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The Impact of Conventional Cross-border Investment Vehicles on Kenyan and Nigerian Capital Markets' Performance

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Abstract

The impact of conventional cross-border investment vehicles on the performance of the capital markets in Kenya and Nigeria was assessed in this study for the years 2011–2020. The conventional forms of cross-border investment were the exchange rate, monetary policy rate (also called the central bank rate in Kenya), inflation rate, price of crude oil, and credit rating. The performance of the capital market, however, was assessed using a unique variable called market capitalization. Data availability recognized economic and financial theories, and their applications in related research all influenced the variables' selection. In a multiple regression analysis framework, an ex post facto research strategy was employed to ascertain the partial coefficients of the endogenous variables. The first step was to perform diagnostic tests that involved pretesting the data for unit root using the Augmented Dickey-Fuller technique. The series' degree of integration and sequence were then established. Based on the test results, the Autoregressive Distributed Lag (ARDL) model had to be applied because the data series had mixed integration. According to the results of the ARDL boundaries test, there was a long-term link surrounding the impact of traditional cross-border investment vehicles on the performance of the capital markets in Kenya and Nigeria. The long-term projections showed that different models had different effects on how traditional cross-border investment vehicles affected the Nairobi and Nigerian capital markets' performance. The long-term projections specifically demonstrated that the exchange rate and monetary policy dynamics had a greater impact on the Nigerian capital market than on the Kenyan one. However, long-term projections indicated that volatility in crude oil prices and inflation had a greater impact on the Kenyan capital market than in Nigeria. The Nigerian capital market was significantly impacted by credit rating, but the Kenyan capital market appeared to be less sensitive to its impact. When it came to the error correction models, it was found that all of them automatically adjusted to equilibrium following a very brief shock. Additionally, the error correction models demonstrated that conventional cross-border investment vehicles displayed effects that varied over time at various lag lengths.

Keywords: Traditional cross-border investment, investment vehicles, capital markets, market capitalization.

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Background to the Study

The role of investment flows in today's global economy especially in a period of volatile financial markets cannot be overemphasized, with its attendant gains of risk diversification, increased rate of return for the host country and overall economic growth (Adams-Kane, Lopez and Wilhelmus 2016). Cross-border investments have grown considerably across the world over the years because of several of factors like cross border mergers and acquisition, industry consolidation, privatization, and the liberalization of economies (Shimizu 2004). It is obvious that most cross-border investments take place among firms in developed countries, an increasing amount of activity has been occurring in emerging markets. This is not surprising considering that the developing world has accounted for much of the world's economic growth over the past decade; the Organisation for Economic Co-operation and Development (OECD) predicted that developing and emerging economies are likely to account for 60 % of the world's economy by 2030 (OECD 2010).

Cross-border investment refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is an economic activity that occurs across national boundaries of sovereign nations. It is the commitment of long-term funds from one country to another based on defined fiduciary interests like control, profitability, market size, economic outlook etc. Cross border investment could be undertaken by an Individual or a group of related Individuals; a Public Company; a Private Company; a government agency; Trust and/or Social Institutions. From the legal perspective, it implies investing in a company incorporated under the laws of another country either in the individual capacity by buying shares and/or debentures or in the capacity of a company by way of mergers and acquisitions and/or forming a new company or taking over an existing company etc**.**

Cross Border investment has the potential to be an important driver of economic growth and diversification. Shifting a country's work force from lower to higher value-added jobs depends on fostering a wider range of opportunities for private economic activity (The World Bank 2020). Cross border investment is the pathway to those global value chains, allowing developing countries to engage and benefit from the world economy. Foreign investors can create jobs, bring capital and new technologies, and create knowledge spillovers; but these benefits are not automatic. Some countries attract large quantities of foreign investment and never progress along the value chain (Qiang and Echandi 2020). According to Javorcik and Wei (2009), theoretical and empirical literature suggest, that information asymmetries constitute a significant obstacle to capital flows across international borders. Notwithstanding, Okereke-Onyike, (2000) opined that economic liberalization, deregulation, commercialization and privatization which started decades ago have greatly expanded the frontiers of financing options available to the Nigerian economy through the capital market, by creating room for international investment and capital flows to supplement the domestic savings.

Evidence available to the African Security Exchange Fact Book (2013), showed a staggering level of cross border participation in sub-Saharan African emerging markets. A study conducted by Ohaeri (2017) pointed out that, out of fourteen countries sampled, only six countries had cross border investor participation ratio of over 40% and out of 23 sampled nations in Africa, twelve had neither foreign nor local investors presence in equity trading as at December 2012. This implies a total absence of developed capital market facilities. African Securities Exchange Association (ASEA) revealed that Lusaka Stock Exchange recorded the highest foreign investors' participation as of 2012 with a ratio of 78.9%:21.1% while Bourse de Tunis had the least rate of 6.3% (foreign) against 93.7% (local)

Fiador and Asere (2012) noted that Ghana's financial Market Landscape had witnessed the emergence of various collective investment schemes mainly dominated by oversees stocks which have significantly aided in mobilisation of savings. The trend recorded indicates oversee investors' dominance of Ghana's Databank E-pack investment funds. This was because of illiquidity of the Ghanaian Stock Market coupled with limited stocks in the market, the study concludes.

Egyptian equity markets have become significantly more globalised with dominance by foreign investors since the early 1990s due to government policies to encourage foreign participation. According to the Egyptian Capital Market Authority (CMA) published data (1996), the highest share of foreign investors in market capitalization of Egyptian stock market was about 8% only in 1996 and 1997. Currently, number of deals and the value traded has however increased over the years due to foreign participation. In Kenya, participation of foreign investors in the Nairobi Securities Exchange can be traced back to 1954 when trade in shares was restricted to the resident European community. The presence and dominance of foreign investors in the market declined after independence when the country adopted the Kenyanization policy (Ohaeri, 2017)

Owing to the volatility of investment climate in Nigeria, Ekineh (2003) noted that the period of 1987 to 1998 witnessed an unfriendly atmosphere leading to a spate of divestment among the nation's traditional and long-standing investors who perhaps moved to more favourable investment climes. It further noted that, past foreign portfolio investors' participation in the Nigerian Markets was sluggish, basically due to non-internationalization of the money and capital markets as well as non-disclosure of information on investments in foreign money and capital markets. Despite the timely deregulation of the Nigerian Capital Markets in 1993, foreign portfolio inflow showed adverse results till 1998, the study added.

Following Ekineh's study, the CBN (2014) reports showed that, as at 2014, average percentage change in foreign portfolio investment grew to 60,479% from 110% in 1980 while capital market performance measured by the Market Capitalization rose to 14,933% in 2014 from 28.65% in 1980. These improvements in the economic outlook of Nigeria stemmed from the Traditional Investment Vehicle (TIV) aided by robust economic and monetary policies.

On the contrary, cross border investment vehicles are the drivers, tools and stimulants of investments across national boundaries. They are the means through which international investments are facilitated. From literature (Hooda, 2009, Faroh and Shen, 2015), the main determinants of cross border investments in developing countries are inflation, infrastructural facilities, exchange rates, stable political environment, interest rates, labour costs and corporate taxes. Traditionally, there are known investments vehicles which include Exchange rate, Interest rate, inflation, credit rating, output, gross domestic product, crude oil price (Lien and Zhang, 2008). These vehicles of international investments are the mirror through which a foreign investor sees his prospective host country. When the economic situation in a country is not conducive and viable, it is reflected on the figures and values of these parameters.

Exchange rate is the price for which the currency of a country can be exchanged for another country's currency. Exchange rate is imperative to attract Foreign Direct Investment, so an over-valued exchange rate will discourage exportation and affect Foreign Direct Investment negatively.The issue of exchange rate has been prevalent in the literature. Exchange rate is said to be a very important relative price in the economy. This is because changes in the real exchange rate influence foreign trade flows, the balance of payments, the level and structure of production, consumption and employment, the allocation of resources in the economy and

domestic prices (Kiguel, 1992). Exchange rate is perceived as an important mechanism for transmitting trade shocks to changes in the current account. (Amaghionyeodiwe & Osinubi 2005)

Interest rate is the percentage of principal paid for several times at a particular period throughout the term of the loan. Interest rates in Nigeria, is the offshoot of the Monetary Policy rates – the rate at which the Apex bank lends to the commercial banks for on-lending activities. On a broader perspective, Monogbe and Okah (2017) opined that, high interest rate on loanable funds increases the cost of capital which invariably discourages investors from accumulating more capital, and consequently discourages Foreign Investment

Inflation rate is the rate of persistent rise in the general prices of goods and services. Inflation implies too much money chasing too few goods. There is a growing interest in the economic and institutional implications of inflation, mainly because they have implications for monetary policy. Low inflation and international competitiveness have become the desirable targets in many countries, as it portrays the stability of price of goods and services in such climes. Across the world, Central Banks ensure low inflation rate through deliberate monetary policy stance targeted at achieving domestic price stability and stimulating economic growth.

Credit Rating is an assessment of the borrower (be it an individual, group or company) that determines whether the borrower will be able to pay the loan back on time, as per the loan agreement. Credit rating is quite important to the lender and the borrower in that it promotes investment decision, safety assurance, repayment schedule, easy loan approval and considerate interest rates. Credit rating could be applied to: Bank Loan Credit Rating, Corporate Debt Rating, Corporate Governance Rating, Financial Sector Rating, Issuer Rating, Infrastructure Sector Rating, Insurance Sector Rating, Mutual Fund Rating, Public Finance Rating, Project Finance Rating, Structured Finance Rating and SME Rating

In Nigeria, a credit rating is used by Sovereign Wealth Funds, pension funds and other investors to gauge the credit worthiness of individuals thus having a big impact on the country's borrowing costs. The Credit Reporting Act 2017 was passed by FGN to improve access to credit by providing a framework for credit reporting, licensing, and regulation of credit bureaus. The act ensures that credit providers have access to accurate and reliable credit information on prospective borrowers. To this end, it sets standards and conditions for the establishment and operation of credit-rating agencies. This law will enable credit providers to evaluate the credit history of a borrower before making decisions on whom to grant credit. It will also boost the willingness of financial institutions to grant credit facilities to more enterprises in need of such facilities. At the international scene, various rating agencies have also rated Nigeria’s credit worthiness. For instance, as at March 26, 2020, Standard & Poor's credit rating for Nigeria stands at B- with stable outlook. Moody's credit rating for Nigeria was last set at B2 with negative outlook in December 2019. Fitch's credit rating for Nigeria was last reported at B with negative outlook in April 2020 (Trading Economics, 2020).

Gross Domestic Product serves as a window through which investors see the robustness or leanness of any economy. It is the total value of all goods and services produced within the country at a given time usually one year. The GDP of Nigeria and Kenya as at January 2021, stood at $466.88 billion and $ 105.65 respectively. This portrays how well the economies were doing before the ravaging effect of the global pandemic. GDP is expected to increase in line with enhanced economic policies of government. This will woo foreign investors and give them high hopes for their return on investment.

Infrastructural development of any country is key in attracting cross border investments. A dilapidated state of physical infrastructure will not be attractive to prospective investors. If commodity prices were certain and there were no political constraints, determining a country's optimal level of infrastructure investment would be straight- forward. Infrastructure investment should increase smoothly over time in a way that minimizes investment adjustment costs. If a country's revenues are generated from a commodity with a very volatile price, implementing an investment plan that increases slowly and smoothly over time becomes much more challenging (Devlin and Titman, 2004)

In Kenya, the government and corporations have taken up measures to improve the economic outlook which are the sure recipe for driving cross border investment. In 2019, the Capital Market of Kenya was rated the most performing Capital Market in East Africa. This is a step in the right direction towards attracting cross border investments (either in portfolio or direct investment). Reports show that Kenya was ranked as the third most attractive financial market in Africa after South Africa and Botswana (CMA, 2019). The report assessed progress and potential across six key areas: market depth; access to foreign exchange; market transparency, tax and regulatory environment; macroeconomic opportunity; and the legality and enforceability of standard financial markets master agreements. Kenya's favourable performance was attributed to two key factors; the country's openness on access to foreign exchange as well as its strong legal and enforcement frameworks that support financial agreements to provide attractive opportunities to international investors and successful trading of derivatives singles stock futures at the Nairobi Securities Exchange (NEXT), the report concludes.

On the home front, the Nigerian government through the ease of doing business window, has taken measures to upgrade the grey areas of concern, The Executive Guide (2018), highlighted that, improved infrastructure in roads and electricity, access to credit, access to exchange rates, market access will boost the Nigerian business environment. Worthy of note is the Nigerian Capital Market master plan (2015-2025) which was launched in June 2015 to engender innovative activities and herald the era of robust capital market development. This is expected to drive capital market activities in line with international best practises as prescribed by International Organisation of Securities Commissions (IOCSCO)

Capital Market Performance is the overall improvement and growth of the market for long term funds. This performance span across profitability, international visibility, volume of transactions, innovative products, availability of market information etc. It is paramount to know that traditional investment vehicles of any country play vital roles in enhancing the performances of the capital market as discussed in the earlier paragraphs of this study. The need for capital market development cannot be overemphasized, as it is a proven recipe for economic development.

In the current vibe for financial integration across Africa and other parts of the world, cross border investment studies have become necessary to marshal out new way forward for the emerging financial markets (Capital and Money) of Africa. It is against this backdrop that this study was designed to evaluate the influence of traditional cross border investment vehicles on the capital market performances of Nigeria and Kenya, which are parts of the frontline economies in West and East Africa respectively.

Statement of the Problem

Most cross-border investment studies focused on the advanced economies of America and Europe, with less attention to the Sub-Saharan Africa (Mathieu, Pani, Chen and Maino 2019). This has made the region comparatively unexplored, under tapped and underdeveloped.

However, African leaders have not been faithful in the improvement of their countries' economic development indicators such as single digit interest rate, low inflation, stable exchange rate, full employment, infrastructural development, improved credit rating and political stability, which are the main drivers of cross border investments. Also, the interest to attract foreign investment have not been propagated to the limelight due to the remote desire to move African funds abroad and the spite of corrupt practises ravaging the continent in the past decades. A high level of corruption is likely to exacerbate the information asymmetry problem and increases the cost of doing business in other ways.

Consequently, capital market operations and development have been evolving world over. The speed of assimilation in the sub-Saharan African countries has been uneven due to policy summersault, disparity in exchange rate regimes and investment climate. Studies reveal that, favourable investment climate promotes profitability and robust development of any economy (Uremadu and Sunday, 2016)

In recent times, the Nigerian capital market has suffered from several setbacks, the most notable is the global financial crisis of 2008 and economic recession from the second quarter of 2016 to the last quarter of 2017. Based on available data from Central Bank of Nigeria and National Bureau of Statistics reports (2016), having survived the global financial crises of 2008, the Nigerian economy sank into recession as evidenced by economic contraction and distress, volatile exchange rate, high rate of inflation, unemployment, low GDP growth rate, etc. (Agri, Mailafia & Umejiaku, 2017; Onyele, Opara & Ikwuagwu, 2017). Consequently, it is believed that the ailing Nigerian capital market could be due to the multiplier effect of the current economic recession. Hence, the conventional proverbial truth that the capital market is an engine of growth appears to have been negated in Nigeria.

Most recently, following the recession witnessed in Nigeria, there has been serious economic instability with inflation rate trending upwards from 12.0% in 2015 to 18.0% in 2016, while average official exchange rate (Naira/Dollar) depreciated further from ₦196.50 per Dollar to ₦304.50 in 2016 with all share index decreasing from 28,642.3 to 26,874.6 coupled with colossal contraction in overall economic activities (CBN, 2018). As such, it can be said that the observed fluctuations in economic variables must have affected the Nigerian stock market adversely. However, what is of concern is that the economic recession in Nigeria is not the first of its kind, but what makes this one more worrisome is that it is coming against the backdrop of macroeconomic challenges of high macroeconomic instability and low investment. Therefore, judging from the above scenario, it is desirable to undertake an assessment as to how the capital market is being affected by these cross-border investment vehicles in Nigeria and Kenya.

Emerging studies which centred on capital market development Ohaeri (2017), SEC (2015), Fiador and Asere (2012).and Okereke-Onyiuke (2000), have advocated for cross border investment in portfolios, financing, merges and acquisitions. From literature, no study included Exchange Traded Funds (ETF) as a driver of cross border investment in Nigeria and Kenya, this will serve as innovation and emerging trends in capital market studies.

Research Question

The following research question was formulated to guide the study

1. To what extent does Traditional Cross Border Investment Vehicles impact on Market Capitalization of Nigeria and Kenya?

Research Hypothesis

With respect to the research question raised, the following hypothesis was formulated and tested.

1. There is no significant effect between Traditional Cross Border Investment Vehicles and Market Capitalization of Nigeria and Kenya?

Literature Review

Conceptual Framework

Market Capitalization (MCAP)

Market capitalization (also known as market value) is the share price times the number of shares outstanding. Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. Listed companies do not include investment companies, mutual funds, or other collective investment vehicles (World Bank 2008)

Meaning of Cross Border Investment

This is otherwise known as Foreign Direct Investment. Cross-border investment is the net inflows of investment to acquire a lasting management interest (Ten percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is an economic activity that occurs across national boundaries of sovereign nations. It is the commitment of long-term funds from one country to another based on defined fiduciary interests like control, profitability, market size, economic outlook etc. Cross border investment could be undertaken by an Individual or a group of related Individuals; a Public Company; a Private Company; a government agency; Trust and/or Social Institutions. From the legal perspective, it implies investing in a company incorporated under the laws of another country either in the individual capacity by buying shares and/or debentures or in the capacity of a company by way of mergers and acquisitions and/or forming a new company or taking over an existing company etc**.**

Cross Border Investment Vehicles

In recent years, researchers have been interested in investigating the drivers of cross border investments following the current wave of financial globalization. However, it is well acknowledged that drivers of cross border investments also influence domestic investments. These traditional cross border investments vehicles are domestic macroeconomic variables and volatilities which could discourage domestic investments as well. Aside from its influence on physical investments, these macroeconomic factors have been acknowledged to also influence investments in financial assets. Cross border investment vehicles are the veritable tools and variables that drive international investments. These tools are localised (in the domestic economy) but they speak volume in attracting foreign investments. The primary aim of every business is to make profit hence the need to smoothen out the business environment. Cross Border Investment vehicles are discussed below:

Credit Rating

This is the rank accorded to countries in line with their perceived transparency in business operations locally and internationally. There are various forms of ratings by different agencies aimed at evaluating the business preparedness of firms, multinationals and countries towards business growth. Rating could be Credit, Financial, governance, regulatory etc. The international bodies (Fitch and S&P ratings) for global rating in 2020 rated Nigeria and Kenya B+ and B- respectively for business preparedness. This rating serves the local and foreign investors alike.

Gross Domestic Product (GDP)
This is the total monetary value of goods and services produced within a country in a given period usually one year. The higher the GDP, the better the economic outlook of the country. In Nigeria, the GDP as at 2020 stood at $466.88 billion. This portrays a quick survival from recession. In Kenya, the GDP as at 2020 CMA report is $105.65. This shows a consistent raise for a period.

Crude oil price: (**International oil Price)**
Over the years, crude oil price has been the basis for every price regulation world over. It fluctuates in line with the theory of demand and supply. Crude oil is the raw natural resource that is extracted from the earth and refined into products such as gasoline, jet fuel, and other petroleum products. Crude oil is a global commodity that trades in markets around the world, both as spot oil and via derivatives contracts. Many economists agree that crude oil was and remains the single most important commodity in the world as it is the primary source of energy production.

Exchange rate
In the words of Azid, Jamil and Kousar (2005), Exchange rate is the price of one currency in relation to another. In another vein, it is expressed as national currency's quotation in respect to foreign one. It is the conversion factor, a multiplier and ratio. Often, exchange rates are said to be volatile. Volatility is defined as the fluctuation, uncertainty and instability associated with price movements. It is a measure of risk often seen in asset pricing, portfolio optimization, option pricing, and general risk management. Volatility in exchange rates portrays uncertainty in international transaction be it goods, services and financial assets.

Interest Rate
This is the price, value and compensation attached to borrowed fund; it is the margin of safety which the lender enjoys from the borrowers. It differs from country to country and from institution to institution. It is seen as an investment vehicle because most investors require local funds which are mainly syndicated by financial institutions of the host country. in this regard, high(er) interest rate will discourage borrowing and in turn will not promote profitability for the investors. Investments have thrived in the US and UK due to single digit interest rate regime. This has accounted for huge growth and development in these economies

Inflation Rate
Inflation is one of the primary reasons that people invest in the first place. Inflation occurs due to an imbalance between demand and supply of money, changes in production and distribution cost or increase in taxes on products. When economy experiences inflation, i.e. when the price level of goods and services rises, the value of currency reduces. This means now each unit of currency buys fewer goods and services. It has its worst impact on consumers. High prices of day-to-day goods make it difficult for consumers to afford even the basic commodities in life. This leaves them with no choice but to ask for higher incomes. Hence the government tries to keep inflation under control.

Contrary to its negative effects, a moderate level of inflation characterizes a good economy. An inflation rate of 2 or 3% is beneficial for an economy as it encourages people to buy more and borrow more, because during times of lower inflation, the level of interest rate also remains low. Hence the government as well as the central bank always strive to achieve a limited level of inflation. There are four main types of inflation, categorized by their speed they are creeping, walking, galloping, and hyperinflation.

Empirical Review

Literature across the globe were reviewed in the order of geography and timing, giving due attention to the Cross Border Investment Vehicles highlighted earlier in the objectives.

Gross Domestic Product and Capital Market Performance

Ubesie, Nwanekpe, and Ejilibe. (2020) studied the Impact of Capital Market on Economic Growth in Nigeria. The primary aim is to access the impact and determinant of capital market on the economic growth in Nigeria within the period of study. Ordinary least square method (OLS) was employed in analysing the time series variables obtained for the study. The result of the findings shows that all the variables of interest were significant in explaining the behaviour of capital market on the growth of Nigeria Economy except Labour force. More so, the result show that the model employed for the analysis is adequate and best in fitting the variables obtained.

Ogbebor, Okolie and Siyanbola (2020) analyzed the impact of market opening on economic growth in Nigeria using a robust set of econometric approach involving unit root test, co-integration, vector error correction model and granger causality. They reported that there is evidence that current value of economic growth responds to disequilibrium from past values of real gross domestic product, stock market development, foreign direct investment, trade openness, inflation and banking sector development in the long run. The result also showed that past values of real gross domestic product, foreign direct investment and trade openness promote economic growth in the short run.

Mamudu, (2020) examined the impact of capital market on economic growth in Nigeria Annual time series data used were obtained from secondary sources, mainly from the CBN Statistical Bulletin (2019) from 1985 to 2019 on capital market variables (Market Capitalization (MCAP), Total Value of Transaction Traded (TVT) and All Share Index (ASI) were used as explanatory variables while Economic growth in Nigeria the dependent variable was proxy as real gross domestic product (RGDP). the result at -0.605132 was statistically significant and had the appropriate negative sign. It suggested however, that there was a high adjustment process in the practice of the Nigerian capital market since the speed of adjustment is 60.5 per cent approximately

Habiba & Waliu's (2020) study examines the impact of stock market performance on economic growth in Nigeria, from 1985 to 2018, based on the theoretical framework of Harrod-Domar analysis of savings and investment. The data requirements for the study were a secondary data and the methodology of the research was built on the classical analysis of Augmented Dickey-Fuller unit root test, Johansen co-integration analysis and vector error correction mechanism to examine the direction and magnitude of the relationship between stock market performance and economic growth in Nigeria. The findings of the study reveal a positive, long-run relationship between stock market performance (measured by market Capitalisation, equity and value-traded) and economic growth in Nigeria over the study period.

Recently, Enoruwa, Ezuem and Nwani (2019) examined the impact of capital market on the economic growth of Nigeria using data from 1985 to 2015 extracted from the Central Bank of Nigeria Bulletin with the application of the linear regression method of econometric analysis to capture the capital market variable, market capitalization, all share index, trade volume and trade value while GDP at current basic price was used as proxy for the Nigerian economy. Their major findings revealed that all the predictors exhibit a significant relationship with economic growth in Nigeria at 5% level of significance and show a high degree of correlation with the dependent variable except number of deals and value of deals which displayed a fair

correlation with the dependent variable. The study recommended that the capital market will need to embrace innovation and adopt fairness in information management in other to attract investors and the confidence of the investing public.

Abina and Lemea (2019) examined capital market and performance of Nigeria economy from 1985 to 2017 using the Johansen Co-integration, Error correction and Granger Causality methodology. The results of the Johansen Co-integration test revealed that there was a long run positive relationship among the variables, while the results of the Granger Causality test showed two significant unidirectional causalities flowing from gross domestic product to total market capitalization and to total value of new issues respectively. Thus, the study posits that capital market is a strong driver of economic growth in Nigeria for both public and private entities for medium and long-term investment. As such, a sound institutional framework for the regulation of the actors in the market to inspire investors' confidence and for the sustainability needs to be emphasized.

Uduk (2019) analysis on capital market as strategies to achieve double digit growth for Nigeria reported that economic growth rate is the rate at which a nation's Gross Domestic Product (GDP) changes or grows from one year to another while the GDP is the market value of all the goods and services produced in a country in a particular period. However, double-digit growth is not as common as high GDP growth rate. We may have double-digit growth over a specific period or recorded annually. He added that in Nigeria, the last time we experienced double-digit growth was in 2002 and during the post-war period of 1969-1975 while the Nigerian economy continued to improve in 2018 following the recovery from the recession of 2016-2017 as the Gross Domestic Product (GDP) expanded for the sixth consecutive quarter to 1.81% in Q3 2018. He concluded that more pressing for Nigeria is to have an efficient capital market capable of sustaining and improving the recent growth to a level beyond the population growth rate of 2.6% so that the growth can translate to improved welfare for the citizenry.

Acha and Akpan (2019) examined capital market performance and economic growth in Nigeria for the period 1987-2014, using the Augmented Dickey Fuller test, Johansen co-integration, Granger causality test and Vector Autoregressive (VAR) model on economic growth proxied by gross domestic product (GDP) while capital market performance was measured by market capitalization, total new issues, volume of transaction and listed equities. The results of the Johansen co-integration test were showed that the variable were cointegrated with at least one co-integrating vector, while the results of the Granger causality test showed that the causality between economic growth and capital market runs unilaterally from the capital market performance indicators to the GDP. From the results, it was inferred that the movement of stock prices in the Nigeria Stock Exchange reflect the macroeconomic conditions of the country and can therefore be used to predict the future path of economic growth. The study shows that the capital market performance has positively and significantly impacted on the Nigerian economy within the period.

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framework for the regulation of the actors in the market to inspire investors' confidence and for sustainability needs to be emphasized.

Umar (2018) critically reviewed the performance of the Nigerian Capital Market and Nigeria economic growth, and the study reported that the stock exchange is a market through which stocks/share and bonds are bought/sold. A company must be listed in the stock exchange before it will be allowed to trade in the market and certain listening requirements are to be met. One of many reasons for poor performance of the markets is because many companies are not quoted on the stock exchange market. For more than 40 years of operation the markets have make some successful achievement but also have some shortcomings due to reasons such as ignorance on the part of the market, inadequate facilities; low level of technology etc.

Furthermore, Araoye, Ajayi and Aruwaji (2018) examined the impact of stock market development on economic growth in Nigeria from 1985 to 2014 using the Johansson's co integration and the error correction model on economic growth proxy by the Real Gross Domestic Product (RGDP) and Labour (LAB), Capital (CAP), Market Capitalization (MCAP) and Turnover Ratio (TURN) as proxy for stock market development in terms of size and liquidity. The results of the Johansson co integration test established the existence of a long run relationship between stock market development and economic growth in Nigeria. The empirical results revealed that the stock market is significant in determining economic growth in Nigeria using the error correction model.

International Oil Price (Crude Oil) and Capital Market Performance

Pal and Mitra (2019) investigate the interdependency between oil price and automobile stock return from August 01, 1996, to June 20, 2017, using the wavelet time-frequency domain analysis. The results of the study imply that the co-movement between oil price and automobile stock return is strong during November 2000 - December 2002 and March 2006 - December 2009, which is significant in the long-run from demand shock. The result holds excellent implications for investors in the automobile industry. Investors should not include oil asset in a portfolio of automobile stocks as crude oil does not offer a cushion against bearish automobile stock markets during the crisis period. The adoption of the wavelet coherence analysis implies weak assumptions about the statistical data employed orthogonal issues and the problems of asymmetry. These challenges limit the robustness of studies that are based on wavelet analysis

Hamdi *et al.* (2019) inquire the effects of volatility in oil price on sectoral indices in the Gulf Cooperation Council (GCC) countries based on quantile regression analysis between 2006 and 2017. The study's empirical results indicate that all the economic sectors are responding to oil price volatility except for the banking, insurance, transport and telecommunication sectors. While the banking and insurance sectors are insusceptible during the 10th, 25th and 75th quantiles, the transport and telecommunication sectors are unaffected by volatility in oil prices during 75th and 90th. It is obvious that the results from the various types of the least square analysis support the existence of an adverse effect of oil price shocks on economic activities in both advanced and emerging economies, which is a sharp departure from the evidence presented using the cointegration approach.

Kelikume and Murtala (2019), examined the impact of oil price on African stock markets. Using quarterly data from five selected oil producing countries with stock market presence, from Q1:2010 to Q4:2018, the study deployed dynamic panel analysis technique for a model comprising stock returns, real gross domestic product growth rate, exchange rate and OPEC

basket price. From the findings, an adverse effect of oil prices existed on stock markets in Africa, attributable to fragmented and underdeveloped capital markets. Also, real gross domestic product growth rate had a positive impact on African stock markets, thus, confirming that economic growth positively influences stock returns in the African stock markets. The relationship exhibited by stock markets and the oil price has an immediate implication of shifting foreign direct investments in and away from stock markets in African oil dependent economies. Based on the empirical findings, the study recommended that oil-exporting developing countries should devise strategies that can ensure stability in their capital markets by vigorously pursuing pro-growth policies irrespective of the shocks in oil price and other exogenous macroeconomic indicators.

Wong and El-Massah (2018) study the effects of oil price changes on Gulf Cooperation Council stock markets between 2005 and 2015. Using the Granger causality and impulse response techniques, the result of the study showed a significant negative impact from oil price fluctuations on the GCC stock markets. From the vector autoregression perspective, oil price has predominantly exhibited a negative impact on stock returns. The VAR technique requires that all variables be integrated in first difference, which may not be obtainable. This has led to the adoption of combined techniques for the purpose of comparison, robustness and reliability

An et al. (2018) investigated the influence of Brent oil price fluctuations on the stock prices of the petrochemical block and the electric equipment and new energy block for China. The study employed the Shannon entropy of information theory, and the results revealed that both networks have different fluctuations characteristics in different periods. Their co-movement patterns clustered in some fundamental modes and conversion intermediaries. It also explains the lag effect of crude oil price fluctuations on the stock in Chinese industry blocks.

Gourène and Mendy (2018) investigate the relationship between oil prices and the six largest African stock markets using the wavelet coherence analysis. The study reports a low co-movement between oil prices and African stock markets except for South Africa and Egypt. Though this study concentrates on the African continents, its methodological relevance has come under severe attacks like other studies that employ the similar approach.

In a recent study for the Chinese oil-stock relationship, Hu et al. (2018) combined the Structural VAR model and the non-linear Autoregressive Distributed Lag (NARDL) model to determine the long-run and short-run asymmetric effects of structural oil price shocks on the Chinese stock market. The empirical results indicate that the demand-side shocks of oil price have a significant impact on the Chinese stock market in the short-run and long-run, while the supply shock does not. The study improved on the methodological dimension of previous studies by adopting the non-linear ARDL model to analyze the short-run and long-run relationships simultaneously.

Exchange Rate and Capital Market Performance

Kolawole and Olalekan (2014) adopted unit root test and error correlation model to test the effect of exchange rate volatility on Nigeria capital market, based on the findings of this study, they concluded that exchange rate volatility has a very serious implication on the Nigeria stock market, according to them, for any serious development of the stock market there is need to stabilize the exchange rate movement

Sadia, Syed, and Hina (2014) evaluated the role of trade openness, inflation, imports, exports, real exchange rate and foreign direct investment in enhancing economic growth in Pakistan.

The analysis based on time series data for the period 1980 to 2011. This paper uses ADF; PP and DF-GLS tests to find out stationarity of the variables and Co-integration and DOLS (Dynamic Ordinary Least Square) techniques have been used for the estimation. Co integration results indicated the long run relationship among the variables.

Inflation Rate and Capital Market Performance

Owolabi and Adegbite (2013) empirically examine the effect of inflation on capital market performance in Nigeria. Using data covering the period of 1970 to 2010 and Multiple regressions technique. All the measures showed a negative relationship to inflation except MVOL which showed a deviation from a priori expectation as revealed by positive correlation between inflation and the market volume. It is therefore concluded that there is a negative relationship between inflation and capital market performance. The result suggests that the Central Bank of Nigeria (CBN) should design and implement policy instruments that will maintain inflation at a reasonably low level so that it will not wear away the real value of stock returns.

Spyros (2001) adopted Vector-Auto regressive (VAR) model and the cointegration test to confirm if there was any relationship between inflation and stock returns in Greece. Pierrel and Kwok (1992) investigated the relationship between stock returns and inflation in the United State between 1962-1992 using Vector- Autoregressive (VAREC) model, and Granger Causality, Crosby (2001), used Vector-Autoregressive (VAR) model, Ordinary Least Square (OLS) and correlation analysis to examine the relationship between inflation and stock returns in Australia from 1875-1996.

Floros (2002), investigated the relationship between stock returns and inflation in Greece from 1988-2002 by considering both the lag and lead periods of inflation and stock returns using Ordinary Least Square (OLS), Johansen Cointegration Test and Pairwise Granger Causality Test. In this same vein, Ugur (2005) used the Ordinary Least Square (OLS) and Standard Granger Causality to examine the relationship between inflation, stock returns and real activity in Turkey.

Choudhry (2001), estimate the impact of inflation on stock returns in some selected Latin and Central American countries using the Auto-Regressive Integrated Moving Average (ARIMA), unit root test and spectral regression model. Lee et al (2000); and Geske and Roll (1983), also used ARIMA, OLS and unit root test to investigate the effect of German hyperinflation and stock returns, and the impact of inflation on stocks returns in the USA respectively.

Patra and Poshakwale (2006) on the other hand, used the Error Correction Model (ECM), Johansen Cointegration Test and Pairwise Granger Causality Test to show if economic variables such as money supply interest rate, exchange rate, volume of trade and stock prices have impact on stock returns.

Yeh and Chi (2009) in their study on 12 OECD countries measures correlation at different forecast horizon by using Autoregressive Distributed Lag (ARDL) bound test, unit root test and confidence interval method to investigate the inflation illusion hypothesis that suggest that there is negative relationship between inflation and stock returns.

This study examines the relationship between inflation and stock returns in Nigeria. Furthermore, a test is carried out to see if there's a cointegration and causality within these variables. Methods used in this study are explained in chapter three. This study

fundamentally aims to analyse the above relationship for a period of 1st of January 1997-31st of December 2006. Monthly values of the Nigerian Stock Exchange (NSE) and Nigerian Consumers Price Index (CPI). CPI was collected from the Central Bank of Nigerian Statistical bulletin (2006), while (ASI) All Share Index was collected from Nigerian Stock Exchange data bank.

Interest Rate and Capital Market Performance

Adebiyi (2002) defines interest rate as the return or yield on equity or opportunity cost of deferring current consumption into the future. Some examples of interest rate include the saving rate, lending rate, and the discount rate

John, Ezeabasili, and Adigwe (2020) examined the effect of interest rate on stock market performance in Nigeria, South Africa and Ghana using time series data from 1986 to 2018. Autoregressive Distributed Lag Model (ARDL) was employed in analysing the data sourced. Results of the study revealed that interest rate has a negative but not significant effect on stock market performance in Nigeria in both short-run and long-run. Results for South Africa indicated that interest rate has a negative effect in the short-run and a positive effect in the long run, on stock market performance. The results for Ghana showed that interest rate has a negative but not significant effect (in both short-run and long-run) on stock market performance.

In a recent study in Kenya, Nganga & Wanyoike. (2017) investigated the effect of interest rate control on the performance of stocks at the Nairobi securities exchange. The study used secondary data obtained from the Nairobi Securities exchange, Central Bank of Kenya and Kenya National Bureau of Statistics. Event analysis technique was used in establishing how interest rate control affected stock market performance. The study found that interest rate control had a negative effect on stock market performance in Kenya. From regression finding, interest rate control was expected to improve stock market performance due to reduced interest rate though this was not the case. The findings could be due to reduced credit availability as commercial banks advance less loans due to the perceived credit risk. The study therefore recommends for removal of interest rate cap to avoid the negative consequences it has on the stock market performance

Otieno, Ngugi and Wawire (2017) examined the effects of interest rate on stock market returns in Kenya using Autoregressive Fractionally Integrated Moving Average (ARFIMA) model and Granger causality test. The study found that 3-month treasury bill rate, lending rate and stock market returns are fractionally integrated, meaning that shocks to the variables persist but eventually disappear.

Khalid (2017) assessed the effect of interest rate and exchange rate on stock market performance of Pakistan using Johansen cointegration approach, error correction model (ECM) and variance decomposition as tools of analysis on data covering 1990-2017. The study found long-term relationships among the examined variables and ECM showed a speed of correction of 22% per annum.

Methodology

In conventional research, data could either be Primary or Secondary in nature. The study will use secondary data collected from the daily stock activities of the Nigerian Stock Exchange and Capital Market Authority of Kenya. The data primarily will consist of time series observation of all performance variables of the two markets and traditional cross border investment vehicles as specified in the earlier section.

Model one

Model one is formulated in line with the study objective which seeks to evaluate the influence of traditional cross border investment vehicle on the performance of the Capital Market in Nigeria and Kenya using Market Capitalization as a measure of performance as *specified*

MCAP= EXR, INTR, CRDT CROILP, INFL - - - - Eqn. 1

Where

MCAP= Market Capitalization

$\text{Log(MCAP)} = \beta_0 + \beta_1 \text{Log(EXCR)} + \beta_2 \text{Log(INTR)} + \beta_3 \text{Log(CRDT)} + \beta_4 \text{Log(CROILP)} + \beta_5 \text{Log (INFL)} + \varepsilon$ - - - - Eqn.2

Model

Table 1: ADF unit root test results

	ADF at level: I(0)		**ADF at first difference: I(1)**		
Panel A: Nigeria					
Variable	t-Statistic	Prob.	t-Statistic	Prob.	Conclusion
LOG(ASI)	-1.500730	0.8242	-8.788834	0.0000	I(1)
LOG(MCAP)	-1.507366	0.8219	-9.393716	0.0000	I(1)
SMR	-9.009844	0.0000	--	--	I(0)
LOG(ETF)	-1.990234	0.5997	-13.30988	0.0000	I(1)
LOG(EX_RATE)	-2.146855	0.5141	-5.458267	0.0001	I(1)
MPR	-2.850056	0.1828	-10.78412	0.0000	I(1)
INFLR	-1.783701	0.3869	-3.350183	0.0149	I(1)
LOG(CROIP)	-3.126695	0.1050	-8.515171	0.0000	I(1)
LOG(CRATE)	-10.23670	0.0000	--	--	I(0)
Panel B: Kenya					
Variable	t-Statistic	Prob.	t-Statistic	Prob.	Conclusion
LOG(ASI)	-3.650699	0.0301	--	--	I(0)
LOG(MCAP)	-6.268954	0.0000	--	--	I(0)
SMR	-7.349747	0.0000	--	--	I(0)
LOG(VDT)	-4.728938	0.0010	--	--	I(0)
LOG(EX_RATE)	-2.905219	0.1648	-7.932485	0.0000	I(1)
CBR	-4.173087	0.0066	--	--	I(0)
INFLR	-3.962792	0.0125	--	--	I(0)
LOG(CROIP)	-3.414426	0.0543	-8.926238	0.0000	I(1)
LOG(CRATE)	-8.756584	0.0000	--	--	I(0)

Source: Computed from the Output of E-views software

The results can be seen in Table 1 where the test-statistic and the p-values are presented. The presented p-values are the MacKinnon p-values and critical values for the ADF test. The significance level of interest is set to 0.05 and 0.01 (5% and 1%) for a more conservative analysis. The conclusion column to the right in Table 1 provides the general conclusion of the test i.e. the order of integration of a certain variable.

As seen in the Tables 1 some of the variables are either I(0) or I(1). This highlights the advantage of using the ARDL model as the model in contrast to other similar models such as Johansen's test can be used if the variables are either I(0) or I(1). Therefore, the mix of integration is not a problem and no further analysis from this perspective must be done. In

general, all the variables are either I(0) or I(1) regardless of time which implies that the ARDL model can be used, and we can continue with the calculations.

Table 2: Long-run estimates

Variable	**Model LOG(MCAP)**
LOG(EX_RATE)	-0.326241 {0.0126}**
MPR	-0.138684 {0.0403}**
INFLR	0.235764 {0.0064}***
LOG(CROIP)	-0.271433 {0.0059}***
LOG(CRATE)	-0.071563 {0.9915}
C	5.708438 {0.9078}
LOG(EX_RATE)	-0.178514 {0.8954}
CBR	0.015752 {0.7427}
INFLR	-0.511422 {0.0000}***
LOG(CROIP)	-0.298191 {0.0021}***
LOG(CRATE)	0.857489 {0.0062}***
C	-43.83411 {0.0287}**

Source: Computed from the output of E-views software

Note: The asterisk *** denotes rejection of the unit root hypothesis at the 1%, while the asterisk ** denotes rejection of the unit root hypothesis at the 5% level respectively. Figures in bracket {prob.} are the probability values.

The long-run estimates indicate that exchange rate (EX_RATE) exerted negative effects on the Nigeria capital market indicators. On the other hand, EX_RATE exerted negative effects on the Kenyan capital market indicators, except for the derivative transactions (VDT) which was positive. This implies that over a long-run period, the dynamics of exchange rate in Nigeria and Kenya respectively hindered progress in their capital markets except for Kenya where the derivative market appeared to have withstood the exchange rate dynamics. Going by the sizes of the coefficients, it was observed that the exchange rate effect was much higher in Nigeria than Kenya. This can be attributed to the fact that the Nigerian exchange rate is exposed to many factors, especially the mono-economic nature which exposes the country to oil price volatility and excessive payments for importation of refined fuel while the economy of Kenya which is largely based on tourism and hospitality is not being affected by exchange rate swings as much as Nigeria.

Regarding the effectiveness of monetary policy rate (MPR) which is referred to as the central bank rate (CBR) in Kenya, it was found that MPR negatively affected components of the

Nigerian capital market except the exchange traded funds (ETF) that was used to measure the derivative market. On the other hand, the CBR positively affected all the components of the Kenyan capital market. This evidence indicates that Kenya practised a more favourable monetary policy that positively enhanced capital market activities unlike the Nigerian experience. This also implies that the MPR prescribed by the Nigerian monetary authority yet to trigger a positive impact on its capital market activities over a long period.

With respect to the crude oil price (CROIP), it was generally seen that while ASI and SMR were positively affected in Nigeria and negatively affected by MCAP and ETF. This clearly shows that in the long-run, CROIP could exert varying impacts on the Nigeria capital market through various channels. Regarding Kenya, CROIP largely caused a negative effect on its capital market components except for VDT were a positive effect was observed. This finding largely implies that the Nigerian and Kenyan capital markets were susceptible to the dynamics of CROIP in the long run. Kenya being a net importer of oil, it means that the extra amount that is spent on purchasing oil products goes to the foreign producers of oil, thus shrinking the country's foreign reserves affecting the domestic purchasing power which translates into poor financial activities in the country. For Nigeria, this could be attributed to it's over reliance on oil while for Kenyan it could be because of transmission effects from its foreign investors.

In the long-run, inflation rate (INFLR) exerted more negative effect on the Kenyan capital market than Nigeria. This implies that the inflationary pressure in Kenya caused diminishing effects on its capital market while the Nigerian capital market indices were rising amidst inflationary pressures. This could be that investors in the Nigerian capital market were able to attract more returns amidst inflation than those in Kenya.

From the long-run estimates, it was observed that the Nigerian capital market was generally undermined by its credit rating (CRATE) while the CRATE from Kenya was seen to have an increasing effect on its capital market. This is an indication that Nigeria has a very poor credit rating that significantly distorts capital market activities in the long run. Also, it was well-known that Nigeria has been highly indebted to foreign creditors, thus painting a negative picture of the country which has automatically inhibited its capital market performance. Though, Kenya is also an indebted country, but it appears that its credit rating is more favourable than Nigeria.

ECM for the Nigerian model one

Table 3 presents the ECM for model two. The error correction term, denoted as ECM(-1) is both negative and statistically significant, showing that an established long-run relationship can be attained. The speed of adjustment shows that about 9.4% of the short-run dynamics in MCAP is corrected every month. This also indicates that the adjustment mechanism was very slow and would take a long time. The coefficient of determination (Adjusted R-squared) showed that, about 68% of the systematic changes in MCAP are attributed to the combined effect of all the explanatory variables captured in the model, while the remaining 32% is due to the stochastic disturbance term. The F-statistic indicates that the explanatory variables are simultaneously significant when addressing issues relating to MCAP.

ECM for the Kenyan model one

The ECM associated with the MCAP model is presented in Table 3:

Table 3: ECM for model one

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(MCAP(-1))	0.423506	0.124542	3.400518	0.0010***
DLOG(EX_RATE)	0.275790	0.121413	2.271513	0.0255**
D(CBR)	-0.299620	0.196056	-1.528239	0.1300
D(CBR(-1))	-0.570736	0.176770	-3.228701	0.0017***
D(INFLR)	0.040374	0.019357	2.085745	0.0470**
DLOG(CROIP)	0.298191	0.090157	3.307474	0.0014***
DLOG(CRATE)	1.206199	1.697958	0.710382	0.4793
DLOG(CRATE(-1))	-5.477644	1.665645	-3.288603	0.0014***
ECM(-1)	-0.105729	0.014204	-7.443479	0.0000***
R-squared	0.698557			
Adjusted R-squared	0.635172			
F-statistic	7.812877			
Prob(F-statistic)	0.000005			
Durbin-Watson stat	2.019131			

Note: The asterisk (***) denotes rejection of the unit root hypothesis at the 1%, while the asterisk (**) denotes rejection of the unit root hypothesis at the 5% level respectively

The short-run adjustment process is measured by the error correction term ECM(-1) and it shows how quickly variables adjust to a shock and return to equilibrium. For stability, the coefficient of ECM(-1) should carry the negative sign and be statistically significant. The estimated coefficient for the ECM(-1) reported in Table 3 is negative and statistically significant. This implies that deviations from MCAP equilibrium path were corrected by nearly 11% over the following month. The statistical significance of the ECM(-1) confirms the presence of long-run equilibrium relationship between MCAP and the traditional cross border investment vehicles in Kenya.

The Adjusted R-squared is 0.635172, this implies that the traditional cross border investment vehicles explained about 64% changes in MCAP, while the remaining 26% were other factors affecting changes in MCAP but were not captured in the model. In addition, the F-statistic of 7.812877is statistically significant at 5% level of significance; this implied that the traditional cross border investment vehicles jointly explained changes in MCAP in Kenya.

The positive and statistically significant coefficient of DLOG(MCAP(-1)) implies that the previous month's MCAP triggered higher MCAP in the current month. The effect of CBR was found to be negative and statistically significant within a period of one month as indicated by D(CBR(-1)). The coefficient of D(INFLR) suggests that higher inflation rate would trigger an instantaneous increase in MCAP. Regarding DLOG(CROIP), it was observed that an increase in the crude oil price would cause an increase in the MCAP of Kenya within one month. On the other hand, the short-run coefficient of credit rating as denoted by DLOG(CRATE) indicated that an increase in the Kenyan credit rating would inhibit MCAP.

Test of Hypothesis

The test of hypothesis was based on the 5% significance test for the long-run estimates (see Table 3). According to Gujarati (2004), the decision rule for hypothesis testing is as follows:

1. Accept null hypothesis if p-value is greater than 0.05; and,
2. Reject null hypothesis if p-value is less than 0.05.

Table 3 summarized the test of hypothesis.

Ho: Traditional cross border investment vehicles do not have significant effect on market capitalization in Nigeria and Kenya

Here, the exchange rate, MPR, inflation and crude oil price were significant factors that affected market capitalization of Nigeria. Exchange rate, MPR, inflation and crude oil price turned out with probability values of 0.0126, 0.0403, 0.0064 and 0.0059 while the credit rating had a probability value of 0.9915. It then implies that only credit rating failed the significance test. It then indicates that the most significant traditional cross border investment vehicles affecting market capitalization in Nigeria are exchange rate, MPR, inflation and crude oil price.

On the other hand, in Kenya, exchange rate and central bank rate had probability values of 0.8954 and 0.7427 which shows that they are statistically insignificant in the long run. Inflation, crude oil price and credit rating produced probability values of 0.0000, 0.0021 and 0.0062 respectively that are lesser than 0.05. It the implies that inflation, crude oil price and credit rating were the most significant traditional cross border investment vehicles affecting market capitalization in the long run in Kenya.

Discussion of Results

Generally, the results of the ARDL estimation shows that the traditional cross border investment vehicles have a time-varying effects on the Nigerian and Kenyan capital market irrespective of the variable used to measure capital market performance. This is based on the divergent results obtained for the long-run and error correction model estimates. Also, the model summary as indicated by the Adjusted R-squared and F-statistics of the models indicate that traditional cross border investment vehicles collectively affect capital market performance in Nigeria and Kenya.

In Nigeria and Kenya, all the components of capital market performance responded negatively to the changes in exchange rate except for the VDT in Kenya. This then implies that the Nigerian capital market was more vulnerable to exchange rate dynamics than Kenya. In the short run, however, exchange rate happened to be largely negative for Nigeria but positive for Kenya in many cases, imply that exchange rate shocks hit the Nigerian capital market the most. This could be attributed to the fact that the countries, especially Nigeria rely on the importation of capital goods which then increases the cost of production due to the incessant depreciation of the domestic currency which must have discouraged foreigners from investing in the domestic markets. Findings from this study is in tandem with those of Adebiyi and Abeng (2019); Muigai and Chereno (2019); Iqbal and Haider (2015); Okoli (2012); Joseph (2012) while studies such as Izunobi, Nzotta, Ugwuanyim and Ozurumba (2019); Fapetu and Adeyeye (2017) did not support the findings of this study. The divergence in the research outcome could be attributed to the fact that the exchange rate is often dynamic and different countries, overtime, have embraced varying exchange rate regimes in their quest for financial stability.

In the case of monetary policy rate (MPR), the long-run results showed an adverse trend in capital market performance components except for ETF in Nigeria. The central bank rate (CBR) was generally observed to be positive for Kenya except for the VDT where it had a negative trend. This clearly implies that the Kenyan central bank might have been more prudent in its monetary policy than Nigeria. In the short-run, the MPR and CBR turned out with time-varying effects on the capital market performance indicators because policymakers would usually adjust monetary decisions based on economic situations at different times. However, a rise in MPR/CBR would trigger high lending rates which would eventually cause

higher inflation rate and distort capital market activities in a country with high policy rate. These assertions are in consonance with Thuo (2019); Meshack and Nyamute (2016); Naoyuki, Farhad, Ali and Ahmad (2014); Aliyu (2012) but against those of Anyamaobi (2018); Okumu (2017); Akani, Okpnkwo and Ibenta (2016) who found increasing stock market performance amidst upward review of MPR/CBR.

As observed from the long-run estimates, inflation rate (INFLR) largely caused positive trends in the components of capital market performance for Nigeria except in the case of ETF where a negative effect was felt. In the Kenyan capital market, inflation rate had a negative effect on three of the capital market indicators but turned positive for the VDT. This shows that the Kenyan market indices were unable to withstand inflationary pressure in the long-run, but its derivative market was able to cushion the effects of inflation in the long-run while the Nigerian case shows that though the market indices seemed to have withstood the undesirable effects of inflation its derivative market could not absorb it. This clearly reveals that the Kenya derivative market has been more prominent in curtailing the effects of inflation more than its Nigerian counterpart. This could also lend credence to the assertion that a high rate of inflation reduces the purchasing power of money and thus increases the cost of transactions in an inflationary prone financial market. In the short run, however, the effect of inflation was largely negative across the models. The studies that lend credence to this finding are Mtuweta (2018); Orajaka and Okeke (2017); Babu (2017); Mogire (2016) while Iorember, Sokpo and Usar (2017); Omotor (2010) found inflation to be less significant.

Regarding the crude oil price (CROIP), it was found that CROIP negatively affected MCAP and ETF in Nigeria probably because the Nigerian system is dominated by transactions in the oil sector. In Kenya, the CROIP largely exerted negative influence on the ASI, MCAP and SMR but had a positive influence on the VDT probably since the Kenya derivative market is not dominated by oil. This showed that Nigeria being a monocultural economy that is largely reliant on crude oil is more exposed to oil price dynamics and its derivative market offers little to cushion this effect unlike the Kenyan capital market where the derivative market played a key role in cushioning the effect of oil price swings in the long run. In the short run, the effect of CROIP was incessantly dynamic with the passage of time. This is in line with the findings of Olayungbo (2020); Agbo and Nwankwo (2019); Kumeka, Adeniyi and Orekoya (2018); Kinyanjui (2018); Gourène and Mendy (2018); Asaolu and Ilo (2012) while Alimi and Joseph (2021); Adenekan, Hilili and Okereke (2020); Haji (2017); Gatuhi (2013) found the crude oil price effect to be beneficial for oil producing countries alone.

Conclusions

The study evaluated the influence of traditional cross border investment vehicles on the performance of the Nigerian and Kenyan capital markets. Results from the analysis showed that exchange rate and monetary policy rate had the greatest effect on the Nigerian capital market performance indices followed by crude oil price and credit rating in the long run. In Kenya, on the other hand, the capital market performance indicators were majorly affected by crude oil price and inflation rate followed by exchange rate and credit rating. Also, the speed of adjustment across the models specified showed that there was an adjustment mechanism from short-run disequilibrium to the long-run, implying that the nexus between the traditional cross border investment vehicles on the performance of the Nigerian and Kenyan capital markets followed a long-run path. Again, the collective effect of traditional cross border investment vehicles on the performance of the Nigerian and Kenyan capital markets was found to be statistically significant as shown by the F-statistics. Consequently, it was concluded that the traditional cross border investment vehicles exerted varying effects on

capital market performance in Nigeria and Kenya, they were generally significant in influencing the capital markets.

Recommendation

After the findings that emanated from this study, the following suggestions are offered for attention of concerned authorities. The top management of listed firms as well as other participants in the Nigerian and Kenyan capital markets to leverage on monetary policy to enhance their performance which will in turn improve capital market performance. This calls for proper communication and regularly monitoring of monetary activities in Nigeria and Kenya to obtain timely information.

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