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Impact Of Fiscal Decentralization Policy on Foreign Direct Investment in Indonesia

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Abstract. Consumption and investment are the largest contributors to national income in most countries. Indonesia is one of the countries with the world's largest population, so the largest state revenue comes from consumption and investment, a sector expected to be a driver of the economy. The entry of foreign investment is a significant element in spurring economic growth in many countries. Foreign direct investment (FDI) drives the country's economy. The policy on FDI is inseparable from the central and regional decentralized government system, namely the delegation of authority from the central government to local governments. The objectives of this study are: (i) To examine and analyze the effect of fiscal decentralization policies on the entry of FDI at the district and city levels; (ii) to assess and analyze the influence of economic aspects on the entry of FDI at the district and city levels; (iii) Assessing and analyzing the business aspects of the entry of FDI at the district and city levels; (iv) Assessing and analyzing the influence of district and city levels on the entry of FDI at the district and city levels.

The study used mixed method research, a combination of quantitative and qualitative research. Quantitative research uses structural equation modeling (SEM), and data processing uses the analysis of moment structures (AMOS) program. Data sources are secondary data from reports from the Investment Coordinating Board - Ministry of Investment, Ministry of Finance, and Central Statistics Agency. The objects of this research are 514 districts/cities in Indonesia from 2016 to 2020. Qualitative research through focus group discussions (FGD) with informants who are experts in their fields and to obtain in-depth analysis with the NVivo program.

Based on the results of the quantitative analysis method, it is found that; (i) the fiscal decentralization policy, as measured through revenue-sharing and government spending on roads, water, and electricity, has a significant and positive effect on FDI; (ii) the economic aspect is measured through regional financial independence, Gross Regional Domestic Product, and renewable and non-renewable natural resources. Renewables have a significant and negative effect on FDI; (iii) business aspects as measured by export trade openness, the number of BUMDs, and the human development Index, have a significant and positive effect on FDI, and (iv) the dummy at the district or city level has a significant and negative effect on FDI.

Based on the qualitative analysis method, it was found that the fiscal decentralization policy was able to have an impact on the entry of FDI from the explanations regarding the implementation of the fiscal decentralization policy, the availability of infrastructure, improving the quality of regional spending, and balancing funds. From the economic aspect, there is a link between the adequacy of natural resources and the potential for new renewable energy (NRE), which can become Indonesia's competitive advantage. Recommendations of this study are good governance of regionally owned enterprises, readiness in the new renewable energy sector, local governments must improve the quality of productive spending, and maintain the availability of natural resources, especially in the NRE.

Keywords: Business Aspects, Economic Aspect, Fiscal Decentralization, Foreign Direct Investment, Structural Equation Modeling, Nvivo, Quantitative approaches, Qualitative approaches

Introduction

Background

Indonesia is a high-population country, so the largest state revenue comes from the consumption sector. Investment is a sector expected to be a driver of the economy. Investment, in this case, foreign direct investment (FDI), is a decisive element in triggering economic growth in many countries. FDI investment can potentially drive economic growth by increasing the contribution to Gross Domestic Product (GDP). However, World Bank data shows that Indonesia's FDI contribution is still small, as shown in Figure 1.

Figure 1 FDI Contribution to GDP in Indonesia 2016 to 2020 (in %)

Source: World Bank (2022)

Figure 1 shows the development of the contribution of FDI to GDP in Indonesia from 2016 to 2020. Generally, the contribution of FDI to GDP in Indonesia is small, although there is a significant increase from 2016 to 2017 from -1.2% to 0.2%. After 2017 the contribution of FDI increased to 0.6% in 2018, but in 2019, it decreased to 0.4%, and in 2020 increased to 0.5%. Although there has been an increase in these periods, the contribution is still low, so FDI is not the main contributor to GDP. Furthermore, regarding the benefits of FDI, new flows that enter large volumes are one of the biggest economic growth drivers and expand the size of the national economy. Investment can increase supply and demand and align with macroeconomic input and output. Investment can effectively expand job opportunities and increase people's income, encouraging economic growth.

Capital inflow impacts the gross fixed capital formation (PMTB) and investment posts (I). It grows the aggregate output (Y) level with a certain condition, as found in the study results of Azman-Saini et al. (2010). They identified the role of FDI in increasing economic growth in 91 countries from 1975-2005 by including the role of the financial sector. The results showed that FDI positively impacted the output level if the financial sector developed at a certain level. Nistor (2014) in his study also showed the significant influence of foreign direct investment (FDI) in encouraging economic growth in Romania between 1990-2012. Herzer et al. (2008) also showed a bi-directional relationship between investment and economic growth, especially in 28 developing countries between 1970-2003. The three studies (Herzer et al., 2008; Azman-Saini et al., 2010; and Nistor, 2014) used the same analytical tool, namely panel data regression.

Various countries create various efforts to attract FDI into their economy because it can increase the involvement of the householder in the global economy (see: Nayak & Choudhury, (2014) and Nguyen & To, 2017). Furthermore, Magazzino & Mele (2022) also show a similar situation with the FDI playing an important role in accelerating economic growth. For this reason, the entry of foreign investment is a decisive element in spurring economic growth in many countries. FDI is considered a driving force for the country's economy by providing additional sources of capital for investment, contributing to employment, transferring technology, increasing competition, and generating spillover effects for local companies.

Besides influencing economic growth, attracting FDI to enter a country with other interests, according to Moosa (2015), namely: (i). The need to expand the market; (ii). The need for product efficiency; meet raw materials needs; (iii). Gain access to information and technology needed by the company; (iv). Reduce and diversify risk; (v). Integrating operations; to gain non-transferable knowledge; (vi). Avoid tariffs and quotas; (vii). Exchange rates (host country has lower currency); and (ix). Following the footsteps of other multinational companies (for example: when a company opens a branch in country A, the bank that is a partner of the company can follow and open a branch in country A to serve the company).

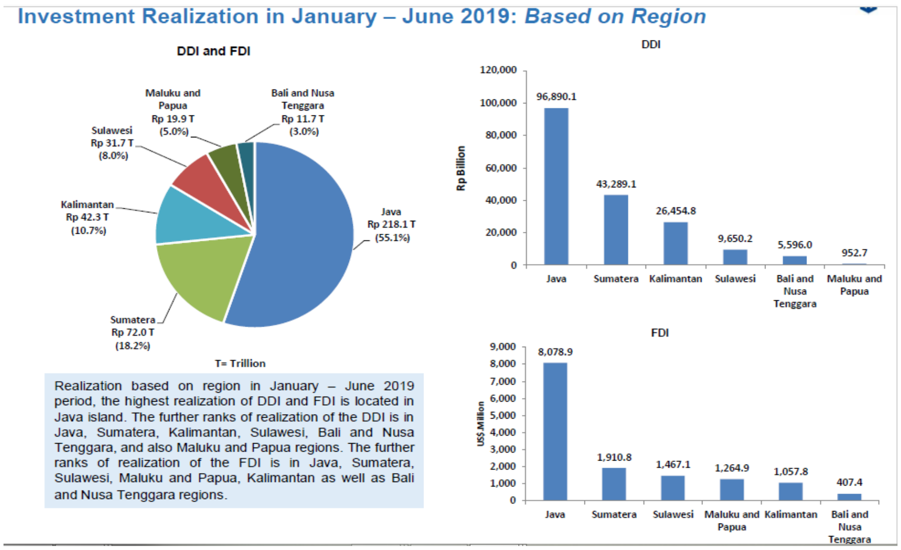
The impact of FDI on economic growth (Cave, 1996; Kugler, 2006; Herzer & Klasen, 2008, Azman-Saini et al., 2014; Bimantoro, 2016; and Magazine & Mele, 2022) can happen in other aspects, such as the businesses, such as technology, management, knowledge, skills, value-added, labor, domestic companies, and others (Sjoholm, 2017 and Baiashvili & Gattini, 2020).

The policy to attract foreign investment is inseparable from the government system, namely the delegation of authority from the central government to regional governments as regulated in Law No. 22/1999 on Regional Government and Law No. 25/1999 on a financial balance between the central government and regions (PKPD) that is changed to Law Number 23 of 2014 concerning Regional Government, Law Number 33 of 2014 concerning Financial Balance between the Central Government and Regional Governments, and Law Number 1 of 2022 concerning Central and Regional Financial Relations. The Indonesian government has implemented a decentralized government system since 2001, after the Asian economic crisis in 1997. The government's goal in implementing this policy is to improve the quality of governance and economic conditions (Green, 2005; Kuwanto, 2019). These changing conditions can encourage the entry of FDI in the areas that can encourage competition in attracting foreign investment by creating a healthy investment climate. (Weingast, 1995; in Kuswanto, 2019).

The fiscal decentralization policy is capable of encouraging the entry of foreign investment. Wang (2013) in his study found the influence of several other variables, such as the level of GDP, urbanization, and the corruption perception index (CPI). The study of He & Sun (2014) in 27 provinces in China and Wu & Herrink (2016) concluded similar things. The same thing was stated by Zahir & Asif (2019) that decentralization revenue had a positive impact on economic growth. Furthermore, fiscal decentralization in China encourages the entry of FDI that considers the budget amount, extra-budgetary funds, and intergovernmental transfers (He & Sun, 2014). On the other hand, Kinda (2010) stated that the determination of the entry of FDI is the problem of physical infrastructure, financing constraints, lack of skilled labor, and institutional problems that hinder FDI. These factors are a necessity in providing services to investors. It clarifies the importance of government policies/regulations in maintaining the investment climate.

The decentralization system aims to reduce disparities between regions, increase equity, and increase regional economic capacity and independence. An effective measure of fiscal decentralization requires complementary adaptations in institutional arrangements for coordination between central and local governments, planning, budgeting, financial reporting, and implementation. The problem with the entry of FDI in Indonesia as a country with the territory and implementing decentralization is the problem of FDI distribution in Indonesia. There are gaps in the realization of FDI in regions in Indonesia. The concentration of FDI is more in locations on the Java Islands and Sumatra, the rest in other areas. This figure can be seen in the 2019 Investment Coordinating Board (BKPM) report currently by the Ministry of Investment as Figure 2.

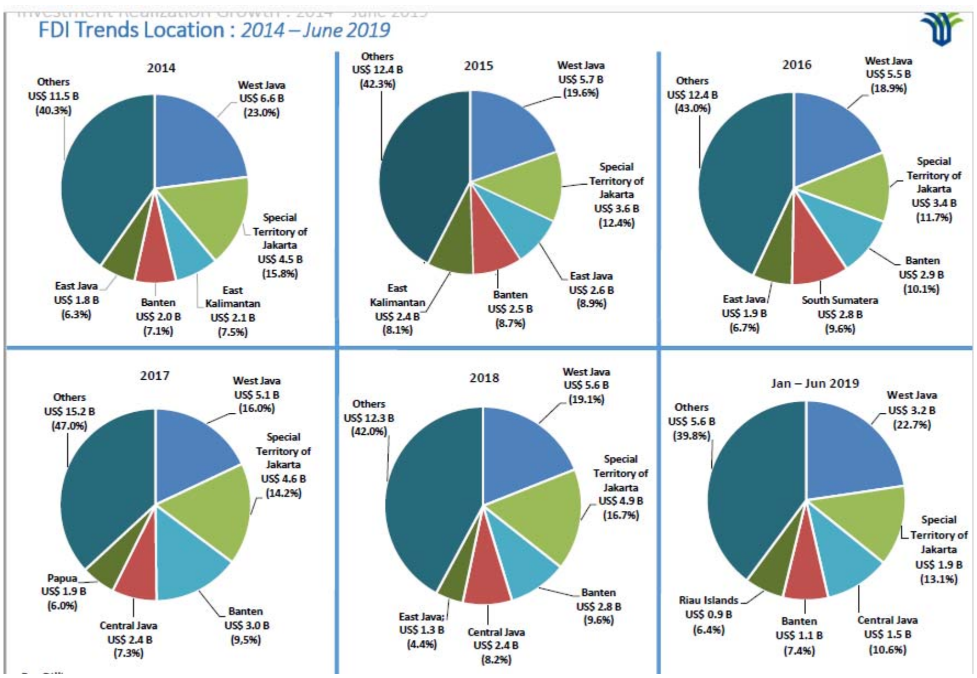
Figure 2
FDI Realization in Indonesia



Source: BKPM report, *quarterly* (2019)

Figure 3

FDI Distribution Locations in Indonesia from
2014 to June 2019



Source: BKPM Report, *quarterly* (2019)

Figure 2 shows the realization of FDI in Indonesia from January to June 2019 based on regional locations in Indonesia. Generally, the highest realization of FDI is in Java, and the lowest is in Bali and Nusa Tenggara. Based on the previous explanation, BKPM has mapped out the problems of the entry of FDI, including (i). Low competitiveness is reflected in the perception of the survey conducted by the International Rating Agency, including ease of doing business (EoDB); (ii). The lack of investment potential in each region has led to a tendency for investment to be more focused on the island of Java; (iii). The one-stop integrated service investment office (DPMPTSP) often feels that it is not prioritized by the Regional Government and is made a class III service; and (iv). Investment promotion has not been carried out optimally due to the absence of mapping the potential and investment opportunities in the region

The research on the relationship between fiscal decentralization and the entry of FDI has been widely carried out through the study of Wang (2013), which uses the variable of local tax revenue to measure fiscal decentralization. He & Sun (2014) and Nistor (2014) use transfer funds and the use of transfer funds (spending) and many other additional variables, such as in Kinda (2010) by including the variables of convenience, infrastructure availability, inflation, population, (Harding & Javocik, 2012), and politics (Meliza & Simanjuntak, 2018).

Another factor influencing the entry of FDI in Indonesia. First, the relationship between attracting FDI and policies from transfer funds and local government spending are relevant topics to be studied. This study examines the relationship between fiscal decentralization and the entry of FDI through the transfer of funds from the central government to local governments and local government expenditures in the form of road, water, and electricity infrastructure. Second, attracting foreign investment is not only based on the fiscal decentralization policy but can also be studied from the economic and business aspects. Economic and business aspects can be factors that attract FDI investment, as the National Research and Innovation Agency (BRIN) (2019). It has formulated regional competitiveness in the form of the regional competitiveness index (IDSD) that describes the conditions and capabilities of a region in optimizing all its potential through increased productivity, added value, and competition both domestically and internationally.

The policies to encourage investment, especially foreign investment, is part of implementing the sustainable development goals (SDGs) program as a global action plan agreed upon by world leaders, including Indonesia, to end poverty, reduce inequality and protect the environment. The SDGs contain 17 Goals and 169 targets expected to be achieved by 2030. The targets related to investment policy are Goals 7, 8, and 9, namely: 1) Ensuring access to affordable, reliable, sustainable, and modern energy for all; 2) Supporting inclusive and sustainable economic growth, full and productive employment, and decent work for all; 3) Build durable infrastructure, support inclusive and sustainable industrialization and foster innovation. So the new investment can encourage building renewable energy sources, deploy all resources at full capacity, and strengthen the infrastructure that supports access to production growth.

Research Purpose

The objectives of this research were :

1. To examine and analyze the effect of fiscal decentralization policies on the entry of FDI at the district and city levels.
2. To assess and analyze the influence of economic aspects on the entry of FDI at the district and city levels.
3. Assessing and analyzing the business aspects of the entry of FDI at the district and city levels.
4. Assessing and analyzing the influence of district and city levels on the entry of FDI at district and city levels.

Research Gap

The novelty in this research is the use of variables and analytical methods. The variables used as the basis for the analysis are that apart from fiscal decentralization policies that include economic and business aspects. At the same time, the analysis method used a mixed method that combines quantitative and qualitative research. This study used a mixed approach to triangulation requirements. The analytical tool used in this case was not paneled data regression but a structural equation model (SEM) on the quantitative model and in the qualitative model using the coding analysis technique by Nvivo on the results of the focus group discussion (FGD) activities conducted with stakeholders who are experts in their fields to draw a justification for the two approaches used. In contrast to previous studies, this study focuses on measuring fiscal decentralization using the Balancing Fund and government spending. Furthermore, as for the updates in this research, it is expected to give the policy recommendations extracted through the two approaches.

Literature Review

There are different philosophical definitions of public policy from various scholars. According to Friedrich and Mason (1940), public policy is a set of activities recommended by a person, group, or even a government within a certain scope that allows for difficulties in implementation to attain specific goals. According to Stigler (1972), public policy is the outcome of the participation of stakeholders, one of whom is an economist. According to

Anderson (1994), public policy is a goal handled by a party to fix an existing problem. According to Cochran and Malone (1995), public policy is a political choice to fulfill social goals.

Meanwhile, according to Parsons (2001), public policy is an activity made by the government, political parties, and policymakers to benefit the larger community. Furthermore, Dye (2013) defines public policy as the government's decision to do or not take action. In this situation, the government can perform a variety of things, (i) including regulating social strife, (ii) organizing the community, (iii) providing public services to the community, and (iv) collecting taxes.

Prof. Simon Kuznets defines economic growth as a long-term increase in a country's ability to provide more and more types of economic goods to its population, which grows in response to technological progress and the necessary institutional and ideological adjustments (Jhingan, 2007), whereas Todaro (2008) defines economic growth as a steady process by which an economy's productive capacity increases over time to generate ever greater levels of national income. Boediono further noted that economic growth is increasing production per capita over time. According to him, three features of economic growth are pressure points: (1) economic growth is a process; (2) an increase in the production (expenditure) per capita of the society; and (3) it occurs over time. 1992 (Boediono).

According to Mankiw (2007), there are five strategies to boost growth: I evaluating savings rates; (ii). Changing the savings rate, (iii) allocating investments, (iv) establishing appropriate institutions, and (v) encouraging technical innovation. According to Meade (1960), national income is the money gained by production factors from the manufacture and sale of commodities and services as a result of the production activities performed. GDP is defined as the total consumption, investment, government expenditure, inventory investment, and exports minus imports by Blanchard and Johnson (2013). Real investment, according to Pass and Lowes (1988), is an investment activity that develops new real assets that boost a country's production capacity. Meanwhile, Suparmoko and Sofilda (2017) define investment as the total market value of stable structures and equipment plus changes in the value of the company's inventory.

According to Gruber (2013), state finance is a study that explains government intervention in the economy. The government intervenes in the economy for numerous reasons, including (i) market failure and (ii) redistribution. Market failure is tied to the problem of market inefficiency, whereas redistribution is related to the movement of resource allocation from one group to another, implying that the government is also concerned with the issue of equality.

According to Gruber (2013), the government intervenes in the economy in numerous ways, including (i) the imposition of taxes and providing subsidies; (ii). Restriction or mandates on private sector purchases or sales; (iii) provision of public goods and services; and (iv) public funding. The supply of subsidies is one of the four powerful techniques in this research so that the theoretical base on state finances may be built. Previously, however, subsidies resulted from taxation as a function of wealth redistribution. As a result, the notion of taxation will be discussed as well.

Research conducted by Bolivar et al. (2019), Country characteristics such as the size or potential of a country's demand, openness, talent level, and institutional stability all influence FDI entrance. Another FDI study on market structure claims that in oligopolistic market circumstances, businesses in an industry tend to follow the locations of their competitors to each other. Companies can avoid overpricing by copying competitor FDI (Nayak & Choudhury, 2014). Due to its stabilizing effect, FDI is the favored form of foreign finance above other forms of capital flows. Greenfield FDI flows and mergers and acquisitions (M&A), where Greenfield FDI contributes positively to economic growth, but M&A FDI does not appear to have a substantial growth effect.

Meanwhile, increasing FDI M&A activity is directed toward emerging nations. Another result is that Greenfield FDI has a stronger and larger impact on domestic capital formation than M&A flows (Gopalan et al., 2018). boost their exports (Harding & Javorcik, 2012).

The backdrop of the notion of developing an autonomous area in the form of regional administration is a process that occurs in all countries: recognition as a political entity, which becomes a political dimension. As a socio-political entity, the regional government's development considers geographical, demographic, and socio-cultural factors. In addition to the political dimension, the concept's implementation is based on the technical dimension, which includes growing services, increasing responsibility, expanding participation, optimal consolidation, and intense monitoring. Local government is an embodiment of the interaction between the central government and local governments, a decentralization policy.

The decentralization strategy is a type of politics in which lower-level government exercises its autonomy. The implementation is expressed in institutions that develop from each region and democratically. Regional democracy has made several significant contributions to national democracy, allowing for more personal engagement in government and fostering a healthy democratic atmosphere (Panter-Brick, 1953 in Smith, 2012). Decentralization is described as the representation of the government in political participation; extending chances at the local level to build regional institutions is essential (Mill, 1861, Smith, 2012).

In terms of public policy, FDI policy cannot be separated from the government system, namely, the delegation of authority from the central government to regional governments, as regulated in Law No. 22/1999 on Regional Government and Law No. 25/1999 on Fiscal Balance between the Central and Regional Governments (PKPD), which was changed to Law Number 23 of 2014 concerning Regional Government and Law Number 33 of 2014 concerning Financial Balance between the Central and Regional Governments. The policy of regulating financial and central relations is primarily aimed at enhancing the quality of regional fiscal, including fiscal independence, the simplicity of regional taxes and levies, the quality of regional expenditure, and stimulating the regional investment climate. Charles Tiebout's 1956 notion of fiscal decentralization relates to the theory of how the efficiency of the supply of public goods might change at different levels of government (Gruber, 2013). According to Tiebout, to be effective in distributing public goods and producing equitable welfare at all levels of government, the distribution of public goods must be equitable and fair.

As Law No. 23 of 2004 concerning the Fiscal Balance between the Central and Regional Governments, which has been amended into Law No. 23 of 2014 concerning the financial balance between the center and the regions, and the most recent Law, namely Law No. 1 of 2022 concerning central and regional financial relations, regulates the provision of balancing funds for the implementation of the authority of the regional government, the central government consisting of the General Allocator, and the regional government consisting of the General Allocator. Profit-sharing funds, which are transfer monies from the central government, are controlled by local governments. (Adi, 2006). The amount of balancing funds is established in the APBN each fiscal year. The three components of the balancing fund comprise a system of central government funds transfer and create a coherent whole, the allocations of which cannot be isolated since the purposes of each of these funds are complimentary and complementary. Suyoto (Suyoto, 2020)

Government expenditure is a type of money used to ensure the supply of public goods and services. According to Brunner and Metzler (1978) and Friedman and Friedman (2002), the quantity of government expenditure, particularly during economic downturns, is the best method to quantify government involvement in the economy. According to some experts, the grounds for government involvement in the economy stem from a variety of market difficulties, including wealth distribution (Tollison, 1989) and inefficiency and externalities (Stigler, (1966) and Gruber, (2017). Meanwhile, Stigler (1972) and Brunner & Metzler (1978) demonstrate indirectly that public policy is the consequence or product of stakeholder participation, one of which is the role of economists in it.

The success of fiscal decentralization is demonstrated by Hankla's (2009) research, which found that the higher the opportunity to enhance local revenue, the larger the capability of local governments. Regional financial independence will be determined by regional income obtained from regional original income. The idea of regional financial independence is the ratio of local revenue to overall regional income. The ratio can illustrate the government's ability to support government activities and meet the welfare requirements of its people by displaying regional financial performance. (Halim, 2007).

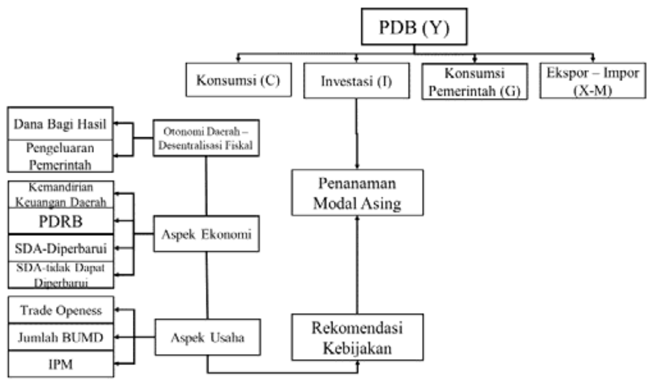
Several additional characteristics in this study influence attracting FDI, including access to Natural Resources (SDA) in Indonesia, which is very simple due to the country's plentiful natural resources. The presence of natural resources in developing nations such as Indonesia attracts international investors, particularly those involved in basic industries (Jadhav, 2012). Non-renewable natural resources increase energy efficiency, which can lower the cost of utilizing energy-intensive items and produce income from energy savings; trade openness, in this instance, exports, influences foreign investor entrance, as Thomas Mun remarked, his larger perspective on overseas commerce. According to Mun, if international commerce creates a surplus, it will benefit the country further; domestic enterprises, both nationally and locally held, will be influenced by foreign investment entering a region, as Yusof (2011) discovered that foreign investment is crucial for industrial growth. Indonesia should make an effort to absorb the gains from foreign investment. As a result, domestic companies in Indonesia are not only a medium for foreign investment but also capable of absorbing new technology; Pelinescu (2015) reveals the role of human capital as a growth factor and argues that slow investment in human capital should affect a country's sustainable development. As the EU Strategy 2020 focuses on three areas of growth: smart, sustainable, and inclusive, none of which can be realized without a significant contribution of one's skills, knowledge, or values, also known as human resource capacity.

Methods

Quantitative research was conducted by testing hypotheses using the Structural Equation Model (SEM) to examine and analyze the effect of fiscal decentralization, economic aspects, business aspects, and the location of FDI in districts and cities on FDI in districts and cities in Indonesia. Qualitative research was conducted through Focus Group Discussions (FGD) with resource persons who were experts in their fields to obtain in-depth analysis with the Nvivo program. SEM model to formulate optimal public policy related to the entry of FDI in 514 districts and cities in Indonesia data from 2016 to 2020 as described in the research framework in Figure 4, while the hypothesis in the quantitative model research is as follows:

H1: Fiscal decentralization policy has a significant effect on FDI
H2: Economic Aspect has a significant effect on FDI
H3: Business Aspects affect FDI
H4: Dummy districts and cities affect FDI

Figure 4 Research framework variables that affect FDI input

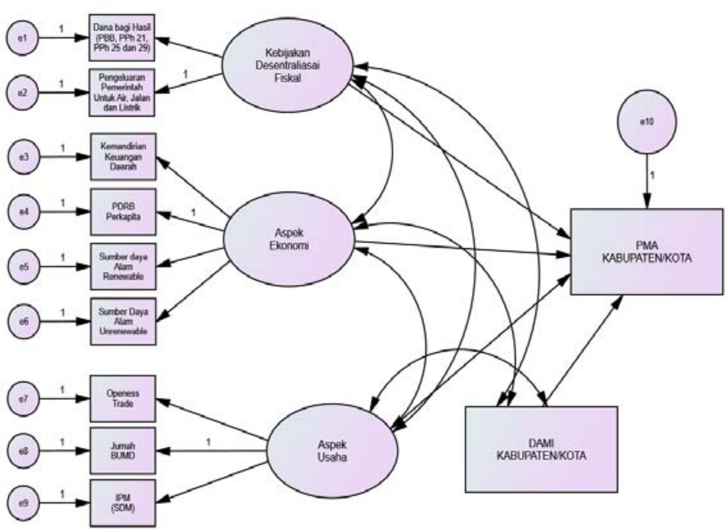


Results and Discussion

Results of the Quantitative Method

The SEM model proposed in the study is built on theory and previous empirical studies, as shown in Figure 5:

Figure 5
SEM Model



Source: BPS (2020).

The Results of the Hypothesis Test

	Described Hypothesis	*Estimate*	C.R.	*p-value*	Conclusion
H_1	Fiscal decentralization policy affects FDI	239.2026	2.6212	0.004	Accepted Hypothesis
H_2	Economic Aspects Affect FDI	-7.0513	-4.1867	0.000	Accepted Hypothesis
H_3	Business Aspects affect FDI	3233.5905	2.6281	0.004	Accepted Hypothesis
H_4	District and city dummy	-32910.60	-2.1139	0.0172	Accepted Hypothesis

Hypothesis 1 is to examine the effect of the Fiscal Decentralization Policy on FDI. The processed results obtained an estimated coefficient of 239.2026, which means that increasing the Fiscal Decentralization Policy can increase FDI in districts and cities. Conversely, decreasing the Fiscal Decentralization Policy can reduce FDI in regencies and cities. The p-value of the t statistic was $0.004 < 0.05$, then Ho was rejected, and Ha was accepted, so it can be concluded that the Fiscal Decentralization Policy positively affected FDI.

Hypothesis 2 is to examine the effect of Economic Aspects on FDI. From the processed results, the estimated coefficient was -7.0513, which means that increasing the variable in the economic aspect will reduce FDI in regencies and cities, and conversely, decreasing FDI in regencies and cities will increase FDI. The p-value of the t statistic of $0.000 <0.05$ showed that Ho was rejected and Ha was accepted, so it can be concluded that the Economic Aspect harmed FDI in districts and cities.

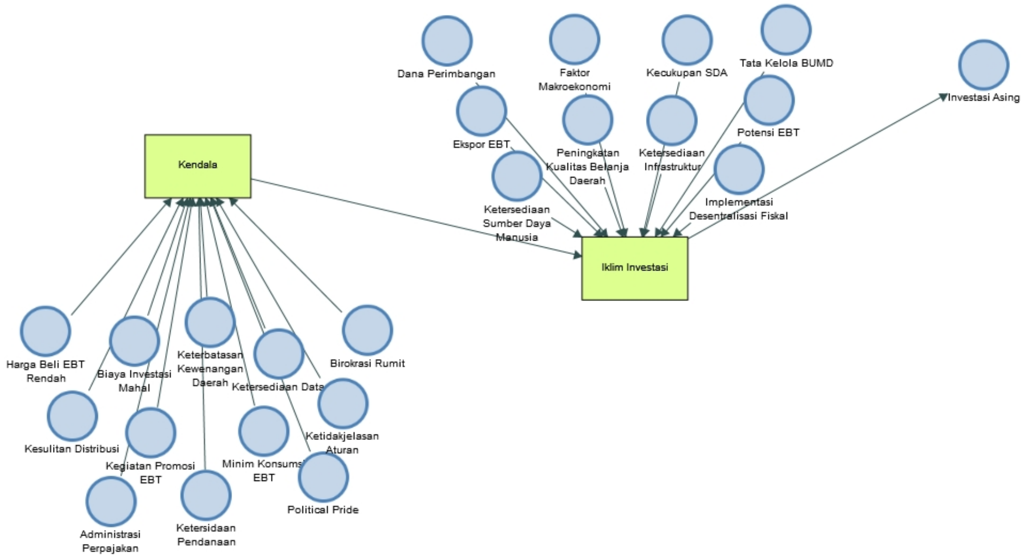
Hypothesis 3 is to test the effect of the Business Aspect on FDI. The processed results obtained an estimated coefficient of 3233,590, which means that increasing business aspects may increase FDI in districts and cities and vice versa while decreasing business aspects will reduce FDI in districts and cities. The p-value of the t statistic of $0.004 <0.05$ showed that Ho was rejected and Ha was accepted, so it can be concluded that business aspects positively affected FDI in districts and cities.

Hypothesis 4 was carried out to test the effect of FDI between districts and cities in Indonesia. From the processed results, an estimated coefficient of -32910.60 was obtained, meaning that the difference in the average FDI between districts and cities with the average FDI in the city was higher by Rp. 32,910 billion compared to the regency. The p-value of the t statistic of $0.0172 <0.05$ showed that Ho was rejected and Ha was accepted, so it can be concluded that the difference in the average FDI between Cities and Districts in Indonesia was significant where the FDI average in Cities was higher than in regency. One of the reasons that can be considered is the inequality in the quality of human resources in each region. It causes investors to be more interested in investing in urban areas.

Results of the Qualitative Method

Qualitative research was conducted through focus group discussions (FGD) with experts in their fields to obtain an in-depth analysis of the Nvivo program, as shown in Figure 5.

Figure 5. The results of NVivo processed from Focus Group Discussion



In Figure 5, The concept of the qualitative method, it can be seen that several obstacles are considered to hinder FDI in Indonesia, so it has an impact on competitiveness and the investment climate. Some of the obstacles found include: (1). Low purchase price by the community for New and Renewable Energy (EBT); (2). Expensive investment costs, referring to NRE investments; (3). Limited regional authority; (4). Data availability; (5). Complex bureaucracy; (6). Distribution difficulties, especially NRE; (7). Lack of NRE promotion activities; (8). Minimum consumption of EBT; (9). Unclear rules; (10). Tax administration; (11). Availability of funding, specifically NRE; and (12). Constraints of political ego from each government level.

Several factors impact the investment climate in Indonesia, including: (1). Balancing fund refers to funds for infrastructure spending; (2). macroeconomic factors; (3). SDA adequacy; (4). BUMD governance; (5). EBT exports, a large number of EBT production exports, the higher the readiness to work on EBT projects because of the availability of resources, so that it can attract foreign investors to invest; (6). Improving the quality of regional spending; (7). Availability of infrastructure; (8). NRE potential; (9). Availability of human resources; and (10). Implementation of fiscal decentralization.

Conclusion And Recommendation

Conclusion

Based on the results of data processing, data analysis, discussion of data test results, and hypothesis testing between variables and foreign investment, it can be concluded that :

Based on the results of the quantitative analysis method, it is found that; (i) the fiscal decentralization policy, as measured through revenue-sharing and government spending on roads, water, and electricity, has a significant and positive effect on FDI; (ii) the economic aspect is measured through regional financial independence, Gross Regional Domestic Product, and renewable and non-renewable natural resources. Renewables have a significant and negative effect on FDI; (iii) business aspects as measured by export trade openness, the number of BUMDs, and the human development Index, have a significant and positive effect on FDI, and (iv) the dummy at the district or city level has a significant and negative effect on FDI.

Based on the qualitative analysis method, it was found that the fiscal decentralization policy was able to have an impact on the entry of FDI from the explanations regarding the implementation of the fiscal decentralization policy, the availability of infrastructure, improving the quality of regional spending, and balancing funds. From the economic aspect, there is a link between the adequacy of natural resources and the potential for new renewable energy (NRE), which can become Indonesia's competitive advantage.

Recommendation

Recommendations of this study are good governance of regionally owned enterprises, readiness in the new renewable energy sector, local governments must improve the quality of productive spending, and maintain the availability of natural resources, especially in the NRE.

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