

## Analysis of the Relationship between Governance Indicators and Investment in the Oil sector of Iran and Selected Countries

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### Abstract

Oil revenues constitute a fundamental determinant of the economic performance and structural development of oil-rich and oil-exporting nations. Given this significance, it is plausible that governance indicators exert a considerable influence on investment within this sector, while the size and role of the government are often subject to fluctuations in global oil prices. This study aims to investigate the causal relationship between governance indicators and investment in the oil sector. It examines six key governance indicators—Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption—in relation to oil sector investment in Iran and eight selected countries over the period 1996–2022. Utilizing Granger causality and the Hsiao causality method, the empirical analysis reveals a bidirectional causal relationship between oil sector investment and all selected governance indicators, with the sole exception of the Voice and Accountability index. These findings underscore the critical importance of legislative frameworks and the significant impact of public sector productivity and efficiency on investment dynamics in the oil industry. Consequently, streamlining government operations and enhancing the quality of laws and regulations are identified as pivotal measures for fostering substantial and effective transformation within the oil sector.

**Keywords:** Good Governance; Investment; Oil; Iran.

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