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Fragmented Institutions in Promoting Investment in Indonesia: Does Interactive Governance Make a Difference?

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Abstract

In many countries, investment promotion is fragmented across multiple government agencies. This can lead to duplication or overlapping, ineffective efforts, a lack of coordination, and confusing guidance for potential investors who are interested in foreign direct investment in the host country. Interactive governance is a process that brings together different stakeholders to address complex problems. It can be used to overcome the challenges posed by fragmented institutions in investment promotion. This paper examines the use of interactive governance in promoting Foreign Direct Investment in Indonesia. Looking at multiple institutions actively taking part in promoting investment abroad, this paper has identified some fragmented institutions that have similar responsibilities for investment promotion shared between the Ministry of Investment and several other government agencies. This study lists various governmental and private organizations that have actively played their role in promoting investment abroad. The primary hypothesis of this study is that interactive governance can improve coordination and reduce duplication in multiple public and private institutions in investment promotion. The secondary hypothesis is that interactive governance can create more favorable investment promotion tasks shared within public government institutions that have more resources to do it. The study is linked to theory by drawing on the literature on interactive governance and investment promotion. The paper concludes that interactive governance could be used as an effective way to overcome the challenges posed by fragmented institutions in promoting investment. It can help to improve coordination, reduce ineffective efforts, and create a more favorable investment climate for potential investors.

Keywords: Fragmented Institutions, Foreign Direct Investment, Interactive Governance, Investment Promotion

1. Introduction

Investment promotion is a key policy tool for economic development. By attracting foreign direct investment (FDI), governments can stimulate economic growth, create jobs, and promote innovation. However, investment promotion can be challenging, particularly in countries with fragmented institutions. Fragmented institutions occur

when responsibility for investment promotion is shared between multiple government agencies. This can lead to ineffective or duplication of effort, a lack of coordination, and a confusing regulatory environment for investors. To overcome these challenges, governments need to find ways to improve coordination and reduce duplication or ineffective efforts.

Foreign direct investment (FDI) has a significant impact on the Indonesian economy. The government of Indonesia is one of many countries that believe FDI can help the country's development and welfare. The Indonesian government has prioritized taking strategic actions to improve the investment climate to attract FDI, especially during President Joko Widodo's administration. It is evidence-based that investment is one of the solutions for Indonesia's economic recovery in 2021. In the last five years, investment has contributed an average of 31.65% to GDP (Consolidated Government Work Plan p. II-60, Bappenas, 2023). Indonesia strives to boost its investment climate to become one of the best in Asia and the world. The FDI Inflows ratio to GDP is targeted to rise to 4.5 percent by 2045. The average investment growth is targeted at 6.4 percent per year and the role of investment in GDP increases to 38.1 percent by 2045.

FDI inflows can positively impact the host country by increasing productivity, creating jobs, promoting human resource development, and using more environmentally friendly technologies (UNCTAD, 2008). Most countries in the world have established Investment Promotion Agencies (IPAs) devoted to promoting and facilitating investment, often with a special role in attracting multinational enterprises (MNEs) and maximizing the advantages of FDI (OECD, 2020). This is because they recognize the significance of private investment for economic and social development.

The establishment or strengthening of Investment Promotion Agencies (IPAs) with a mandate to promote and facilitate FDI is part of the effort of many investment target countries to win their competition in attracting FDI. Since 1990, the number of IPAs has significantly expanded globally. According to the 2018 WAIPA survey, 84% of the IPA was established in the last 27 years (Figure 1.1). The IPA's rise after 1990 was mostly influenced by FDI regime liberalization and the global economy (UNCTAD, 2002).

The results of the WAIPA survey in 2018 revealed that there were over 10,000 IPAs in operation worldwide because most countries particularly emerging countries tended to compete for FDI by establishing IPAs (Dressler, 2018b).

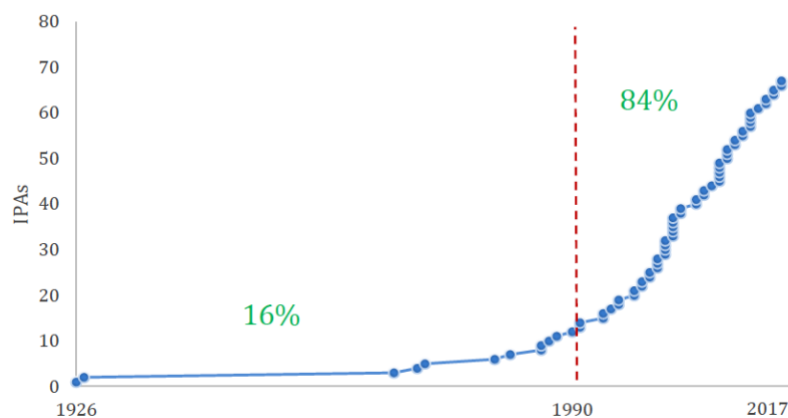


Figure 1.1: Increased Numbers of IPAs worldwide

Source: Survey Report, WAIPA, 2018

The Indonesian Ministry of Investment, formerly known as the Indonesian Investment Coordinating Board (BKPM), is the government agency responsible for promoting, facilitating, and regulating investment in Indonesia. As a focal point for Indonesia's investment promotion, BKPM benchmarks against other Investment Promotion agencies (IPA) in the world. BKPM is a large organization with a wide range of responsibilities, making it one of the most comprehensive investment promotion agencies in the world (OECD, 2020). Over the past few decades,

BKPM has played a key role in improving Indonesia's business environment and attracting foreign direct investment. BKPM has been transformed into the Ministry of Investment in 2022, This change reflects the priority of the Indonesian government to promote and facilitate investment for its targeted FDI.

BKPM aspires to serve a coordinating function within a diverse if not fragmented, institutional structure in which multiple public and private institutions play similar roles in investment promotion, policy formulation, and implementation. These many duties and tasks across government actors or private institutions can be complementary at times, but they can also overlap or be inconsistent with one another.

Empirical evidence generally suggests that IPA can play an important role in attracting and growing FDI in developing countries. (Charlton dan Davis 2007; Cho 2003; Crescenzi, Di Cataldo, dan Giua 2019; Morisset dan Andrews-Johnson 2004; Bezuidenhout & Pietersen 2015). Harding and Javorcik (2012) found that sectors promoted by Investment Promotion Agency experienced higher FDI even up to 155 percent compared to non-targeted sectors. Investment Promotion Agency can also improve the quality of FDI by supporting technology and knowledge transferred, and export growth. (Freund dan Moran 2017; Moran, Gorg, dan Krieger-Boden 2018).

IPA often serves as the face of the government and the first institution contacted by potential investors to become the main partner during the process of foreign investment flow to the country. According to Harding and Javorcik (2012), the absence of such an IPA agency would potentially reduce the possibility of the inflow of FDI into the country.

It is also further reinforced by Saurav & Kuokami (2020) in a newly published survey by the World Bank in October 2020 that the Investment Promotion Agency plays an important role in attracting and maintaining FDI. The survey was conducted on more than 2,400 foreign investors operating in 10 middle-income countries: Brazil, China, India, Malaysia, Mexico, Nigeria, Thailand, Turkey, Vietnam, and including Indonesia. At least two-thirds of multinational corporations in the emerging markets studied rate the variety of services provided by the Investment Promotion Agency as extremely significant. Approximately seven out of ten investors consider the Investment Promotion Agency's services and provision of pre-investment information, such as location guidelines, sector and project profiles, procedures and regulations, operational preparation of the project, information on registration requirements, and the process of obtaining admission, are considered critical and influential for their investment decisions in the country. These findings are also consistent with Kusek and Silva's findings (2018) that a better business environment and business settlement assistance covered by the Investment Promotion Agency services are stated as one of the determining factors for FDI decisions.

This study lists various governmental and private organizations that have actively played their role in promoting investment abroad. The primary hypothesis of this study is that interactive governance can improve coordination and reduce duplication in multiple public and private institutions in investment promotion. The secondary hypothesis is that interactive governance can create more favorable investment promotion tasks shared within public government institutions that have more resources to do it. The study is linked to theory by drawing on the literature on interactive governance and investment promotion.

The hypotheses are related to the research design in that they are tested using the data collected from the in-depth interview and Focus Group Discussion. The research design is a case study of the use of interactive governance in promoting investment in Indonesia by identifying more than 12 institutions both public and private that are actively involved in promoting investment abroad.

The theoretical implications of the study are that interactive governance can be an effective way to overcome the challenges posed by fragmented institutions in investment promotion. The practical implications of the study are that governments can use interactive governance to improve coordination, reduce duplication, and create more favorable investment promotion tasks among public and private institutions.

The importance of this problem is twofold. First, governments need to be able to attract FDI to promote economic development. Second, it is important to understand how interactive governance can overcome the challenges of

fragmented institutions. By conducting new research on this topic, we can help governments to attract more FDI and create a more favorable investment climate for businesses.

In terms of global IPA experience, reaching and interacting with foreign investors involves at least three geographically distinct operational levels: international, national, and sub-national. On international networks, IPA can rely on a network of foreign institutions responsible as government representatives abroad, such as embassies and investment promotion offices represented by the Ministry of Investment/BKPM abroad.

Investment promotion requires consistency in the message's substance and the speaker who interacts with foreign investors at the international, national, and sub-national levels. Facilitating and promoting investment requires close collaboration with administrative agencies to ensure that investment processes run smoothly in the host country. All of these interactions require suitable and effective coordination and collaboration procedures, which should be formalized as needed.

According to an informant from the Ministry of Foreign Affairs who frequently carry out various activities of investment promotion abroad, cooperation between government agencies, associations of entrepreneurs, and businessmen-related sectors, both from Indonesia and the FDI target country has been done well in terms of conducting a national branding event. However, if the success measurement is investment realization, there are still numerous challenges for investors who are already interested in Indonesia. They have to take a long process including the bidding process to win the project. More often the process is opaque, this was disclosed during an interview with an informant from the Ministry of Foreign Affairs (interview on January 16, 2023).

Referring to the Investment Policy Review of Indonesia (OECD, 2020), in addition to the Ministry of Investment/BKPM there are several public institutions and non-public institutions that play a central role in promoting investments, among them: (1) Coordinating Ministry of Economic Affairs; (2) Coordinating Ministry of Maritime Affairs and Investment; (3) The Ministry of Foreign Affairs; (4) The Presidential Staff Office (5) The Ministry of Finance; (6) The Ministry of Industry; (7) Bank Indonesia; (8) The Ministry of National Development Planning (Bappenas); (9) The Ministry of Tourism and Creative Economy; (10) Indonesia Trust Fund; (11) Local governments both at the provincial and district/city level; (12) Indonesia Chamber of Commerce and Industry (KADIN); and banking network.

2. Literature Review

Interactive governance is crucial in promoting investment for several reasons. *First*, IG encourages stakeholder involvement and ensures that the interests of all stakeholders are taken into account. The involvement of many stakeholders in the decision-making process increases the likelihood that investment decisions will be made in a way that benefits all involved. This is especially important in investment decisions that have significant social and environmental impacts.

Second, interactive governance promotes transparency and accountability. By involving multi-stakeholders in the decision-making process, decision-makers are held accountable for their decisions. This helps ensure that investment decisions are made transparently and that all stakeholders understand the reasons behind those decisions.

Third, interactive governance promotes effective governance. By involving many stakeholders in the decision-making process, decision-makers can leverage the expertise and knowledge of a wide range of stakeholder groups. This helps ensure that investment decisions are made in a way that reflects best practices and takes into account the unique circumstances of the investment.

The relationship between institutions meant by the researcher in this paper is the relationship between the Ministry of Investment/BKPM in coordinating and cooperating with multiple institutions, both public and non-public in carrying out its functions as an investment promotion agency. The Ministry of Investment/BKPM has to compete with many other Investment Promotion Agencies (IPAs) to attract FDI to Indonesia. The relationship between

these institutions needs to be strengthened when the relationship has already been formed. However, if the relationship with some institutions is not yet formed, then this research will produce recommendations for the formation of an interinstitutional relationship.

This research is significantly carried out because it has benefits for the development of academic concepts and pragmatic interest. For the development of academic concepts, this research is expected to develop the theory of Interactive Governance on interinstitutional relations in promoting investment. In the context of interinstitutional governance will involve the interaction of multiple institutions, as well as the involvement of private parties in the form of institutional entities and individual actors. The development and application of the theory of Interactive Governance in inter-institutional interaction in the promotion of investment in Indonesia are expected to be a new theory that will be the novelty of this dissertation for the theoretical development of academic interest.

This research is also significant for the pragmatic interest of the Indonesian government to strengthen the relationship between multiple institutions to support the implementation of targeted FDI. It is one of the prioritized agenda to achieve Indonesia's 2045 vision of becoming a high income country. The recommendation of the results is expected to become a considered model of the Interactive Governance in promoting investment for Indonesia. Hopefully, it will become researchers' contribution to support the Indonesian government in achieving Indonesia's vision in 2045.

The concept of interactive governance has begun to emerge and develop with the development of the modern state where there is an expansion of participation of multiple parties. In the development of governance theory, several researchers have focused on the interactions and initiatives of public, social, and private actors in dealing with complex social problems by developing the concept of Interactive Governance (IG). (Kooiman, 2003; Edelenbos, 2005; Torfing et al., 2012). The concept of IG does not only provide guidance or dimension to facilitate the involvement of multi-stakeholders for good public policy governance (Ingram, 2011; Schulz, Martin-Ortega, Glenk, & Ioris, 2017), but it is also beneficial to avoid interinstitutional fragmentation towards the implementation of policies or programs. (Edelenbos & Klijn, 2006; Irvin & Stansbury, 2004; Kooiman, 1993).

The perspective of interactive governance in investment institutions is very important because investment institutions operate in a complex network with a wide range of stakeholders, both public and private. They operate between public policy and business. Their agendas are driven by the public sector to produce economic and social benefits but require a good understanding of the business models of various companies. Their main role is to serve private companies whose activities are also heavily dependent on the investment policy framework arranged by the government thoroughly.

This complex networking with stakeholders requires skills and collaborative processes as well as strong coordination. In some cases, cooperation relationships with multiple parties are formalized, either through organizational relationships or through some form of agreement such as a Memorandum of Understanding. Investment institutions need to coordinate and interact with each other between institutions in the public sector as well as with multiple institutions and representatives of the private sector, civil society, bankers, academics, and international organizations.

The Ministry of Investment/BKPM can rely on a network of government's entities that are responsible to reach out and interact with foreign investors. At the national level, they must coordinate or collaborative with other government or private organization in promoting investment to align with the investment policy agenda. At the sub-national level, the Ministry of Investment/BKPM supports sub-national development bodies, and they sometimes have to work with local governments in particular to facilitate the implementation of investment in the province or regency.

The Interactive Governance perspective according to Kooiman et al. (2008) covers the activities of the governing system, the system to be governed, and governance interaction. The concept considers the presence of actors involved, structures, processes, relationships, and interactions within complex and diverse systems. Interactive Governance involves multi parties that have different interests but interact and participate in formulating and

promoting investment through the mobilization, exchange, and dissemination of various ideas, rules, and resources. (Torfing et al., 2012).

The interactive governance conceptual framework emphasizes the importance of ongoing dialogue and collaboration among multiple actors, including government agencies, civil society groups, and private sector organizations. This framework assumes that complex public issues cannot be effectively addressed through traditional hierarchical approaches to governance, but rather requires ongoing interaction and partnership among stakeholders.

Key elements of the interactive management framework include:

1. **Multiple actors:** Interactive governance involves multiple actors, including government agencies, civil society groups, private sector organizations, and other stakeholders. These actors bring different perspectives, resources, and expertise into the governance process.
2. **Sustainable dialogue:** Interactive governance emphasizes the importance of continuous dialogue and communication among stakeholders. This includes open and transparent communication, active listening, and exchange of ideas and information.
3. **Collaborative Problem Solving:** Interactive governance seeks to promote collaborative problem-solving among key stakeholders.
4. **Flexible management structures:** Interactive governance structures require flexible governance structures that can adapt to changing circumstances and accommodate the needs and perspectives of various stakeholders.
5. **Building trust:** Interactive governance seeks to build trust among stakeholders through open and transparent communication, shared decision-making, and shared accountability. Trust is seen as important for the success of collaborative governance efforts.
6. **Learning and Evaluation:** Interactive governance emphasizes the importance of learning and evaluation to improve the effectiveness of governance processes. This includes monitoring and evaluating results, identifying best practices, and using feedback to inform future decision-making.

Overall, the interactive governance conceptual framework emphasizes the importance of sustained dialogue, collaboration, and joint creation among multi-stakeholders to address complex public issues. This IG concept offers a flexible and adaptive governance approach that is perfectly suited to the world's challenges of today's complex and rapidly changing IPA role.

3. Research Design

The research design will use a postpositivist paradigm with a qualitative approach method to examine the use of interactive governance in Indonesia. The qualitative approach will allow for a deeper understanding of the challenges and opportunities of using interactive governance to promote investment. It is used by the authors because an aspect of the postpositive paradigm is to use theory to construct benchmarks so that it is empirically connected by making operational definitions.

The researchers will use qualitative research methods by referring to the 4 orientations in the quantitative research already identified by W. Lawrence Neuman. The first orientation relates to the approach used for empirical data consisting of recordings of words and gestures from the sources interviewed, written documents, and various existing visual documents. (Neuman, 1997: 328).

The second orientation in qualitative research broadly uses interpretative and critical approaches to social problems. Qualitative researchers focus on subjective meanings, definitions, metaphors, and descriptions in specific cases. (Neuman, 1997: 329). Qualitative research seeks to treat the object of study not as an object, but rather as a creative process and translates social life as something full of dynamics.

The third orientation is the use of logical research logic in practice where research is conducted irregularly, more ambiguous, and bound to specific cases. This, of course, reduces the device of the rules and relies on informal procedures built by the field experiences found by the researchers. (Neuman, 1997: 330).

The data has been collected through a semi-structured interview guide and a focus group discussion guide. The in-depth interviews were conducted with a purposive sample of key informants, such as government officials, business leaders, and academics. Focus Group Discussion was conducted at the end of the data validation. The interview guide was prepared using the concept of Interactive Governance perspective to examine informants' views and experiences on the effectiveness of interactive governance in promoting investment. At the end of the research, the focus group discussion guide was also prepared to examine the challenges, opportunities, and recommendations for the use of interactive governance in promoting investment. The in-depth interviews and focus group discussion have been conducted in Jakarta, Indonesia from January until May 2023.

The data will be analyzed using thematic analysis. Thematic analysis is a qualitative data analysis method that allows for the identification of patterns and themes in the data. The data will be coded and analyzed using the following themes:

- The challenges of using interactive governance to promote investment in Indonesia
- The opportunities of using interactive governance to promote investment in Indonesia
- The recommendations for the use of interactive governance in Indonesia

The study is limited by the following factors:

- The study is a single-case study, which limits the generalizability of the findings.
- The study is based on a purposive sample, which may bias the findings.
- The study is based on self-reported data, which may be inaccurate.

4. Result and Discussion

4.1 Collaboration between the Ministry of Investment and other institutions

The author conducted in-depth interviews with 12 informants representing multiple institutions. The results of the study revealed that interactive governance is positively associated with investment in countries with fragmented institutions. The authors also found that interactive governance is more effective in mitigating the negative effects of fragmented institutions in countries with high levels of trust and cooperation.

According to the Informant of the Ministry of Investment/BKPM during an interview on January 12, 2023, investment promotion is part of the governance ecosystem within the Ministry of Investment.

It was revealed during an interview:

"From my point of view, this is a Pentahelix collaboration where the government has initiated a collaboration with investors as their direct partners and collaboration with society, NGOs, and media for the same purpose. Those five stakeholders have to build interaction within the framework of investment promotion activities. If it is successful, it will attract inclusive foreign direct investment. Inclusive means that investment promotion must be able to attract not only bring capital investments but also technology that is transferable to local communities" (interviewed on Jan 12, 2023)

In terms of collaboration with academicians, the Ministry of Investment / BKPM also wants to involve more academicians and also independent researchers or research institutions by leveraging more high technology for being used by investment promotion efforts. The technology can be used to support government efforts to divert investment so that foreign direct investment will generate added value that contributes to economic growth and the well-being of society.

In terms of collaboration with other ministries/public institutions, the Ministry of Investment/BKPM does not need to use legally binding agreements such as cooperation agreements, considering they are all representing the

Indonesian government as a collective institution. The collaboration between the Ministry of Investment/BKPM and other public stakeholders representing the government abroad is very essential. The representative office of the Ministry of Investment/BKPM abroad known as the Indonesia Investment Promotion Center (IIPC) located in 9 countries (at the time this research was carried out in 2023) should have a good collaboration with other representatives of the Indonesian government in the same country. The Ministry of Investment/BKPM realized that the more support from the parties representing Indonesian stakeholders, the image of Indonesia incorporated became stronger. IIPC also seeks to optimize cooperation with representatives of Bank Indonesia, representatives from State Owned Banks, representatives of the Ministry of Trade known as the Indonesian Trade Promotion Center (ITPC), other ministerial representatives who have offices in the same countries, even with economic functions at the Indonesian Embassy (KBRI) and also the Economic Consul at the Consulate General of the Indonesian Consulate General (KJRI). According to the Ministry of Investment/BKPM, since the Government of Indonesia has the same investment targets, the government of Indonesia should be trying to protect their investment activities under comprehensive guidelines.

In terms of collaboration with private stakeholders, the Ministry of Investment/BKPM has some collaborations with private institutions, particularly with certain banking networks that also have targeted investment disbursement directed to the financing credit for corporate clients. While the Investment Ministry / BKPM is interested that such banking clients potentially making investments in Indonesia. In the context of such interests, the Ministry of Investment/BKPM has a Memorandum of Understanding (MoU) with the banking authorities to facilitate various investment missions on the ground.

4.2. Opportunity for improvement the future interactive governance

The Ministry of Investment/BKPM has two programs to improve communication and common understanding with other Ministries/public agencies at the national level, sub-national level, and also with stakeholders abroad. The Ministry of Investment/BKPM has a national investment coordination meeting program held once a year. Meanwhile, this annual investment coordination meeting is not dedicated to investment promotion specifically because it is managed by other units within the Ministry of Investment. This program involves the local government in particular the Regional Investment Board One-Stop Services to understand national strategies on how to attract foreign direct investment. The investment promotion unit plans to design a separate meeting for the coordination of investment promotion.

In the context of collaboration with other Ministries at the national level, the Ministry of Investment/BKPM also plays a role in preparing and delivering substance materials on investment objectives and promotion strategies for other ministries' officials who will be assigned in other countries. The Ministry of Investment has been collaborating with the Ministry of Industry, the Ministry of Trade, and also the Ministry of Foreign Affairs in terms of providing substantial training on investment promotion strategies.

According to the informant of the Ministry of Investment/BKPM, economic diplomacy is closely related to investment promotion strategy. From his point of view, the Ministry of Foreign Affairs represented by the Ambassador and economic attaché of the Indonesian Embassy should play a key role in investment promotion abroad. The Ministry of Foreign Affairs currently has as many as 132 representatives consisting of 95 Embassies, 3 Permanent Mission for the United Nations in New York and Geneva, and Permanent Mission for ASEAN in Jakarta 30 Consulates General, and 4 Consulates of the Republic of Indonesia. In addition, Indonesia has also appointed 64 Honorary Consuls. They should play their key roles in promoting investment in their located mission to support the Ministry of Investment/BKPM. As we understand, the Ministry of Investment only has 9 representative offices through the IIPC office.

The Ministry of Investment/BKPM proposes that the economic functions of the Indonesian Embassy, Ministry of Trade representatives, banking representatives, and Bank Indonesia representatives assigned abroad commit to supporting the investment promotion strategy prepared by the Ministry of Investment. Given that the Ministry of Investment/BKPM has given limited staff resources to the IIPC representative office. Whether there is a significant

partnership with the Ministry of Investment or not, the Ministry of Foreign Affairs has actively pushed investment through its ambassadors and economic attachés in numerous nations.

4.3. Challenges of interactive governance in promoting investment

The difficulties encountered in promoting investment can also be seen in interactions with many local governments. They have objectives that differ from those of the Ministry of Investment/BKPM. Frequently, certain local governments are interested in forming business partnerships in the interests of their local government, even though their investment potential does not match the needs of the country based on market intelligence data already compiled by the Ministry of Investment/BKPM. Service visits carried out by the local government to encourage potential investments in their area are worthless, as frequently complained by Indonesian Ambassadors who have already been occupied with numerous visits to promote the regional government's investment. Even established business associations grumble about it. They suggest that investment promotion activities should be carried out only once or twice a year, organized comprehensively, and integrated to accommodate the interests of larger stakeholders.

The Ministry of Investment/BKPM is preparing a national investment promotion calendar for promotion abroad. They will expand their collaboration and interactive governance with the Ministry of Home Affairs which has the authority to control local governments.

In the context of ties with private players such as the Indonesian Chambers of Commerce (KADIN), the Ministry of Investment/BKPM has partnered to include KADIN as a co-host of investment promotion events such as Davos event in 2023. KADIN has recently become more proactive, including involving art perpetrators for the Indonesian Night at the investment promotion event in Davos on January 18, 2023.

The Ministry of Investment/BKPM also collaborates with several universities in the Business Development program, though Business Development in the promotion context does not reach the preparation of feasibilities or pre-feasibility because it is part of planning. According to the Ministry of Investment, the academic world is playing a larger role in developing technologies to attract green investment. The Ministry of Investment/BKPM has developed some collaborations with some universities for that purpose.

More on the roles of the Ministry of Investment and the Coordinating Ministry of Maritime and Investment, which are sometimes questioned as to whether they have competing functions and interests. It was revealed from an interview with the informant that:

"...from the course of his journey, no one was clashing interests because I saw a very remarkable dialogue built between Minister of Investment and Coordinating Minister." And we have no reason to discover conflicts there because things have gone better in the past with the Coordinating Ministry of Economic Affairs. We are not attempting to figure out how the interaction between the Coordinating Ministry of Maritime Affairs and Investment with the Coordinating Ministry of Economic Affairs works. And, of course, we always report on the progress of actions at this strategic level".

In terms of collaboration with Bappenas, the Ministry of Investment/BKPM has designed a program of cooperation with Bappenas to help promote Indonesian image on various events such as Economic Reviews Forum and other international events. According to the informant of the Ministry of Investment that the Ministry consults with knowledgeable institutions on Indonesia's macroeconomic condition and also medium-term of economic growth with Bappenas and also Central Bank of Indonesia. Central Bank of Indonesia also plays its role in supporting the ministry in promoting investment using its Global Investment Relations Unit (GIRU) abroad and sub-national Investment Relations Unit (IRU). Meanwhile, Central Bank of Indonesia has 5 GIRU abroad and more than 20 IRU in their provincial offices. The main objective of IRU is to actively communicate Indonesian economic policy and address concerns of investors, especially financial market investors. The IRU is expected to serve as a single point of contact for the financial market participants.

4.4. The implications of the findings

The findings of this study have important implications for policymakers and businesses in countries with fragmented institutions. By promoting interactive governance, policymakers can help to create a more favorable environment for investment. Businesses can also benefit from interactive governance by building relationships with government officials and other stakeholders.

Limitations and Future Research

The study has some limitations. The sample size is relatively small, and the study was conducted in a single year. The authors also did not control for other factors that could affect investment, such as the level of economic development or the quality of the legal system.

Despite these limitations, the study provides valuable insights into the relationship between fragmented institutions and investment. The findings of the study suggest that interactive governance can be an effective way to promote investment in countries with fragmented institutions.

Future research could address these limitations by conducting a longitudinal study in multiple countries that controls for other factors that could affect investment. This would provide stronger evidence for the causal relationship between interactive governance and investment. Future research could also focus on understanding the mechanisms by which interactive governance promotes investment. For example, does interactive governance reduce uncertainty and transaction costs, build trust and cooperation, or improve the quality of governance? Understanding these mechanisms could help policymakers and businesses design and implement more effective policies and strategies for promoting investment.

4.5. Theoretical, clinical, or practical significance of the outcomes

The findings of this study have theoretical, clinical, and practical significance.

- **Theoretical significance:** The findings of this study contribute to the theoretical understanding of the relationship between fragmented institutions and investment. The study suggests that interactive governance can help to mitigate the negative effects of fragmented institutions on investment. This finding is consistent with the theory of interactive governance, which argues that dialogue and collaboration between government, businesses, and other stakeholders can help to reduce uncertainty and transaction costs, build trust and cooperation, and improve the quality of governance.
- **Clinical significance:** The findings of this study may have implications for clinical practice. For example, policymakers and businesses may be able to use the findings of this study to design and implement more effective policies and strategies for promoting investment in regions with fragmented institutions.
- **Practical significance:** The findings of this study may also be of interest to businesses and investors. The study suggests that businesses may be able to benefit from interactive governance by building relationships with government officials and other stakeholders at the national level, sub-national level, and international levels with fragmented institutions.

4.6. Applications warranted based on this research

The findings of this study suggest that interactive governance can be an effective way to promote investment in regions with fragmented institutions. Policymakers and businesses in these regions may want to consider promoting interactive governance by creating forums for dialogue and collaboration between government, businesses, and other stakeholders.

4.7. Problems remaining unresolved or arising anew because of these findings

The findings of this study raise several questions that need to be addressed in future research. Future research could examine the following questions:

- What are the mechanisms by which interactive governance promotes investment?
- What are the specific conditions under which interactive governance is most effective in promoting investment?

- How can policymakers and businesses best promote interactive governance in regions with fragmented institutions?

The answers to these questions could help policymakers and businesses design and implement more effective policies and strategies for promoting investment in regions with fragmented institutions.

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