion of stock market. Aluko and Azeez (2018) investigated the effectiveness of legal institutions and stock market development in Sub-Saharan Africa. Eleven (11) countries were captured in the study for the period of 2000 – 2014 using two-stage least square estimators. The result showed that legal institutions effectiveness is

of no effect in stock market growth in the Sub-Saharan Africa. The study also found negative and adverse relationship between rule of law and stock market growth. Dima et al (2018) in their investigation of the impact of ROL on the support of the capital market using data of 25 countries ranging from 2009 to 2014. The results revealed ROL positively influence the progress of the capital market. Boadi and Hayford (2017) examined the link existing between government quality and stock market performance employed fixed effect model covering 23 countries. The study found ROL negatively impacting the market for stock in the sampled countries. Ng et al.(2015) examined the right to own a property and the stock market-growth nexus. The study found that high property rights influence the growth in capital market. It was further affirmed from the study that the protection of minority shareholders also influence stock market growth. Fowore, (2014) in his study of law and finance, evidenced from African countries found that legal origins are not the contributing factors of financial growth in African countries, rather the effectiveness of the legal system play an important role.

Hasan, et al. (2013) asserted that property rights security and ROL are the institutional development factors that reduce stock price synchronicity in china. That is the enhancement of the ROL and property right brings about lower cost of information within the stock markets operating in China. Smimou and Karabegovic (2010) in their study of the relationship between economic freedom and equity returns in the emerging market, with focus on MENA, discovered that changes in economic freedom impacted positively in equity market returns in the region. The returns on equities are enhanced by legal structure and property right security.

Hail and Leuz (2004) examined the impact of legal institution, securities regulation and cost of equity capital across 40 countries. The study found countries with extensive security regulations coupled with strong enforcement mechanism influencing cost of capital significantly. Beck, et al. (2000) still on law and finance investigated why does legal origin matter? The study examined the political channel and adaptability channel, where it was found that legal systems that adapt quickly to changes in the commercial circumstances will foster financial development effectively. Again, the study showed that legal origin matters in financial development. Lombardo and Pagamo, (2000) examined the legal determinants of the return on equity. The study found that stock market returns are correlated to institutional values measured by the rule of law and efficient judiciary.

La Porta et al (1997) assessed the legal elements of external finance of 49 sampled countries. The findings from the study showed that countries that lack the ability to protect her investors' are characterized with poor capital market. It can be inferred from the study that legal rules influence the performance of capital market. Similarly, in another study by La Porta et al (1998) probing into the relationship existing between law and finance. This study also covered 49 countries and the results found that countries operating common law have better protection of their shareholders and good performing stock markets as compared to the civil-law countries. In addition to prior studies, La Porta et al, (2002) assessed the investors' protection and corporate valuation of 539 large firms from 27 wealthy economies. The study found that countries with better protection of their shareholders with minority interest attain a higher valuation in the firms as against countries with poor protection.

3.0 METHODOLOGY

This study employed the ex-post facto research design because the study relying on secondary data. The study examined ROL and the performance of selected stock market in Africa, covering year 2017 to 2022. The ROL and its indicators represent the independent variables, while the stock market equity index variables represent the dependent variables. Annual data was used for the study and they are secondary in nature. Data on ROL and it indexes were sourced from Heritage foundation data base. Data on stock market

performance and some macroeconomic variables used were sourced from S&P Global Equity Indices and World Bank's world development indicators (WDI). System Generalized Method of Moment (SGMM) was used as the estimation technique because of its ability to removes endogeneity in the model by internally transforming data (Roodman, 2009). The SGMM was employed for this study because of its ability to overcome challenge that may arise from the model specification.

The population of this study consists of 28 stock market covering 40 countries in Africa as at 2022. There are two regional stock market operating within the continent as at the time of this research, which are named "Bourse Region ale des valeurs mobiliere" located in Ivory Coast owned by the 8 (eight) francophone countries in west Africa and Bourse de valeurs mobiliere dell' Afrique centrade owned by six central Africa. These two regional stock markets were exempted from this study because this study looked at each stock market individually not in collective approach. Due to the challenge of non-availability of data in most of stock markets around the continent, this study selected 12 countries which were captured by S&P Global equity indices for this study which were Botswana, Namibian, South Africa, Kenya, Zambia, Tanzania, Nigeria, Ghana, Morocco, Tunisia, Egypt, and Mauritius.

Model Specification

The model was specified to examine the effect of ROL on the performance of the stock markets of selected African countries. The model for study was formulated from the works of Savari et al, (2022) and Imran et al, (2020) which is formulated as thus

$Y_{it}=\alpha+\beta_1 X_{it}+\beta_2 Z_{it}+\varepsilon$ ……i

Where Y represents equity index, α the intercepts, X and Z represent rule of law and the control variables. The model is further defined as thus

EQI = *f* (ROL+ Lag EQI+INFLR+ EXCHR+ GDPGR)……ii

It is econometrically stated as:

$EQI_{it}=\alpha+\beta 0+\beta 1ROL_{it}+\beta 2EQI_{-1it}+\beta 3INFLR_{it}+\beta 4EXCHR_{it}+\beta 5EGR_{it}+\varepsilon_{it}$ ……iii

Where,

EQI = Equity Index

ROL = Rule of Law

LagEQI= Lag of equity index

INFLR= Inflation Rate

EXCHR = Exchange Rate

EGR = Economic Growth

Where,

α: Constant term

Ɛ: Error term

β_1 - β4: Parameters of the explanatory variables

t: Time Period

i: Stock market/countries involve

To examine the effects of the components of rule of law, another model was formulated as thus

EQI = *f*(PR+JE+ GI+ INFLR+ EXCHR+ GDPGR)……iv

It is econometrically stated as:

$EQI_{it}=\alpha+\beta 0+\beta 1PR_{it}+\beta 2JE_{it}+\beta 3GI_{it}+\beta 4INFLR_{it}+\beta 5EXCHR_{it}+\beta 6GDPGR_{it}+\varepsilon_{it}$ …v

Where,

EQI= Equity Index

PR = Property Right

JE = Judicial Effectiveness

GI = Government Integrity

INFLR = Inflation Rate

EXCHR = Exchange Rate
GDPGR = GDP Growth Rate
Where,
α: Constant term
Ɛ: Error term
β_1 - β7: Parameters of the explanatory variables
t: Time Period
i: Stock market/countries involve

Measurements of Variables

Variables	Label	Variable measurement	A priori Expectation	Source
Independent Variables	-	-	-	-
Rule of law	RL	Average score of PR +GI+JE	+	Heritage Foundation (2023)
Property rights	PR	A scale of 0-100, the higher score the higher the level of freedom attain and vice versa.	+	Heritage Foundation (2023)
Government integrity	GI	A scale of 0-100, the higher score the higher the level of freedom attain and vice versa	+/-	Heritage Foundation (2023)
Judicial Effectiveness	JE	A scale of 0-100, the higher score the higher the level of freedom attain and vice versa	+	Heritage Foundation (2023)
GDPGR	GDPGR	Annual percentage growth rate of GDP per capita based on constant local currency.	+	(WDI)
Exchange Rate	EXCHR	Official exchange rate is the rate determined by national authorities. Calculated as an annual average based on monthly averages (local currency units relative to the U.S. dollar).	+	(WDI)
Inflation Rate	INFLR	This is the measured of consumer price index which reflects the annual percentage change in the cost to the average consumer goods.	-	(WDI)
Dependent Variables Equity Index		S&P Global Equity Indices is the annual measure in U.S. dollar changes in price in the stock markets covered by the S&P/IFCI and S&P/Frontier BMI country indices.		

4.0 PRESENTATION AND INTERPRETATION OF DATA

The examination of the secondary data gathered to fulfill the study's objectives is the focus of this section. Summary statistics, cross-sectional dependence testing, unit root testing, cointegration testing, and regression analysis are all included in the analyses.

Table 1: Summary Statistics

Variable	Mean	Median	Std. Dev.	Variance	Kurtosis	Skewness	Min	Max
EQI	1.594	-0.918	25.38	644.4	12.06	2.064	-42.20	135.7
PR	52.129	53.15	12.45	155.11	2.976	0.228	22.1	88.2
JE	47.431	44.75	12.78	163.56	4.665	0.919	22.1	95.9
GI	38.787	36.95	12.31	151.57	8.7	1.404	12.2	97.5
ROL	46.113	44.45	11.49	132.09	5.695	1.048	25.9	93.9
GDPGR	1.084	1.636	5.143	26.45	7.512	-0.017	-14.59	22.33
EXRT	238.7	15.70	626.7	392803.5	9.638	2.899	2.419	2298.6
INFLRT	7.465	5.67	5.977	35.72	7.415	1.916	0.303	31.25

Source: Author's Computations, 2023

The variables' summary statistics are the subject of the first analysis. These comprise the minimum and maximum values as well as the mean, median, standard deviation, variance, kurtosis, and skewness. Table 1's findings showed that equity index had an average of 1.594 and a dismal median of -0.918. Standard deviation and variance are also very wide (25.28 and 644.4, respectively). A high frequency of having high and low extreme values compared to its mean is implied by the high values of kurtosis (12.06) and skewness (2.064), which show that the distribution of this variable is not symmetrical and not normal. The variable's ranges from a minimum of -42.2 to a maximum of 135.7. Property right's median value of 53.15 is quite near to its average value of 52.129, indicating that the value is fairly represented. Both the standard deviation and variance are rather wide (12.45 and 155.11, respectively). Kurtosis (2.976) and skewness (0.228) values show that this variable's distribution is symmetrical and normal. The variable's lowest and greatest values are 22.1 and 88.2, respectively. The median value of 44.75 for judicial effectiveness, which is not too far away from the average of 47.431, suggests a fairly fair portrayal of the value. Both the standard deviation and variance are rather wide (12.78 and 163.56 respectively). Kurtosis (4.665) and skewness (0.919) values show that this variable's distribution is slightly symmetrical and normal. The variable's lowest and greatest values are 22.1 and 94.9, respectively.

The median value of 36.95 and the average value of 38.787 for government integrity point to a fairly reasonable portrayal of the value. Both the standard deviation and variance are rather wide (12.31 and 151.57, respectively). The distribution of this variable is not symmetrical and not normal, as shown by the values of kurtosis (8.7) and skewness (1.404), which suggests a high frequency of having high and low extreme values relative to its mean. 12.2 is the variable's lowest value, while 97.5 is its greatest value. ROL median value of 44.45 and average value of 46.113 both point to a rather reasonable portrayal of the value. The standard deviation and variance are also very wide (11.49 and 132.09, respectively). Kurtosis (5.695) and skewness (1.048) values suggest that this variable's distribution is not symmetrical and not normal, which suggests that high and low extreme values relative to its mean occur frequently. The variable's lowest and greatest values are 25.9 and 93.3, respectively.

Regarding the control variables, GDP growth averaged 1.084, which is not too distant from its median value of 1.636 and suggests a somewhat accurate portrayal of the value. Both the standard deviation and variance (5.143 and 26.45, respectively) are rather wide. While the value of skewness (-0.017) is almost low and shows a near-zero skewness and symmetrical distribution, the value of kurtosis (7.512) is quite high and

simply indicates fat-tailed distribution. The countries' lowest growth rate was -14.59, and their greatest growth rate was 22.33. The average exchange rate was 238.7, which is much higher than the median rate of 15.7. Standard deviation and variance are also very wide (626.7 and 392803.5, respectively). The distribution of this variable is not symmetrical and not normal, as shown by the values of kurtosis (9.638) and skewness (2.899), which suggests a high frequency of having high and low extreme values relative to its mean. The variable's ranges from 2.419, its minimum value, to 2298.6, its maximum value. The median interest rate was 5.67, thus the average interest rate was a relatively close 7.465. The standard deviation and variance are also very wide (5.977 and 35.72, respectively). The distribution of this variable is not symmetrical and not normal, as shown by the values of kurtosis (7.415) and skewness (1.916), which suggests a high frequency of having high and low extreme values relative to its mean. The variable's ranges from a minimum of 0.303 to a maximum of 31.25.

Because the majority of the variables are probably not normally distributed, the summary statistics, and particularly the distribution of the variables, have an impact on the rest of the study. However, the negative implications that might follow from these findings can be avoided by using tests that are resistant to cross-sectional dependency using the generalized method of moments (GMM) regression.

Table 2: Cross-Sectional Dependence Test Results

Variable	CD test	p-value
EQI	5.52	0.000
PR	1.568	0.117
JE	-0.701	0.483
GI	4.343	0.000
ROL	0.005	0.996
GDPGR	14.194	0.000
EXRT	11.922	0.000
INFLRT	9.222	0.000

Source: Author's Computations, 2023

The test for cross-sectional dependency is the next study, and it is important to see if the panel's member nations are reliant on one another for certain variables. Table 2's findings showed that all factors, excluding property rights, judicial efficiency, and rule of law, had statistically significant CD test results. This suggests that the null hypothesis of the test—that these variables are independent across cross-sections—has been rejected. The outcome suggests that, in terms of these characteristics, the nations are cross-sectionally reliant. Insignificant CD test data for the variables of property rights, judicial efficiency, and ROL show that the nations are not cross-sectionally dependent for these factors. It is crucial to conduct the following test using methods that are resilient to cross-section dependency since some variables exhibit cross-section dependence.

Regression analysis is the following analysis, which aims to accomplish the study's goals. The goal of the study is to determine how the stock market's performance is impacted by property rights, judicial efficiency, political integrity, and the rule of law. The outcomes are displayed below.

Table 3: GMM Regression Results of Rule of law on Equity Index

Variables	First Model Equity index	Second Model Equity index
Constant	-56.7 (0.042)**	-39.1 (0.026)**
Equity Index (EQI)	-0.33 (0.006)***	
Rule of law (ROL)	1.048 (0.091)*	
Property Right (PR)	-	0.0056 (0.988)
Judicial Effectiveness (JE)	-	1.105 (0.142)
Government Integrity (GI)	-	0.861 (0.095)*
Economic Growth Rate(EGR)	0.0976 (0.012)***	0.392 (0.064)*
Exchange Rate (EXCHR)	0.0280 (0.376)	0.0258 (0.366)
INFLRT	0.363 (0.751)	0.110 (0.395)
Obs	60	60
Numbers of countries	12	12
Wald Chi^2	6.03 (0.004)***	20.65*** 0.002
Diagnostic Test	Statistic Value p-value AR(1) -2.117 0.034 AR(2) -0.588 0.555 Sargan 22.128 0.053	Value p-value -1.967 0.049 -0.401 0.688 19.654 0.104

Source: Author's Computations, 2023

Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Diagnostic tests were performed to confirm the regression results. These include the over-identifying restriction Sargan test and the autocorrelation tests of order 1 (AR1) and order 2 (AR2). Table 3 reveals that the Sargan test serves to prove that the over-identifying limitations on instruments are true while the autocorrelation test helps to establish that the error terms are not serially linked, signaling that the endogeneity problem is well under control. Given that the statistics are significant, the findings demonstrate the presence of first order autocorrelation. However, due to the statistically insignificant data, second order autocorrelation are absent. This demonstrates that autocorrelation leaves the result rapidly, supporting the outcome. Sargan test results reveal non-significant test statistics for all outcomes, at least at a 10% significant level. This implies that for all outcomes, the test's null hypothesis of valid over-identifying limitations is not disproved. As a consequence, endogeneity issues are effectively accounted for in all outcomes, further validating the findings.

Discussion of Findings

According to Table 3 regression results, a period lag in stock market performance measured by equity index is substantial and has a negative coefficient. This is in line with the researcher anticipation, which said that the previous performance can be either favourable or unfavourable to the

present performance. The outcome demonstrated that stock market performance in the prior period had an adverse influence on stock market performance at the present time. This suggests that the stock market's performance has shown a downward tendency in the current time; this may be due to weak performance in the prior period, since excellent performance in the previous period is anticipated to impact the present period. Contrary to the result obtained from the equity index lag variable, the rule of law (ROL) has a significant positive coefficient of 1.048 and a p-value of 0.091, indicating that the overall ROL index variable is significant at the 10% level of significance. This is in line with the a priori assumption and indicates a percent rise in the general ROL will result in 1.048% increase in stock market performance of the selected countries. ROL on the continent has increased investor confidence in the market, which has led to an improvement in the performance of the stock market, according to the overall effect of ROL that emerged favourable and substantial with stock performance. This deduction align with those of Savari et al. (2022); Modugu and Dempere (2020); Imran et al, (2020); Matadeen (2019); Hail and Leuz (2004); Djankov et al. (2003); Beck, et al. (2000); Lombardo and Pagano (2000); La Porta et al. (1997, 1999, and 2000) that all discovered a favourable correlation between the ROL and stock market performance. However, it goes against Aluko and Azeez (2018); Boadi and Hayford (2017) findings, which showed a negative association between the factors.

Similarly, government integrity (GI) appears with a significant positive measurement of 0.861 and a p-value of 0.095, which is considered significant at a 10% level of significance. This is consistent with the a priori prediction that a rise in governmental integrity will lead to an increase in stock market performance of around 0.861 percent. Government integrity evaluates a nation's level of corruption, and the study's findings imply that the continent's study-selected nations have made progress in lowering their levels of corruption. The decrease in corruption has increased investor trust in the local stock market, which has significantly impacted the performance of the African stock markets. The results align with those of Modugu and Dempere (2020); Matadeen (2019); Burnie (2019); Boadi and Hayford (2017) and Asongu (2012).

The result of property rights and judicial effectiveness show that both had coefficient that matched the a priori expectation which are 0.0056 and 0.988, however, the p-values (1.105 and 0.142) of the two variables revealed that both are not significant in predicting the performance of the stock market in selected African nations. The results are in line with Burnie (2019) who also found no significant relationship property right and stock market performance but contrary to the works of Ng et al. (2015); Fowore (2014); Smimou and Karabegovic (2010) who found positive and significant relationship among the variables. This shows that property rights and judicial efficacy do not significantly affect stock market performance, in contrast to government integrity and the ROL, both of which revealed beneficial impact on capital market performance. The poor registration system in registering titles to properties in Africa and slow dispensation of justice by the judiciary might be reasons while the property right and judicial effectiveness are not significant in influencing stock market performance in Africa. Investors do not have confidence to invest where there investments are not protected.

The result also demonstrate that the GDP growth rate has a statistically significant positive coefficient of 0.392 and a p-value of 0.064, indicating that the variable is significant at a 10% level of significance. This suggests that a rise in the GDP growth rate will result in a 0.392% gain in stock market performance.

5.0 CONCLUSION AND RECOMMENDATIONS

Following the law and finance theory, this study looked at the ROL and the performance of stock markets in some selected African nations. Following empirical and statistical research, this study concludes that

the ROL is an important element impacting the performance of stock markets in the selected African nations. This was proven by the favourable substantial influence it has on stock market performance. Along with the rule of law, government integrity, which evaluates the extent of corruption in the selected nations, improved the performance of those countries' stock markets. In light of the foregoing, the following recommendations were made in accordance with the study's results.

i. The governments of the chosen African countries should work to maintain and promote the rule of law, as well as its enforcement and adherence. This is due to the significance of the ROL on the stock markets performance of the selected countries.

ii. The governments of the chosen nations should continue to endeavour to strengthen their integrity, transparency, and fight corruption both within and outside the government. The high level of government integrity favourably influences the success of the stock markets in the sampled African countries.

Finally, the governments of the chosen nations should endeavour to strengthen their efforts to guarantee that the economic freedom index is properly disclosed. Within the chosen nations, those with a high economic freedom index outperform in the stock market.

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