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The Impact of Effective Governance and Regulatory Quality on Financial Development Under Economic Conditions of the Mena Countries

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Abstract: The present study uses the Systematic Generalized Method of Moment's (SGMM) model to investigate the effects of effective governance and regulatory quality on financial development in the economic conditions of the Mena countries during the period 2002-2009. The results of the study show a positive relationship between the role or rule of law (RL) and economic growth (GDP) with financial development (FD). The variables of regulatory quality (RO), government budget deficit (BD), government effectiveness (GE) and financial crisis (FC) are negative. The negative sign of regulatory quality, government effectiveness and budget deficit for the MENA countries can be justified as follows; The more accountable and efficient the government in a country, the greater the political stability, the lower the additional regulations and costs, the more extensive the rule of law, the smaller the government effectiveness, and the more restricted the corruption, the greater the financial development requiring the more attention of government and authorities in accountability, compliance of rules and regulatory quality. Also the positive variable of the dependent variable lag; the financial development Index shows the countries' attention to the financial development issue and the use of strategies and infrastructure to increase financial development based on financial liberalization indicators over time, which requires much attention from government authorities.

Keywords: Effective governance, Regulatory quality, Financial development, Systematic generalized method of moment's model, MENA countries.

INTRODUCTION

All governments, or, most of them, attempt to design and implement programs and policies through which they can guide their country and people to further development and prosperity and bring them happiness and well-being. One of the important features of developed countries is rooted in good and effective governance as well as regulatory quality indicators. In other words, one of the important reasons for financial development and optimal allocation of resources in the economic system of developed countries is some of the determining factors. Comparing the characteristics of developing countries and the Third World versus developed countries, several reasons can be given for their underdevelopment. These factors include the state nature of a large part of the economy of these countries, parallel structures, rent economy, the dominance of political behavior over economic behavior and the lack of restoring order in all economic areas, all of which are examples of effective governance and regulatory quality, and financial development as a consequence of these two important variables, can well explain why these countries are called developing countries. Generally, it can be said that state governance is the exercise of managing (political, economic, executive, etc.) of resources of a country to achieve the determined goals. This exercise includes strategies and institutions through which individuals and social groups can pursue their legal interests and rights with respect to constraints. It is obvious that, the misuse of state resources and facilities is not always solely for personal interest. Rather, it can be in the interests of a party and a particular political thought, a particular class, friends or acquaintances. Corruption may be one-way abuse in government offices such as embezzlement, nepotism, etc., or abuse in relations between private and public sector agents such as bribery, extortion, fraud, and illegal influence, especially in disputes. Corruption can normally exist in all political and bureaucratic departments, large or small, organized or unorganized. Since corruption is a hidden exchange, it will be difficult to measure and observe. However, some organizations and institutions, including the World Bank, transparency International, and the Price Waterhouse Coopers Foundation, attempt to calculate corruption indicators, and in all these cases the findings are based on the survey from citizens, businessmen, and scholars and the results are mostly based on perception, which in turn is reliable, and the validity of their calculations has been verified by many authorities over time. As social networks reveal all kinds of information and news every day for the society and social institute, new phenomena are formed in this space and these phenomena lead to demands that each of these demands has special effects and consequences. One of these demands is the transparency expectation in all areas of the economy as well as administrative health. If people in the past did not have access to information, today information is available in different forms and with different qualities. Now, if the information about corruption at the level of social networks is consistent with the real performance, it can also lead to a decrease in the legitimacy of political systems. Thus, the effective governance and regulatory quality and the impact of the two variables on development are of great importance in terms of what has been said. In order to have effective governance and regulatory quality and as a result of these two factors, achieving financial development always requires correct diagnosis and dealing with the incident before it occurs. In other words, having a system in which, instead of detecting defects, includes prevention, focus of decision-making and management. Disobedience of rules and lack of regulation make it difficult to compete. Therefore, having information and access to scientific findings can help identify the boundaries and scope of economic corruption and identify people who are present in this field as actors, the mechanism of activities and workflow related to the field of economic corruption, size and magnitude of the effects and the type of interaction with the formal economy can play an important role for effective and efficient decision making and its optimal allocation of resources of the country. Although it is difficult to achieve all the items mentioned in practice, due to the impact of economic corruption on various parameters of the country, it can be said that conducting studies in this field and accurate and scientific research is important and will be always important. Disobedience and lack of regulations hinder capitalism and make the path of economic growth and development difficult and lead to economic stagnation in all aspects of society. On the other hand, where disobedience and lack of regulation increase, it becomes very difficult to deal with it every day, and its roots penetrate deeper and deeper into different sections of society. Therefore, the investigation of the effects of effective governance and regulatory quality on financial development in the economic conditions of developing Mena countries, in addition to being able to clarify the impact of effective governance and regulatory quality and their effects on financial development according to economic conditions and solutions show the need for better performance of countries with full knowledge of the impact of effective governance and other economic variables affecting financial development. The paper is structured as follows: Section 2 deals with theoretical basics including the theories and the results of empirical studies related to the subject. Section 3 presents the model, research method and applied tests. Section 4 is dedicated to test results and model estimation. Section 5 provides a summary and conclusion.

THEORETICAL BASICS

1) Institutions as Growth Factor or Growth as a Factor of Institutions

The literature on growth political economy has always been with the controversial question of whether political development is the basis of economic development or vice versa. It is worth to mention that, no definitive answer has been given to this question yet and there are two approaches to it. The first approach emphasizes institutionalization and begins with democracy, corruption control, and the exercise of other controls over government as the mechanism for securing property rights. Despite such political institutions, investment in physical, human, and economic capital can be achieved. The second approach emphasizes the necessity of economic development (accumulation of physical and human capital) to start the process, specifically considers it necessary for sustainable development and the establishment of some other institutions. Both approaches have broad rational basics. The importance of institutionalizing and limiting government has been emphasized by the neo-institutionalist economy, and more recently, the economic growth literature beginning with Nak and Kafir (1995) addresses the effects of good institutions on economic development. The second approach goes back to Lipset (1959), who himself attributes it to Aristotle. Lipset believes that only in rich societies where corruption is controlled hardly, citizens can consciously be involved in politics. He also states that educated people resolve their disputes through dialogue and choice instead of difficult conflicts. In this regard, Glusser indicates that high human capital leads to good policies and greater political stability, the main external outcome of human capital is not technologic but is political: As courts of the first approach have strong theoretical support and important empiric works have been conducted to confirm the importance of institutes on economic development. Bennedsen (2005) considers institutions as forming the economic environment in which companies and individuals operate. In particular, institutions provide incentives for businesses and individuals. In general, an economic activity, such as investing in a productive activity, is associated with two types of private and social returns. Private return is the net return on a broker committed to an activity, while social return is the total internal return on economy. Today, the importance of institutions on economic performance is almost accepted, but what seems important is to include institutions in economic analysis and to know how they affect them. Because the impact of most institutions on growth is indirect and is performed through different channels that understanding these channels and the relationship between institutions is more important than the institutions themselves.

2) The Role and Importance of Financial Institutions Considering Endogenous Growth Models

In the last two decades, extensive studies have been conducted on the literature on the role and importance of financial markets in economic development. The advent of the first generation of endogenous growth models direct the attention of economists to other factors creating economic growth, without fear of its descending return. Boyd and Perry Scott (1986), Diamond (1984), Roemer (1990) and (1996), Lucas (1998) are among the first researchers to propose the basis of the discussion. In this group of growth models, the role of financial markets is not explicitly emphasized to explain the real reason for endogenous growth, but in the second generation of endogenous growth models by Bensingaga and Smith (1993), Greenwood and Juanovick (1990). Greenwood and Smith (1993) King and Levin (1993) etc., the financial markets and the importance of financial institutions in the process of economic development were modeled. Generally, these models address the need to create financial institutions considering the asymmetric information and uncertainty about productive investment returns and non-zero transaction costs. This issue was raised by Fray after explaining the theories of this generation of models:

“In the world in which the costs of attaining information, exchange a control are positive, finance and financial institutes are of great importance (Fray, (1995)).

Thus, restricting the country's financial development program to interest rate liberalization according to conventional classical models means ignoring the effective factors in determining the transaction costs and the necessary control and regulatory institutions in the market (Komijani et al., 2009).

- **Institutionalist View and the Role of Financial Market Development in Economic Development**

Various definitions of the institute are presented. Lin and Venajent (1995) consider the institution as a set of rules of behavior formulated by human beings and governing human interactions. In this case, institutions are a set of rules that form a set of coordination around the main core. Institutional arrangements are rules of behavior that govern the behavior of individuals in a certain area. Institutional structure includes the general institutional arrangements in an economy, namely organizations, rules, traditions, and ideology. (Motevaseli, 2003). Williamson (2000) divided institutionalist analyses into four levels:

- First level, which is the rooted social level. At this level are norms, customs, ethics, traditions and more. Religion is also at this level. Developments at this level are very calm.
- Second level is the institutional environment level. The structures observed here are the products of evolutionary processes, but designed opportunities and freedom are also involved in the formation of these structures. At this level, formal rules such as constitutions, common law, and property rights are defined. The occurrence of some social events, such as war, revolutions, financial crises, and the like, causes serious interruptions and instability in the established practices at this level (therefore, these phenomena can be a good opportunity for making reforms at this level).
- Third level refers to the level of real game issues. This level has a completely legal and functional system. Institutions of management and governance are also defined at this level. Williamson describes this level as the level of the economy of transaction costs.
- The fourth level is called the enterprise-neoclassic economy theory level. Allocation of resources, employment and prices are the issues of this level.

- **The Government Effectiveness and the Theory of Proper Management**

Since the mid-1990s, dissatisfaction with the "minimal government" approach was raised, and the "proper management" approach has been widely accepted. Researchers consider the increase in financial (monetary and banking) crises in the 1980s and 1990s, as well as the poor performance of the global economy in the 1980s and the declining average economic growth of countries in transition in the 1990s, as influential factors in being away from the "minimal government" theory. These factors caused that the affairs proper program as the key to development puzzle by the United Nations and the International Monetary Fund (IMF) to replace the "minimal government" theory. In fact, this approach makes market superiority conditional on the intervention of the government. In this view, successful financial liberalization is conditional on the government's ability to control private financial institutions. Hence, if the government lacks the power to regulate and control, financial liberalization leads to economic crisis and bankruptcy (Midry, 2004).

- **Stiglitz Discussions and the Approach of the Lack of Full Competition in the Financial Markets**

Stiglitz and Greenwald (2003) don't consider the role of money as a facilitator of trade, but also they consider the role of credit as a facilitator of economic activity in a broader sense. They believe that difficult to consider validity in the standard general equilibrium model. Because credit is almost "not generated by any of the traditional factors of production and is easily eliminated, and there is no simple way to explain the credit supply function. They argue that credit is based on information." Ensuring that a person can be credited also requires resources, and also resisting this judgment, that is, securing or guaranteeing credit, is risky, and there is no simple relationship between economic costs and the amount of credit created." This feature of credit leads to high sensitivity over time, relative prices and other items. For example, the changes in relative prices require the re-assessment of credibility of individuals and enterprises. Stiglitz and Greenwald believe that as "interest rate is not like traditional prices "(In fact, interest rate is a (promise) to pay money in the future and promises are often not fulfilled.) The capital market is not like the auction market." Thus, in their view, the genera standard equilibrium model is not useful to understand the credit markets and can even be misleading, as it is often thought that the price of credit (interest rate) is the same as other prices and can be adjusted to balance the market. Stiglitz and Weiss (1981) showed that "An increase in interest rate may not increase the expected return on loans, as in the case of higher interest rates, the quality of loan applicants decreases (effect of wrong choice) and each applicant imposes a higher risk (effect of ethical hazards or wrong motives). "According to these researchers, these effects are so significant that they may reduce the expected net income by increased the required bank interest rate." Finally, they conclude that these types of markets (credit markets) can be fundamentally different from conventional goods markets. In credit markets, due to uncertain prices (wages and interest rates), project revenues are as much dependent on their expectations of future prices as they are on physical (outputs). People who are willing to offer higher interest rates on loans are the individuals who are optimistic about future prices and less risk averse, and therefore, there is no reason that allocating credit to these people maximizes the bank's private income or society social income. Therefore, banks are required to spend money to control applicants and this is happened in a situation where (control) is far from complete competition.

3) Literature Review

- **International Studies**
    - Asif Khan et al. (2019) in a study investigated the impact of institutional quality (IQ) on financial development (FD): Evidence from across the country based on emerging and growth -leading economies (EAGLEs) and 2SLS model. The results show that openness, national culture and economic growth significantly moderate financial development through their positive interaction with institutional quality (IQ). The results were based on two IQ scales, and alternative estimation techniques as well as shed light the vital role of institutions in advancing the financial development of EAGLEs.

Chinoda and Kwenda (2019) in a study investigated the impact of institutional quality and governance on financial inclusion in a two-step system generalized method of moments approach during the period 2004-2006 for 49 countries. The results indicate the positive impact of institutional quality and governance on financial inclusion in the region. The results also showed that there is a significant positive effect of the lagged value of financial inclusion and banking sector size on financial inclusion for African countries. However, rural to tot population and natural resources had a negative impact on financial inclusion in Africa.

- Fagbemi et al. (2018) in a study investigated the institutional quality and financial development in Nigeria over the period 1984 - 2015 using Auto- Regressive Distributed Lag (ARDL). For this purpose, two different indicators of financial development (private credit and liquidity to GDP) were used. The results consistently show that institutional factors do not have a significant effect on financial development in the long run and the short run. In addition, empirical evidence suggests that regulatory quality and management system (institutions) do not necessarily contribute to financial development in a weak institutional environment, particularly in Nigeria. Thus, our findings show that while weak institutions can increase the risk of limiting the functioning of financial system, good governance and strong institutions are the essential ingredients of financial development in Nigeria. As a result, policies aimed at strengthening the quality of institutions and management should form the main approach of government (policymakers). These can help improve the financial sector development in Nigeria.

- **Local Studies**
    - Seyyed Hosseinzadeh Yazdi et al. (2016) in a study investigated the sensitivity analysis and ranking of effective factors on the financial stability of Iran in the framework of constructing a composite index during 1990 to 2016. In this study, first, using global experiences and Iranian data, a composite index of financial stability under the four dimensions of "depository institutions", "macroeconomics", "foreign sector" and "institutional quality" were constructed for Iran. After making the composite index, the most effective indicators on the "fluctuations" and

"average value" of the composite financial stability index were identified using the sensitivity analysis method. The results show that among the 48 available indicators, the "ratio of government budget deficit to GDP", which is one of the main indicators of "government financial health" in the "institutional quality" dimension, has the highest negative effect on "fluctuations" and The "average value" of the composite index of financial stability. Therefore, in order to promote financial stability in Iran, the greatest focus should be on controlling the "ratio of government budget deficit to GDP."

- Ahmadpour Kacho et al. (2019) in a study examined the effect of financial development and institutional quality on economic growth of OECD countries over the period 2002 - 2014 using the GMM method of dynamic panel data. In this study, six simple weighted average indicators of opinion and accountability, political stability and non-violence, government efficiency, quality of law and regulation, rule of law and corruption control were used as institutional indicators and for the combined financial development index, the weighted average of 18 variables whose data were extracted from the World Bank were used. The results of the study indicated that financial development and institutional quality had a positive and significant effect on the economic growth of the countries in the study. In addition, the interactive effect of financial and institutional development showed that in developed countries, financial development improves economic growth due to its suitable institutional structure.
- Safarian et al. (2019) in a study examined the good governance, economic development model, in Iran, and Turkey (2006-2017), which coincides with the period of the Justice and Development Party in Turkey and the presidency of Ahmadinejad and Rouhani in Iran. According to statistics from international institutions, economic indicators in the two countries are different. Given this background, it seems that governance debate in the two countries is effective on this issue. Therefore, the main question of this paper is what is the role of good governance model in the economic development of Iran and Turkey in the mentioned period? The findings of this study show that the condition of good governance indicators improves or decreases economic indicators in the two countries and also in comparison with each other in certain periods. Therefore, this study examines the role of good governance in economic development of Iran and Turkey using an analytical-descriptive method and a comparative approach, relying on the statistics of international authorities.

The prior studies show that the research issue has not been addressed directly. Therefore, the innovations of this study can be listed as follows: First, the study period and countries are more comprehensive; second, the variables that show the highest impact on financial development include government debt and limited financial resources, government effectiveness, regulatory quality, role or rule of law, financial crisis, and economic growth rate. Third, by evaluating the characteristics of the studied data and their impact, as well as the use of econometric methods consistent with these characteristics, a Systematic Generalized Method of Moment's (SGMM) that can provide more reliable and real results is used.

MODEL SPECIFICATION AND VARIABLES INTRODUCTION

In the present study, following the studies of Asif Khan et al. (2019), Chinoda and Kwenda (2019) and Fagbemi et al. (2018), we investigated the impact of effective governance and regulatory quality on financial development in the economic conditions of Mena countries over the period 2002-2019 using the Systematic Generalized Method of Moment's (SGMM) in some selected MENA countries including, Iran, Egypt, Bahrain, Saudi Arabia, Jordan, Turkey, Pakistan, Qatar, Algeria, Morocco, Azerbaijan, Yemen, Tunisia, Sudan and Armenia. Also, Macroeconomic data of countries were extracted and collected from the World Bank (WDI) database.

Therefore, the research model is as follows:

$$FD_{i,t} = \mathrm{a}_0 + \mathrm{a}_1 FD_{i,t-1} + \mathrm{a}_2 BD_{i,t} + \mathrm{a}_3 GE_{i,t} + \mathrm{a}_4 RL_{i,t} + \mathrm{a}_5 RO_{i,t} + \mathrm{a}_6 GDP_{i,t} + \mathrm{a}_7 FC_{i,t} + U_t$$

Where,

FD: The ratio of bank liquidity to GDP as an indicator of financial development of the real sector of economy

BD: Budget deficit as an indicator of government debt and limited financial resources.

GE: government effectiveness, this index is ranging 0 and 100, and the closer the country's rank to 100, the better the government effectiveness index.

RO: regulatory quality; this index is ranging 0 and 100, the closer the country' rank to 100, the better the regulatory quality.

RL: role or rule of law; This index is ranging 0 and 100, and the closer the country's rank to 100, the better the rule of law index (Transparency International).

GDP: Gross Domestic Product.

FC = Dummy variable of financial crises, crisis years are one and the remaining years zero.

1) SGMM Approach

Holtz Akin et al., 1988: 2011) in equations in which the estimation of each country-specific invisible effects and the existence of a dependent variable lag in explanatory variables is a major problem, the generalized moments method estimator (GMM) based on dynamic panel models is used. The generalized moment method is one of the methods for estimating the model parameters in the dynamic panel data approach, which can be used for time series, cross-sectional data and panel data. The generalized moment model was first proposed by Hansen in 1982 and later extended by Chamberlain (1987) and Newey (1988). This model can be used for time series, cross-sectional and panel data. The researches of Hayashi and Sims (1983), Stoica, Soderstrom and Friedlander (1985), Hansen and Singleton (1991; 1996) and Hansen, Heaton and Ogaki (1996) are regarding the use of GMM estimators in time series. Anderson-Hsiao (1981) took the first basic step in eliminating the source of these problems, eliminating the special effects of each section (country), and proposed the 2SLS model, due to problems with dynamic composite data equations. However, a study by Matyas & Sevestre (1991) on 2SLS estimation concluded that this model may provide large variances for coefficients due to its difficulty in selecting tools and estimators are not significant statistically. Anderson-Hsiao also suggested that to solve the problem of autocorrelation, the dependent variable or the first and second lag of this variable can be used as an instrumental variable. However, in a study conducted by Arellano in this regard, it was concluded that using instrumental variables at the level is superior to their lag and has less variance. Also, by using the instrumental variable at the level, we do not lose any observation, especially if the number of sections is large and the time dimension is small. Therefore, the SGMM method in panel data was proposed by Arellano and Bond (1991), Arellano and Bavar (1995) and Brendel and Bond (1998) to solve this problem. (William Greene, 2003). Finally, reducing the colinearity problem in the model: the use of lagged dependent variables eliminates the colinearity in the model (Nadiri and Teymour Mohammadi, 2011). In this study, the systematic generalized moment model with Eviews software are used to investigate the effects of effective governance and regulatory quality on financial development in the economic conditions of the Mena countries.

RESULTS

1) Reliability Tests (Unit Root Test)

In this paper, the IPS unit root test is used to evaluate the reliability of the variables, the unit root test of Im, Pesaran and Shin (Im, Pesaran and Shin, 2003) which is called IPS is used in the research. This causes heterogeneity between individual effects, which is why the IPS test is known as the heterogeneous unit root test.

Table 1: Unit Root Test for Variables

Variable	Sign	MENA countries		Reliability level
		Im, Pesaran and Shin W-stat		
		Calculated statistics	Probability level	
Financial development of the real sector of the economy	**FD**	-9,67953	0.0000	I(0)
Government debt Index	**BD**	-2,11484	0.0000	I(0)
Government effectiveness	**GE**	-3,27792	0.0003	I(0)
Regulatory quality	**RO**	-2,68768	0.0036	I(0)
Rule of law	**RL**	-2,59960	0.0047	I(0)
Gross Domestic Product	**GDP**	-1,62872	0.0517	I(0)

Source: Researcher Findings

The results of Table 1 and the investigation of the values of the calculated statistics and the probability of their verification show that all research variables are stationary.

2) Panel Co-integration Tests

In this study, Kao test is used to investigate the presence or absence of co-integration relationship between variables. The results are presented in Table 2.

Table 2: Pedroni Panel Co-integration Test Results

Test statistics	MENA countries	
	Model	
	Calculated statistics	Probability level
Kao	-2,078148	0.0188

Source: Researcher Findings

As shown, according to the results of Table 2 for the selected Mena countries and due to the low significance level of 0.05, the null hypothesis that there is no co-integration relationship between the variables can be rejected and the test verifies the convergence of the variables and the variables are co-integrated in the long run and there is a long-run relationship between them.

3) The Results of Co-linearity Test of Variance Inflation Factors (VIF) in Panel Data

In VIF test, after the model estimation, the co-linearity test was performed. The results of this test are depicted in the table below:

Table 3: The Results of VIF Test for Independent Variables of Model

Variables	VIF	1/VIF
BD	1.53	0.65
GE	1.74	0.57
RO	1.26	0.79
RL	1.38	0.72
GDP	1.46	0.68
Mean VIF	1.47	
Source: Research calculations		

According to the above test results, it can be said that the value of each regressor is less than 10 and therefore the co-linearity between the explanatory variables is not satisfied.

4) SGMM Model Estimation Results

Table 4: Results of Model Estimation Using SGMM for the Model (Financial Development of the Real Sector of the Economy as a Dependent Variable)

Variables		**SGMM method**			
		Coef.	**Std. Err.**	**z**	**P>|z|**
Lag of financial development of real economic sector	**FD (-1)**	-0.359208	0.136051	-2.640245	0.0118
Government debt index	**BD**	-0.093387	0.012380	-7.543185	0.0000
Government effectiveness	**GE**	-0.064985	0.033568	-1.935931	0.0559
Regulatory quality	**RO**	-0.245415	0.005512	-44.52351	0.0000
Rule of law	**RL**	0.340315	0.068419	4.973981	0.0000
Gross Domestic Product	**GDP**	0.295028	0.126700	2.328559	0.0223
Financial crises	**FC**	-0.077839	0.019734	-3.944504	0.0001
		J-statistic: 3.007 **Prob(J-statistic): 0.8075** **Instrument rank: 17**			
Source: Researcher findings					

The results of estimating the SGMM method for MENA countries where financial development is considered as a dependent variable, show that the coefficients of the variables are significant in the long run, their signs are expected, in accordance with the theoretical basics of the subject. The estimated relationships indicate a positive relationship between the role or rule of law (RL), economic growth (GDP) with financial development (FD), which is fully consistent with the theoretical issues. The variable regulatory quality (RO), government budget deficit (BD), government effectiveness (GE) and financial crises (FC) are negative and the results are expected due to the developing and growing nature of countries. Also the positive sign of the dependent variable lag; the financial development Index shows the countries' attention to the issue of financial development and the use of strategies and infrastructure to increase financial development based on financial liberalization indicators over time, which needs more attention from government officials.

Most economic studies, especially neoclassical economists, believe that a completely liberal economy is very likely to be superior to a highly limited economy. Practical observations of foreign trade openness can lead to theoretical insights into the type of economic policies that accompany the process of economic growth. Observations show that in controlling the relationship between economic growth and financial development in an economy, reducing quantitative restrictions, cautious macroeconomic policies, government policies and political stability, and corruption control play a crucial role. It should be noted that economic studies are not consistent regarding the relationship between economic growth and financial development, and there are still disagreements among economists on how international economic policies and growth rates interact. Although some of studies have used similar analytical frameworks to econometric methods and developed theoretical issues in growth theory through the inter-country data set, there is a reality besides these issues and that is disagreement among economists on the reality of this relationship. Despite what traditional business theory and statics emphasize, the efficiency of business in dynamic business theory focuses on the indirect benefits of financial development. On the other hand, in dynamic theory, the dynamic benefits of financial development arise from the accumulation of physical and human capital. The investigation of applied research shows that in economic growth and financial development, the scope is limited to "degree of financial development" and" growth size ". On the other hand, the goal of new and old theories of growth is to find different ways to calculate growth. However, unfortunately, the indicators that determine fiscal development policies are such that they do not accurately cover all the concepts of the degree of financial development. Therefore, it can be said that in some countries, international financial development is a growth factor that their exchange goods can improve production capacity by attracting superior technology and foreign direct investment, otherwise, any relationship with the outside world will reduce economic growth. Thus, according to theoretical expectations as well as model estimation results, financial development enhances economic growth. On the other hand, a gradual increase in foreign investment can also accelerate growth process. What may be more important than the inflow of foreign capital in a developing country is how to attract and manage this capital in the country's economy. The appropriate management of foreign capital and how to lead them to profitable activities, ensures the inflow of more and more foreign capital, and this facilitates financial growth and development.

Also, political stability influences financial development through the channel of communication with the outside world, so that in countries where there is a possibility of coups, street riots, assassinations and other forms of uncompromising change of power, the motivation to invest is low and investors in such conditions attempt to transfer their capital to safe places. In countries where the transfer of power takes place in a democratic and expedient manner and does not witness coups, assassinations and revolutions, high financial development occurs. Some researchers consider corruption control as a facilitator in the strict administrative bureaucracy and believe that corruption accelerates financial development in two ways: 1. corrupt activities such as bribery make it possible for people to avoid administrative delays. 2- When the bribe is in the form of a fee rate, the brokers work hardly with high motivation. However, Maroo (1995) considers it inaccurate and states that offering bribes to employees creates a procedure in which bureaucracy is delayed until bribes are paid to them, creating a heavy bureaucracy situation for the economy as a whole and increasing the investment cost will ultimately undermine financial development. Also, the negative sign of the regulatory quality variable T government effectiveness and budget deficit can be justified as follows: The more accountable and efficient the government in a country, the greater the political stability, the lower the additional regulations and costs, the wider the rule of law, the smaller the government effectiveness, and the more limited the corruption, the greater the financial development regarding accountability, law compliance as well as regulatory quality. The results of the study are consistent with the results of the studies of Asif Khan et al. (2019), Chinoda and Kwenda (2019) and Fagbemi et al. (2018), Ruge (2017), Maroo (2015), Singh et al. (2014), Afonso & Tovar Jalles (2013) and inconsistent with the results of studies by Cerqueti and Coppier (2011), Campos, Karanasos & Tan (2012), Arzaki and Bruckner (2011), Dong et al. (2011).

- **Arellano-Bond Serial Correlation Test Results in Panel Data**

The Arellano - Bond test is used to determine the serial correlation between the independent variables as well as the validity of the system GMM estimate, and its null hypothesis is that there is no autocorrelation. To perform this test, we first need to estimate the SGMM model and then perform the given test. The results of this test are shown in the table below:

Table 5: Arellano - Bond Autocorrelation Test Results for GMM Model

Group	Statistics	Statistics	Probability level
MENA countries	M-statistic	0.012966	0.9897

Source: Researcher Findings

It is observed that according to the results of the table for Mena countries and according to the significance level, the null hypothesis that there is no autocorrelation between the variables is verified.

CONCLUSION AND RECOMMENDATIONS

In order to apply anti-corruption policies to prevent rents, the regulatory quality, the rule of law, attention to social, political and cultural capital are necessary. In addition to policies, they need to be more careful about the factors that limit the opportunities for rent-seeking individuals to access political and economic decision-making processes. At least three groups of anti-corruption interventions are proposed in the country, including: promoting comprehensiveness, promoting legality and accountability. In this study, to estimate the effective government and regulatory quality on financial development in the economic conditions of the MENA countries, we applied the systematic generalized moment model based on annual data over the period 2002 - 2019. The following are suggestions for model estimation results:

- The main channel for financial development impact is considered through increasing investment efficiency, regulatory quality and governance indicators. Therefore, the liberalization of financial markets, weak management of the financial system and the lack of cohesive financial markets and the benefit of regulation in countries, can be considered as the reasons for reducing the efficiency of investment through inefficient resources allocation in the MENA countries. Therefore, more attention should be paid to the development and efficiency of financial markets in the MENA countries, and as a result, we will have more efficient resources allocation and increase of investment efficiency.
- It is suggested that governments reduce the size of their bodies to provide space for the private sector and foreign investment. With the entry of foreign direct investment and the development of financial markets, government foreign exchange earnings are increased and as a result, with the growth of government foreign exchange revenues, financial development is also increased.
- It is suggested that the banking sector of countries attempt to optimize their activities to direct more credit to productive investment projects of the private sector, as with the prosperity of the private sector and increasing competition in countries and the use of economic freedom policies, financial markets are developed and this leads to greater economic dynamics.

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