

## The Effects of Governance Indicators on Per Capita Income, Investment and Employment in Selected Mena Countries

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### Abstract

Governance is a way of exercising power in economic and social resource management of a country. Good governance criteria have different weights and relations with regard to the conditions of any country. This study is a descriptive survey and has been carried out to calculate the coefficients and weights of each indicator of good governance in Mena countries and identify the causal relationship between these indicators and their effects on per capita income, investment and employment. After identifying indicators of good governance by Granger causality test and vector Auto-regression test, causal relationships of good governance indices were analyzed in the form of statistical hypotheses. Then, the weights of each indicator was calculated by distributing a questionnaire among the expert's in the field of good governance by using fuzzy hierarchical analysis and the relationship between main governance indicators and employment-highlighted indices are investigated. Among the research results, high weight of accountability, voice and accountability and social justice indicators can be pointed out compared to other good governance indices. By examining panel data regression of governance indicator on per capita income, investment and employment, it is observed that governance indicators have a significant positive effect in each three regression equations. Therefore, by improving the good governance indicators in developing countries, some important economic, social and political objectives would be achieved simultaneously. Increasing per capita income, increasing domestic and foreign investment, creating sufficient jobs and increasing the welfare are some economic aspects of improving governance indicators in the country.

**Keywords:** Good Governance, Voice and Accountability, Per Capita Income, Employment, Investment.

**JEL Classification:** E61, E69, G18.

### 1. Introduction

Good governance reflects in the areas such as transparent policy-making, professional administration, government accountability and a

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strong civil society (Kardos, 2012). Good governance requires a mechanism through which the citizens can participate in the policy-making process normally. The more inclusive policy-making process is, policies, laws and administrative procedures resulting from this process can be more applicable and accountable (Knoll and Zloczynski, 2011).

As mentioned by the World Bank, member states should improve their resource allocation mechanisms and implement policies for improving the relations between the citizens and government (World Bank, 2014). The governance index and sub -indices of many countries are evaluated and ranked by international organizations such as the World Bank (Kaufmann et al, 2010).

To have a better ranking position, there should be a long-term plan for improving each of the indicators of good governance. The impacts and the transposition of governance indicators on each other must be initially determined for planning (Heeks & Mathisen, 2012). On the other hand, the World Bank assigns weights equally to each indicator for calculating the scores of good governance in each country. The weight of each indicator can be different based on the economic, political and social characteristics of each country (Lockwood, 2010).

Since employment has attracted the attention of authorities and social institutions for many years, an important factor in the effectiveness of the state in establishing good governance is the creation of sufficient jobs and declining unemployment. Job creation can be an instrument and a guide for authorities for equitable distribution of income, reducing poverty and accelerating institutional change that can be achieved by good governance.

Theoretical and empirical aspects of economic growth have always been interesting to the economists and the effects of governance indicators on the economic growth have been considered in previous studies. Governance indicators have an enormous role in the economic environment in terms of economic growth and development. The role of governance in shaping of legislation, economic and social security and other necessary and fundamental conditions provides foundations for efficient production that eventually affects economic growth in any country. So, in this research, we try to analyze and review the relationship between good governance indices with per capita income, investment and employment. Extracting causal relationships between

good governance indices and the relationship between governance indices with employment and economic growth in selected Mena countries are other expected results of this research.

## **2. Literature Review**

Hall and Jones (1999) showed that there is a significant relationship between governance indicators and socioeconomic outcomes. Mauro (1995) has found that corruption reduces domestic and foreign investment greatly in the lack or absence of good governance. For example, if the Philippines could reduce corruption to the level of Singapore, then the rate of investment to GDP would increase to 6.6 percent.

There are different channels that lack of good governance could undermine economic growth. Lack of optimal allocation of talents (Murphy et al., 2001), including the utilization of the key sectors of the society less than the optimal level, such as women, lower levels of domestic and foreign investment (Mauro, 1996), uneven growth and development of business in the unofficial economy (Kaufman et al, 1999), inconsistency of public investment, costs, and degradation of physical infrastructure (Tanzi and Davoudi, 2008), low public revenues and rule of law (Kaufmann et al., 1999) and finally big governments with a small private sector (Fisman & Gaty, 2005) are some aspects of this subject.

As the government is limited by the corporate elites and the military laws, the production growth and investment in the productive sector is dying down (Hellman et al., 2000). According to UNDP, lack of corruption and good governance are mutually interconnected (UNDP, 2010). Knoll and Zelokzisti, (2011) have described good governance indices from the various aspects. They have proposed two concepts of the good governance quality and the participatory aspect of good governance as new dimensions. They also believe that the interpretation and understanding of the parameters of good governance are separated based on each individual area.

Good governance has been considered in the last three decades by researchers in different fields. Good governance appears in adopting the anticipated, explicit and clear policies by the government which indicates the transparency of government activities; transparent

bureaucracy, responsibilities of the executive agencies for their activities, active participation of people in political and social affairs and rule of law. Good governance has three main parts, including governments, civil society and the private sector (Kardos, 2012). Each of these three parts has their own specific institutions that they have special features and tasks. Some of the government functions are the rule of law, economic and social standards setting, physical and social infrastructure development, social justice and providing social security (Knoll and Zloczysi, 2011).

The World Bank as an international organization ranks all countries based on good governance indicators each year. World Bank divides the concept of good governance into two major categories of accountability and inclusion (World Bank, 2014). Accountability evaluates the public sector and the citizen's access to the government information and through this, its aim is to hold the leaders and officials responsible.

Accountability requires transparency and the ability to protest against managers who have been selected as well as policy and services provided by them. Thus the possibility of protest and transparency are the accountability requirements. On the other side, inclusion evaluates the legal power of the governor in supporting property rights, bureaucracy efficiency, the quality of regulations and controlling the corruption and bribery (Rudra and Sanyal, 2011).

One reason for the importance of good governance is its impacts on the quality of life and well-being of people. Improving each governance dimension such as civil liberties, even when other socio-economic factors are constant, directly promotes the people's quality of life (Kardos, 2012). Incidentally, improving good governance indicators have several benefits for current and future generation of a country by improving the social and political indices of a country and improving the standards of living (Mohammadi, 2009).

Therefore, governance is considered as one of the essential inputs for the well-being of people. Another reason for the importance of good governance is its relationship with some macro indicators of a community; for example, bad governance can reduce the rate of income growth, employment and human capital and increase the speed of natural resources depletion and pollution. In addition, in the

countries with bad governance performance, we observe a set of disturbing economic and institutional policies that slow down the productivity of production factors, economic growth and poverty eradication. Therefore, the efficient government is an important factor for the implantation of sound and effective economic policies, development of human capital, job creation and poverty reduction (Daines et al., 2010).

Various institutions and researchers have proposed several indicators for good governance at a society. World Bank has divided the governance indicators into six components: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, the rule of law, and control of corruption (World Bank, 2014).

Reviewing of the previous studies showed that no research has been done to investigate the relationship between job creation and good governance indicators and also checking the simultaneous impacts of governance indicators on the economic growth, investment and employment among different countries. Therefore, the current study tries to cover this subject and determine the causal relationships between these variables in selected MENA countries.

The term MENA is referring to the Middle East and North Africa region and MENA covers an extensive region, extending from Morocco to Iran. In this study, causal relationships between factors of good governance and employment are analyzed in detail and their impacts on economic growth in selected Mena countries are considered.

After reviewing previous research, 23 indicators for good governance are identified by utilizing quantitative content analysis; from these, nine indicators have the most citation in the previous research articles. In addition to the indicators with the most citation, the information of articles that have high impact factors in ISI and ISC journals have been utilized.

As a result, nine indicators are selected as research variables. Some of the research variables and the cited references are shown in Table 1.

**Table 1: Research Variables**

Indicators	Parameter	Cited References
Transparency	C <sub>1</sub>	(Gradestin, 2008) (Un-Habitat, 2006)
Accountability	C <sub>2</sub>	(Singh & Karn, 2012) (Rudra & Sanyal, 2011) (Knoll & Zloczynski, 2011)
Corruption control	C <sub>3</sub>	(Singh & Karn, 2012) (Kaufmann et al., 2010) (Knoll & Zloczynski, 2011)
Government effectiveness	C <sub>4</sub>	(Singh & Karn, 2012) (Rudra & Sanyal, 2011) (Kaufmann et al., 2010) (Knoll & Zloczynski, 2011)
The quality of rules	C <sub>5</sub>	(Gradestin, 2008) (Rudra & Sanyal, 2011) (Kaufmann et al., 2010) (Knoll & Zloczynski, 2011)
Political stability	C <sub>6</sub>	(Un-Habitat, 2006) (Singh & Karn, 2012) (Kaufmann et al., 2010) (Sardarnia & others, 2010)
Legitimacy	C <sub>7</sub>	(Singh & Karn, 2012) (Kaufmann et al., 2010)
Voice	C <sub>8</sub>	(Un-Habitat, 2006) (Rudra & Sandal, 2011)
Social justice	C <sub>9</sub>	(Gradestin, 2008) (Un-Habitat, 2006) (Sardarnia et al., 2010)

### 3. Methodology

This research is a descriptive survey and was done with the aim of calculating the coefficients and the weight of each good governance indicators in MENA countries and identifying the relationships between these indices.

The Content Analysis Method was used to check the manifest content of messages in a text, which is used as a qualitative or quantitative. In the quantitative method, counting the frequencies should be started after coding which means the number of codes per unit or the overall text analysis and the calculated frequencies is

displayed as the table of data Matrix in the form of frequency, percentage, etc. Considering the number of frequencies of each category, other statistical operations can be used such as the correlation between categories, the amount and the intensity, chi-square and so on. In this study, the importance rate of each index is determined based on the frequency.

Then, to evaluate the relationship between good governance indicators, the statistical hypotheses were developed. Using data from the World Bank and the United Nations in the period 2002 to 2012, nine indicators for good governance extracted and a panel of data created. Using Eviews8 software, after the stationary test of data with Dickey-Fuller test, the research hypotheses were tested by Granger causality test and Vector Auto Regressive (VAR) approach for a one-year period shock. To investigate the effects of the good governance index on other time series variables, common regression methods are applicable when the time series are stationary. Dicky-Fuller and generalized Dicky- Fuller tests are the most common and easiest tests to determine the degree of integration of non-stationary series (Gujarati, 2007). Furthermore, to examine the relationship between variables and their impact on each other, Granger causality test was used. Vector Auto Regressive method also can be applied for studying the effects of shocks.

The good governance index was identified using the Snowball Technique and 13 experts formed the members of the study group. The research group's experts include 9 famous university professors that have written on the subject of good governance and 4 senior government managers. A questionnaire is designed based on the fuzzy values and to determine the weight of each nine indicators, and distribute among the expert's group. The questionnaires have been collected within fourteen days. Then, the weight and coefficient of each index are calculated by using fuzzy analytic hierarchy process (AHP). Furthermore, in order to apply the system of equations when the data are as a panel, the panel data tests should be done.

Based on the provided empirical studies and theoretical foundations, in order to investigate the effect of governance on per capita income, investment and employment, a set of equations estimated as follows.

$$\ln Y_{it} = a_0 + a_1 \ln I_{it} + a_2 \ln CP_{it} + a_3 \ln E_{it} + a_4 \ln EX_{it} + u_{it} \quad (1)$$

$$\ln I_{it} = b_0 + b_1 \ln CP_{it} + b_2 \ln r_{it} + \ln Y_{it} + e_{it} \quad (2)$$

$$\ln E_{it} = g_0 + g_1 \ln Y_{it} + g_2 \ln CP_{it} + g_3 \ln C_{it} + g_4 \ln I_{it} + j_{it} \quad (3)$$

In the above equations, (Y) is the growth of per capita income, (I) the investment and (CP) the total governance indicator, (C) credits, (EX) exports and (E) employment.  $J_{it}$ ,  $e_{it}$ ,  $u_{it}$ , are the residuals.

Equation (1) estimates the effect of investment, total governance indicator, employment and exports on the economic growth. Equation (2) examines the impact of the total governance indicators, interest rate and per capita income growth on investment and finally equation (3) shows the effect of per capita income growth, governance index, credits and investment on employment.

In the fuzzy hierarchical analysis to determine the priority and the importance of the indicators relative to each other, the fuzzy numbers are used. In this method, due to the inaccurate fuzzy values, the results are closer to the reality (Akbari and Mehregan, 2007). In Table 2, the quantitative amounts corresponding to each language option were displayed.

Table 2: Fuzzy Values

Importance	Exactly the same	No preference	Relatively More important	More important	Very importantly	Quite importantly
Fuzzy numbers	(1,1,1)	(1/2,1,3/2)	(1,3/2,2)	(3/2,2,5/2)	(2,5/2,3)	(5/2,3,7/2)

Resource: Research findings

Then, after the formation of pair wise comparison matrix that its elements are fuzzy numbers; the weights of indices were calculated. If there is a dependency among the selected indicators and they are not independent of each other, the pair-wise comparison matrix will be formed based on the analysis of the correlation between the indicators for each of them (Asgharpour, 2004).

#### 4. Results

To test the research hypothesis, the information of the nine indicators of governance from the World Bank and the United Nations were used. Since using the time-series data is based on the stationary



assumption, at first the stationary test is conducted by the Dickey-Fuller test. Then, ANOVA test was done for the nine variables of the voice, transparency, social justice, control of corruption, rule of law, political stability, government effectiveness, quality and accountability of rules. Considering a 12-months period shock, the relationship among the nine good governance indicators with each other in the whole course as well as the rule of law and accountability to the fourth period, and also control of corruption, and the voice and the effectiveness of government and the rule of law up to the third period are significant. In addition, accountability is significant with social justice and the effectiveness of government until the fourth period. The effect of the entered shock on each variable can be measured over time on the other variables by using impulse response function. As shown in Table 3, the accountability variable share to the transparency variable is 22.04, control of corruption variable is 10.12, government effectiveness variable is 9.23, laws quality is 8.26, political stability is 8.13, rule of law is 12.22, the voice is 19.03 and social justice is 10.97 over a one year period. Accountability and voice variables have the highest shares on the transparency variable. Taking of the accountability variable, it is observed that the two variables of the rule of law and the voice have the largest shares on it. The two variables of accountability and quality of the rules have the most shares on the control of corruption. The transparency variable has the most shares in government effectiveness. Both variables of social justice and transparency have the largest shares on the quality of the laws. Accountability is an indicator that has the greatest contribution to the political stability. Social justice and political stability also have a great share on the index of the rule of law. The quality of laws has the largest share on the voice. Two indicators of voice and accountability have the largest shares on the social justice of community.

Results of causality and the variables influence on each other were shown in Table 4. The null hypothesis (no causality:  $H_0$ ) is rejected for each of the variables and the level of its possibility is less than 5%. 72 relationships are evaluated in the form of research hypotheses from the combination of these items. According to Granger causality test at

a confidence level of 95%, 35 hypotheses are confirmed. The numbers associated with unverified hypotheses are shown in Table 5.

**Table 3: Analyses of Variance for the Nine Indicators of Good Governance Variables in a One-Year Period**

One-Year Period	Transparency	Accountability	Control of Corruption	Government Effectiveness	Quality of Rules	Political Stability	Rule of Law	Voice	Social Justice
Transparency		22.04	10.12	9.23	8.26	8.13	12.22	19.03	10.97
Accountability	9.45		7.88	9.02	10.72	11.02	20.09	24.13	7.69
Control of Corruption	10.71	22.13		8.15	18.13	9.24	15.02	6.11	10.51
Government Effectiveness	16.62	24.03	6.71		10.22	15.95	7.23	8.11	11.13
Quality of Rules	14.12	11.67	10.22	14.09		13.13	10.39	11.14	15.24
Political Stability	10.12	19.03	8.13	22.04	8.26		9.23	12.22	10.97
Rule of Law	9.65	10.41	8.57	10.25	17.97	15.24		11.87	15.64
Voice	11.95	14.76	9.64	9.88	18.74	10.91	12.72		11.40
Social Justice	10.58	21.43	8.44	11.09	9.60	10.88	8.34	19.64	

**Resource:** Research Findings

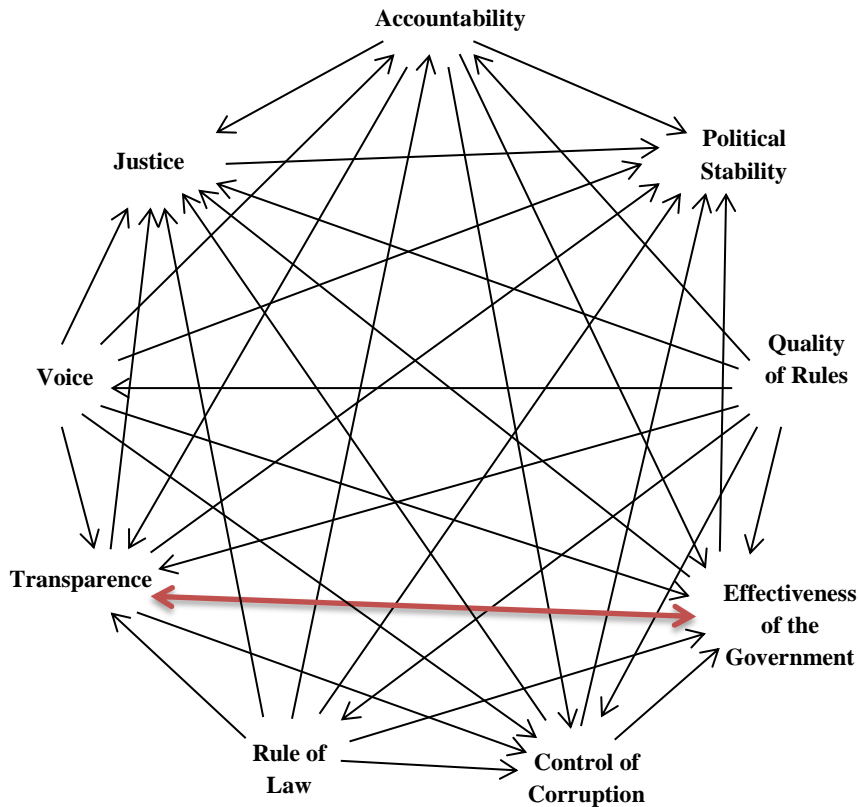
**Table 4: Probability Results of Granger Causality Test**

Dependent Variable ↓	Transparency	Accountability	Control of Corruption	Government Effectiveness	Quality of Rules	Political Stability	Rule of Law	Voice	Social Justice
Transparency		0.02	0.41	0.01	0.03	0.35	0.03	0.02	0.11
Accountability	0.31		0.14	0.42	0.03	0.21	0.01	0.03	0.13
Control of Corruption	0.03	0.01		0.15	0.02	0.51	0.04	0.01	0.21
Government Effectiveness	0.02	0.04	0.02		0.03	0.14	0.02	0.03	0.14
Quality of Rules	0.11	0.23	0.15	0.34		0.16	0.35	0.42	0.08
Political Stability	0.03	0.02	0.01	0.03	0.16		0.02	0.04	0.01
Rule of Law	0.09	0.31	0.22	0.14	0.02	0.19		0.17	0.19
Voice	0.12	0.17	0.08	0.56	0.01	0.15	0.25		0.33
Social justice	0.03	0.02	0.04	0.01	0.03	0.14	0.02	0.03	

**Resource:** Research Findings

The relationship between the two indicators of government's effectiveness and transparency is bilateral which means both affect each other. This means that creating transparency at the community level and clear review of all government functions leads to government effectiveness. On the contrary, we achieve the objectives of transparency by improving government effectiveness.

Figure 1: depicts the relationship between the nine variables. The direction of the model arrows determines the causality relation between the two variables.



**Figure 1: Depicts the Relationship between the Nine Variables. The Direction of the Model Arrows Determines the Causality Relation between the Two Variables.**

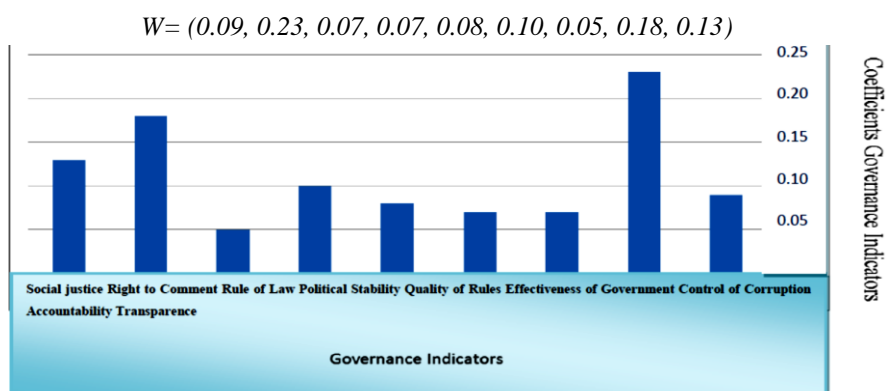
A matrix of paired comparisons for each of the research experts is conducted in Table (5).

**Table 5: Matrix of Paired Comparisons of Each Expert**

	C <sub>1</sub>	C <sub>2</sub>	C <sub>3</sub>	C <sub>4</sub>	C <sub>5</sub>	C <sub>6</sub>	C <sub>7</sub>	C <sub>8</sub>	C <sub>9</sub>
C <sub>1</sub>	(1,1,1)	(1/2,2/3,1)	(3/2,2,5/2)	(1,3/2,2)	(2,5/2,3)	(3/2,2,5/2)	(2,5/2,3)	(1/2,1,3/2)	(1/2,2/3,1)
C <sub>2</sub>	(1,3/2,2)	(1,1,1)	(3/2,2,5/2)	(1,3/2,2)	(2,5/2,3)	(3/2,2,5/2)	(3/2,2,5/2)	(3/2,2,5/2)	(2,5/2,3)
C <sub>3</sub>	(2/5,1/2,2/3)	(2/5,1/2,2/3)	(1,1,1)	(1/2,2/3,1)	(1/2,1,3/2)	(1,3/2,2)	(2,5/2,3)	(1,3/2,2)	(2,5/2,3)
C <sub>4</sub>	(1/2,2/3,1)	(1/2,2/3,1)	(1,3/2,2)	(1,1,1)	(3/2,2,5/2)	(1/2,2/3,1)	(2,5/2,3)	(1/2,2/3,1)	(1/2,1,3/2)
C <sub>5</sub>	(1/3,2/5,1/2)	(1/3,2/5,1/2)	(2/3,1,2)	(2/5,1/2,2/3)	(1,1,1)	(1/2,2/3,1)	(3/2,2,5/2)	(1/2,2/3,1)	(3/2,2,5/2)
C <sub>6</sub>	(2/5,1/2,2/3)	(2/5,1/2,2/3)	(1/2,2/3,1)	(1,3/2,2)	(1,3/2,2)	(1,1,1)	(2,5/2,3)	(1/2,1,3/2)	(1,3/2,2)
C <sub>7</sub>	(1/3,2/5,1/2)	(2/5,1/2,2/3)	(1/3,2/5,1/2)	(1/3,2/5,1/2)	(2/5,1/2,2/3)	(1/3,2/5,1/2)	(1,1,1)	(3/2,2,5/2)	(1/2,2/3,1)
C <sub>8</sub>	(2/3,1,2)	(2/5,1/2,2/3)	(1/2,2/3,1)	(1,3/2,2)	(1,3/2,2)	(2/3,1,2)	(2/5,1/2,2/3)	(1,1,1)	(1/2,2/3,1)
C <sub>9</sub>	(1,3/2,2)	(1/3,2/5,1/2)	(1/3,2/5,1/2)	(2/3,1,2)	(2/5,1/2,2/3)	(1/2,2/3,1)	(1,3/2,2)	(1,3/2,2)	(1,1,1)

**Resource:** Research Findings

Normalized weights of the nine indices are shown in Figure 2.



**Figure 2: The Chart of Good Governance Indicators Coefficient**

Based on the result of fuzzy hierarchical rank, according to the expert's opinion, three criteria of accountability, voice and social justice have the greatest weight among the nine indices. Based on this result, it can be noted that according to the Iranian expert's view, empowering the citizens and allowing them criticizing the performance of the authorities and accountability of the executive authorities, on the one hand and the establishment of equality and justice in the society are the most important factors of good governance.

In this study, after identifying the important good governance indicators, among the three indicators of accountability, voice and social justice, which have the highest weight between nine indicators of good governance and job creation index, Granger causality test was

used to investigate the causal relation between the variables. Before the causality test, it is necessary to do VAR test. Initially, a one-year period shock is considered in which the relation of accountability, voice and social justice indices are significant in the entire period. Granger causality test results are shown in Table (6).

**Table 6: Granger Causality Test Results**

<b>dependent variable</b>	<b>variable independent</b>	<b>probability</b>
Employment	accountability	0.015
	voice	0.21
	social justice	0.25
Accountability	employment	0.005
	voice	0.73
	social justice	0.23
Voice	employment	0.65
	accountability	0.001
	social justice	0.02
Social Justice	employment	0.03
	accountability	0.01
	voice	0.045

**Resource:** Research Findings

Results of causality relation and the impact of variables on each other are shown in the Table (6). As it is shown in Table (6), for each variable that the level of its probability is less than 5%, the null hypothesis (no causality:  $H_0$ ) is rejected. Here, the causal relationship is between accountability and employment with the possibility of 0.015, that due to the probability level which is less than 5%, the null hypothesis is rejected. So, the causal relationship is between accountability and employment. Also, there is a causal relation between employment and social justice variables with the possibility of 0.03. It shows that the possibility of equity increases with an increase in employment. But employment does not increase only via equity increasing, because one of the unemployment reasons in developing countries such as Iran is the high rate of population between the ages of 16 and 40.

After the above steps, the panel data approach was used to consider the effect of explanatory variables on per capita income in Mena countries. In order to investigating the effect of the investment, exports, employment and total governance indicators on the per capita income in Mena countries, equation (1) through (3) were estimated. Some statistical tests were done before estimating the final models.

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First, we estimate the ordinary least squares (OLS) and panel estimation (random and fixed) methods for the three equations by using the F-limer and Hausman tests, and then we compare the two models which their results reported in Table (7).

**Table 7: Panel Data Tests for Equation (1) Through (3)**

Hausman test	probability
F-limer Panel OLS1	0.01
Hausman FE1 RE1	0.03
F-limer Panel OLS2	0.04
Hausman FE2 RE2	0.04
F-limer Panel OLS3	0.02
Hausman FE3 RE3	0.03
P=0/00: probability of Broach Pagan test	

**Resource:** Research Findings

The results of estimating the panel data models for equation (1) through (3) were reported in Table (8).

The first regression is related to the per capita income. The governance indicator has a positive and significant effect on dependent variable. It means that the better governance indicators would affects the level of per capita income in the country which is due to improving the effectiveness of government, political stability and control of corruption that enhance the trade and investment and governmental expenses and in general improving per capita income in the country Investment and exports also have a significant positive effect on per capita income, but employment has a negative impact on per capita income, which is due to the low productivity of the labor.

**Table 8: Results of Panel Simultaneous Equation System**

Variable\ Dependent Independent Variable	(1) lnY	(2) lnE	(3) lnI
lnCP	0.5 <sup>*</sup> (16.6)	0.38 <sup>*</sup> (3.33)	0.31 <sup>*</sup> (3.82)
lnY	-	0.24 (5.11)	0.55 (.79)
lnEX	0.06 <sup>*</sup> (3.5)	-	-
lnI	3.04 <sup>*</sup> (3.86)	4.03 <sup>****</sup> (4.72)	-
lnE	0.89 <sup>****</sup> (-3.42)	-	-
lnr	-	-	2.52 <sup>*</sup> (-2.90)
ln Ct	-	2.28 <sup>*</sup> (-5.97)	-

The The numbers in parentheses show the Z-statistic of coefficients \*\*\*\*, \*\*, \* \*\*\*\*, \*\*, \* and % represents a significant level of 1% and 5% and 10%.

In the second regression, governance index has a significant and positive effect on employment. Therefore, policy-makers could ~~we~~ ~~ean~~ increase the level of employment in the country by improving the governance indicators. Furthermore, in the third equation the effect of governance indicator on investment is positive and significant. In addition, the interest rate has a negative and significant relationship with investment; it means that by lowering interest rates, investment increases. In the second regression, governance index has a positive and significant effect on employment levels and that is related to the effectiveness of the government, which represents the efficiency of government in doing the duties that include the job creation and the quality of the administrative system, competence of brokers and independence of the public services from political pressure. Also, investment has a positive and significant effect on employment, because with increasing investment in the industry, agriculture and other economic sectors, the amount of the credit and capacities of the economy for creating suitable jobs increases.

## **5. Discussion and Conclusion**

This research conducted with three main goals; first, determining the weight of good governance indicators from the viewpoint of the Iranian expert's; second, considering the relationship between prominent indicators of good governance with employment; and third, studying the relationship between indicators of good governance with per capita income, investment and employment in the MENA countries.

The results show that three criteria of accountability, voice and social justice have the highest weight between nine indicators of good governance. Based on these findings, it should be stated that paying attention to the civil rights and creating a civil society, in terms of Iranian expert's, is the most important factor of the society governance, and the good governance can be achieved by using it. This result is in line with the result of Steives and Johnovsky (2013) which have considered the establishment of social justice as the ultimate goal of good governance in the community.

The overall relationship among the indicators of good governance was predictable in advance, but its details need to be researched in this

area. According to the results of the 72 Hypothesis test, in line with the second purpose of the study, mostly one-sided relationship is obtained among the indices. We can just observe a two-way relationship between two indices of government effectiveness and transparency, which mean that the government causes transparency when it has appropriate efficiency and effectiveness, and the opposite is also true.

Government effectiveness creates political stability. The more the government act properly in order to achieve goals and be more effective with the optimal use of resources, the need of change is less and the stability will be created in different sectors. The effectiveness of the state is one of the social justice reasons. If the government wants to divide the society's resources in an effective manner between the stakeholders, naturally, it leads to social justice. An effective government should try to establish justice in the society.

Here, there is a causal relationship between the accountability and employment variables as well as employment and social justice. It shows that, increasing in employment leads to the increasing in the possibility of justice; but employment does not increase only by the equity increase, because one of the unemployment reasons in Iran is the high rate of population between the ages of 16 and 40. Finally, it is observed that the governance indicators have a significant positive effect on per capita income, investment and employment in all three regression equations in Mena countries.

Therefore, by improving the good governance indicators in developing countries such as Iran and other MENA countries, some important economic, social and political objectives would be achieved simultaneously. Increasing per capita income, increasing domestic and foreign investment, creating sufficient jobs and increasing the welfare are some economic aspects of improving governance indicators in the country.

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