Legal Systems, Property Rights and Financial Development in Sub-Saharan Africa

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Abstract

Purpose
The study aims to determine the effect of legal systems and property rights enforcement on developing financial markets, institutions, and overall financial development in Sub-Saharan Africa.

Design/methodology/approach
Data for this study were extracted from the Financial Development Index of the World Bank Global financial database, the Economic Freedom database of the Fraser Institute, and the World Bank Development Indicators database covering 41 Sub-Saharan African countries from 2000 to 2020. The models were estimated using the System GMM and the SURE model as robustness checks to address cross-equation correlations and linkages between financial markets and institutions.

Results
Results showed that legal systems and property rights enforcement have an effect on the growth of financial markets, institutions, and overall financial development, regardless of the measure of financial development used. Moreover, trade and GDP positively affect financial development and financial markets, while stringent regulatory trade barriers have a negative effect.

Conclusions
The need for governments to prioritise strengthening legal systems and ensuring the enforcement of property rights protection to create a predictable and stable environment for businesses and investors is key. Reducing trade barriers and eliminating restrictions that may discourage foreign investment to increase trade volumes and capital inflows into SSA is also important.

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