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Local Governance and Direct Investment: Evidence from Province in Indonesia

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ABSTRACT

After releasing Act No. 22 of 1999 about local autonomy, Indonesia has entered decentralisation era which implicated in decision making process as well as managing development activities in each region. Local government has a wider authority in directing and determining development's direction in its own area although has to be aligned with central government's development corridors. Investments also became an area in which each region is expected to be managed by. Unfortunately, a gap is still occurred among regions regarding their capacity in attracting direct investment in their jurisdiction. This paper tried to extent prior researches by investigating roles of governance in each region including corruption, quality of human resources, transparency of local government, and ruling party toward realisation of direct investment in local government in Indonesia. The paper utilised all Indonesia's province-level data during 2008-2010. The results were strongly associated with domestic direct investment for supporting political party, corruption perception, and disclosure of financial statement. In other hand, this research has only proven that FDI highly associated to disclosure of financial statement.

Keywords: local government, direct investment, corruption, ruling party, financial disclosure¹

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