

The Role of Local Government in Boosting Investment Under East Java Provincial Regulation No. 4 of 2021

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Abstract

Investment plays a crucial role in driving regional economic growth, creating jobs, and improving public welfare. As part of the governance structure, local governments are responsible for creating a conducive investment climate through supportive policies and regulations. East Java Provincial Regulation Number 4 of 2021 concerning Investment serves as the legal basis for managing and developing investment in East Java. This study aims to analyze the role of local governments in increasing investment based on the provisions of this regulation and identify challenges in its implementation. The method used in this research is a normative-juridical approach, examining laws and regulations, legal documents, and related literature. The study results indicate that local governments play a role in formulating investment policies, simplifying licensing processes, providing incentives, and fostering and supervising investment activities. However, implementation still faces obstacles such as complex bureaucracy, limited supporting infrastructure, and suboptimal inter-agency coordination. Therefore, efforts to strengthen policies, improve licensing services, and foster synergy between local governments and business actors are needed to achieve the goal of increasing investment effectively and sustainably.

Keywords: Investment, Public Policy, Regional Government, Regional Investment.

1. Introduction

Investment is one of the key factors in driving regional economic growth, increasing production capacity, creating jobs and improving the welfare of the community. Sustainable investment can accelerate regional development whilst strengthening the regional economic structure. Therefore, investment is not merely viewed as an economic activity, but also as a strategic instrument in national and regional development (Salim & Sutrisno, 2008).

In a system of government based on the principle of decentralisation, local governments have a significant role and authority in managing their regions' potential, including in the field of investment. Law No. 23 of 2014 on Regional Government empowers local governments to organise and manage government affairs with a view to improving public services and the welfare of the community. These powers position local governments as key actors in creating attractive investment conditions, supported by government policies, licensing services, and legal certainty for investors.

East Java Province is one of the regions with significant investment potential in Indonesia, across the industrial, trade, agricultural and services sectors. To optimise this potential, local regulations are required that can provide legal certainty, ease of doing business and protection for investors. As part of the local government's commitment to supporting



increased investment, the East Java Provincial Government has enacted East Java Provincial Regulation No. 4 of 2021, which sets out the policy direction for regional development and the strengthening of the investment climate; the technical implementation of investment is further regulated in East Java Provincial Regulation No. 2 of 2019, as amended by Provincial Regulation No. 5 of 2023 on Investment. This regional regulation serves as the basis for regional development policies supporting investment growth in East Java Province, whilst the technical regulations concerning investment are set out in a specific regional regulation on investment.

East Java Provincial Regulation No. 4 of 2021 provides policy directions for regional development that support increased investment, whilst provisions regarding the simplification of licensing, the provision of incentives, investment facilitation, guidance, and the supervision of investment activities are set out in East Java Provincial Regulation No. 2 of 2019, as amended by Provincial Regulation No. 5 of 2023 on Investment.

However, in practice, various obstacles continue to hinder the optimisation of investment in the regions. These obstacles include a licensing process that remains complex, limited supporting infrastructure, and inter-agency coordination that is not yet functioning optimally. This situation indicates that the effectiveness of increasing investment is determined not only by the existence of regulations, but also by the extent to which local governments play a role in implementing the stipulated provisions consistently and sustainably.

Despite these challenges, Table 1 shows that investment realisation in Indonesia continues to experience an upward trend from 2021 to 2025. Investment increased significantly from Rp 901.0 trillion in 2021 to Rp 1,714.2 trillion in 2024, and continued to grow by 13.6% year-on-year in the first semester of 2025. This consistent growth suggests that, although structural and administrative barriers still exist at the regional level, investment inflows remain resilient. However, the presence of such obstacles may imply that the realised growth has not yet reached its optimal potential, as more efficient licensing systems, stronger infrastructure support, and better inter-agency coordination could potentially accelerate investment performance further.

Table 1. Investment Trends 2021–2025

Year	Investment Realisation (Rp trillion)	Trend Description
2021	901,0	Initial figures following the COVID-19 pandemic
2022	1.207,2	A sharp rise compared to the previous period
2023	1.418,9	Continued growth, up 17.5% year-on-year, with investment increasing
2024	1.714,2	Still growing strongly, up 20.8% compared to 2023
2025 (semester)	942,9	The first half of 2025 saw a 13.6% year-on-year increase

Although East Java is one of the provinces with the highest investment realisation rates in Indonesia, various challenges in the implementation of investment remain a concern. Data from the Ministry of Investment/BKPM shows that in the first quarter of 2024, East Java ranked third nationally with an investment value of Rp20.069 trillion. Furthermore, East Java’s investment target for 2024 stands at Rp148 trillion, an increase compared to the previous year. These high investment targets and realisation figures demonstrate that East Java holds a strategic position in national economic development. However, the increase in

investment value has not yet been fully accompanied by the optimisation of investment services and the effectiveness of regional policy implementation.

In practice, various obstacles are still encountered that affect the regional investment climate, such as complex licensing procedures, overlapping authority between agencies, limitations in supporting infrastructure, and suboptimal coordination between regional government organisations. These conditions indicate that the success of investment growth is determined not only by the existence of regulations but also by the effectiveness of the local government's role in implementing investment policies consistently and sustainably. Therefore, research is required that specifically examines how local governments fulfil their role in boosting investment in accordance with the provisions of East Java Provincial Regulation No. 4 of 2021.

Furthermore, research on the implementation of regional investment policies has largely focused on aspects of economic growth and general investment realisation, whilst studies specifically analysing the role of local governments in implementing East Java Provincial Regulation No. 4 of 2021 remain relatively limited. Previous studies have largely discussed the implementation of the Online Single Submission (OSS) system, the One-Stop Integrated Service (PTSP), the effectiveness of licensing services, and the impact of investment on regional economic growth (Andry, 2025; Arifin et al., 2014; Kusnadi & Baihaqi, 2020; Milta & Mayarni, 2023; Rahman et al., 2024). However, these studies generally focus on administrative services and the implementation of investment policy in general, and have not specifically examined the effectiveness of the East Java Provincial Government's role in implementing regional investment policy under East Java Provincial Regulation No. 4 of 2021. Therefore, this study is important to address the research gap regarding the implementation of regional investment regulations and the effectiveness of the local government's role in creating a conducive, competitive, and sustainable investment climate in East Java Province.

Based on the above, it is important to conduct a study on the role of local government in boosting investment in accordance with East Java Provincial Regulation No. 4 of 2021. This research is expected to provide a broader and deeper understanding of the nature of the local government's role, the challenges involved in its implementation, and the measures that can be taken to achieve effective and sustainable growth in regional investment.

The research questions we have identified from the background outlined above are as follows:

1. What is the role of the local government in promoting investment in accordance with the provisions of East Java Provincial Regulation No. 4 of 2021 on Investment?
2. What are the forms of policy and initiatives undertaken by the East Java Provincial Government to create a conducive investment climate in accordance with East Java

2. Literature Review

2.1. General Principles of Good Governance in Investment

The general principles of good governance are fundamental principles of public administration law that serve as guidelines for all government actions. Law No. 30 of 2014 on Public Administration explicitly stipulates that all government actions must be based on the principles of legal certainty, public interest, impartiality, diligence, and the non-abuse of authority. In the context of investment services, the application of these principles plays a vital role in creating a licensing system that is transparent, efficient, and legally accountable. Legal certainty in investment services is a key factor determining the level of investor confidence in local government. Therefore, the more consistently the general principles of good governance

are applied, the higher the level of legal legitimacy of local investment policies, which ultimately contributes to increased investment interest in a region.

2.2. Local Regulations within the National Legal System

Regional Regulations form part of the hierarchy of legislation as set out in Law No. 12 of 2011, as amended by Law No. 13 of 2022. Legally, Regional Regulations have binding legal force within the administrative territory of the region, provided they do not conflict with higher-ranking regulations. In the context of East Java Provincial Regulation No. 4 of 2021 concerning Amendments to East Java Provincial Regulation No. 7 of 2019 on the 2019–2024 Medium-Term Regional Development Plan for East Java Province, this regulation serves as a regional legal instrument to regulate, promote and oversee investment activities within the province. The normative purpose of this Regional Regulation is to provide legal certainty, enhance regional competitiveness, and streamline the investment licensing process. However, the effectiveness of the Regional Regulation is determined not only by its legal substance but also by its implementation by local government bodies and its alignment with the national Online Single Submission-based licensing system, which serves as the national standard for investment services.

2.3. Legal Governance in Regional Investment Management

The concept of legal governance in modern administrative law emphasises that the administration of government must be based on the rule of law, which demands certainty, transparency and accountability in all public policies. In the context of regional investment, legal governance serves as a vital instrument for ensuring that all licensing processes and investment policies are implemented in accordance with applicable legal provisions. Regions that are able to consistently apply the principles of legal governance will enjoy a higher level of investor confidence as legal risks can be minimised. In this regard, local governments function not only as policy-makers but also as law enforcers responsible for creating a conducive and sustainable investment climate based on the principle of the rule of law.

3. Methods

This study employs a normative legal research method, which focuses on the analysis of applicable legal norms, particularly legislation relating to investment. This approach is used to analyse the role of the local government in promoting investment based on regional development policies set out in East Java Provincial Regulation No. 4 of 2021, as well as investment provisions in East Java Provincial Regulation No. 2 of 2019, as amended by Provincial Regulation No. 5 of 2023.

This study employs two types of approaches: the legislative approach and the conceptual approach. The legislative approach is applied through an analysis of relevant legal provisions, such as Law No. 25 of 2007 on Investment, Law No. 23 of 2014 on Regional Government, and East Java Provincial Regulation No. 4 of 2021. Meanwhile, the conceptual approach is used to understand the concepts, principles, and theories relating to the role of local government and investment.

This study utilises three categories of legal materials: primary, secondary, and tertiary. Primary legal materials include legislation directly related to investment, whilst secondary legal materials consist of books, academic journals, research findings, and articles discussing investment and the role of local government. Tertiary legal materials, meanwhile, consist of legal dictionaries and encyclopaedias used to aid in understanding legal terminology.

The method of collecting legal materials was conducted through library research, namely by gathering, reading, and examining various legal literature and documents relevant to the research problem. Subsequently, the collected legal materials were analysed qualitatively, by elaborating on and interpreting legal provisions and relating them to the role of local government in investment practices.

The results of this analysis are then presented in a descriptive-analytical manner, systematically outlining the role of local government in promoting investment based on East Java Provincial Regulation No. 4 of 2021, whilst identifying obstacles and measures that can be taken to optimise the implementation of investment in the region

4. Results and Discussion

4.1. The Role of Local Government in Promoting Investment Based on Regional Development Policies and Investment Regulations in East Java Province

Under the Indonesian legal system, investment forms part of the administrative law regime, which is hierarchically based on Law No. 25 of 2007 on Investment and Law No. 23 of 2014 on Regional Government. Article 3(1) of the Investment Law stipulates that investment must be carried out based on the principles of legal certainty, transparency, accountability, and equal and non-discriminatory treatment, which, from a doctrinal perspective, indicates that investment is a subject of public law regulation requiring active state intervention. From the perspective of administrative law, this principle aligns with the principle of the legality of government (*wetmatigheid van bestuur*), which affirms that every governmental action must have a valid legal basis and must not conflict with higher-ranking legislation. Article 4 of the Investment Law mandates the government to guarantee legal certainty and protection for investors; within the context of decentralisation as regulated by Law No. 23 of 2014, this positions local governments as an integral part of the administration of investment affairs, a concurrent matter with limited discretion in its implementation.

Based on East Java Provincial Regulation No. 5 of 2023 concerning Amendments to Provincial Regulation No. 2 of 2019 on Investment, the government's role is evident through the administration of business licensing under Articles 11 and 11A, whereby the local government, through the DPMPTSP, provides integrated risk-based licensing services to ensure a faster and more efficient investment process. Furthermore, Article 17 stipulates that the provincial government establishes service standards for the PTSP to ensure the quality of service provided to investors.

To boost investment interest, the local government also provides investment facilities as regulated in Articles 23 and 24, in the form of incentives and facilitation measures such as reductions in local taxes, business capital assistance, provision of information on investment opportunities, land facilitation, and accelerated business licensing. Furthermore, Articles 25 and 26 stipulate that these facilities are granted to investors who meet specific criteria, such as creating employment, transferring technology, protecting the environment, and partnering with SMEs. Local governments also promote investment through exhibitions, seminars, and the dissemination of information as stipulated in Article 36.

In addition to acting as an investment facilitator and promoter, the local government also performs a supervisory function as stipulated in Articles 53 and 56 through guidance and oversight of investment implementation. In the event of a breach of licensing provisions, Article 59 grants the local government the authority to impose administrative sanctions, ranging from written warnings to the revocation of business licences. Thus, the local

government functions as a regulator, facilitator, promoter, and supervisor in creating a conducive investment climate in East Java.

Based on these provisions, it is clear that the East Java Provincial Government does not merely focus on attracting investors through the provision of incentives and investment facilitation, but also ensures that investment activities have a positive impact on regional development and the community. Through various policies covering the provision of facilities, investment promotion, guidance, and supervision, the local government strives to create a conducive, sustainable investment climate that complies with statutory regulations. To clarify the nature of the local government’s role in promoting investment in accordance with the provisions of the East Java Provincial Regulation, the details are set out in Table 2 below.

Based on these provisions, it is clear that the East Java Provincial Government does not merely focus on attracting investors through the provision of incentives and investment facilitation, but also ensures that investment activities have a positive impact on regional development and the community. Through various policies covering the provision of facilities, investment promotion, guidance, and supervision, the local government strives to create a conducive, sustainable investment climate that complies with statutory regulations. To clarify the nature of the local government’s role in promoting investment based on the provisions of the East Java Provincial Regulation, the details are set out in Table 2 below.

Table 2. The Role of Local Government in Promoting Investment Based on East Java Provincial Regulation No. 4 of 2021 and East Java Provincial Regulation No. 2 of 2019, as amended by Provincial Regulation No. 5 of 2023 on Investment

Forms of Local Government Roles	Legal Basis	Legal Analysis
Formulation of regional development policies that support investment	Article 5(1)(f) and (g) of East Java Provincial Regulation No. 4 of 2021	Local governments have the authority to formulate strategies, policy directions and regional development programmes as legal instruments to create a conducive investment climate.
Alignment of regional policies with national policies	Article 7A of East Java Provincial Regulation No. 4 of 2021	This provision demonstrates the harmonisation between regional medium-term development plans (RPJMD) and national development policies to ensure legal certainty and the effectiveness of investment.
Development of regional connectivity and infrastructure	Mission 1 of the East Java Provincial Medium-Term Development Plan (RPJMD) 2019–2024	Infrastructure development is a form of local government responsibility in providing facilities to support investment as part of the implementation of regional autonomy.
Designation of strategic economic zones and investment spatial planning	Provisions of Article 16 of the East Java Provincial Spatial Plan (RTRW), as aligned with the RPJMD	Spatial planning provides legal certainty regarding the location and development of business activities, thereby increasing investor interest.
Implementation of good governance	Mission 3 of the East Java Provincial Medium-Term Development Plan (RPJMD)	Local governments are obliged to create public services that are transparent, innovative and participatory in order to support ease of doing business and investment.
Regional economic development based on key sectors	Mission 1 of the East Java Provincial Medium-Term	Local governments play a role in optimising regional economic potential through the development of strategic sectors as investment attractions.

Forms of Local Government Roles	Legal Basis	Legal Analysis
Monitoring of sustainable and environmentally conscious development	Development Plan (RPJMD) Mission 4 of the East Java Provincial Medium-Term Development Plan (RPJMD)	Investment policies must adhere to the principles of sustainable development so as not to conflict with the interests of the environment and the community.
Involvement of the community and stakeholders in development planning	Provisions on the Public Consultation Forum and the RPJMD Development Planning Forum (Musrenbang)	Public participation is the implementation of the principles of democracy and transparency in the formulation of regional investment policies.
Monitoring and evaluation of regional development implementation	General Explanation of East Java Provincial Regulation No. 4 of 2021	Monitoring and evaluation functions are necessary to ensure that investment policies align with regional development objectives.
Strengthening the integration of central and regional development	Objective 5 of the RPJMD	The integration of central and regional policies forms a crucial foundation for creating regulatory stability in investment and national economic development.

East Java Provincial Regulation No. 4 of 2021 indicates that local governments are positioned as key actors in creating an investment ecosystem through a regional development planning approach. The provisions regarding the Regional Medium-Term Development Plan (RPJMD) in this regulation demonstrate that investment is not viewed merely as an economic activity, but rather as a legal instrument of regional development that must be aligned with national policies, spatial planning, and the principles of sustainable development. Consequently, the role of local government is not merely administrative, but also regulatory and coordinative in determining the direction of regional economic development.

Normatively, the strengthening of the local government’s role in investment reflects the implementation of the principle of regional autonomy as stipulated in the Regional Government Act. The authority of local governments to formulate development policies provides scope for provincial governments to determine priority economic sectors deemed to have potential for investment growth. In this context, local governments have the discretion to adapt investment policies to the characteristics and needs of the region, including through the development of strategic zones and the improvement of regional connectivity. These policies demonstrate that decentralisation is not merely understood as the distribution of administrative authority, but also as a mechanism to accelerate economic development based on local potential.

On the other hand, the provisions in the Regional Regulation also reveal a trend towards vertical harmonisation between the central government and local governments. The East Java Regional Medium-Term Development Plan (RPJMD) is explicitly aligned with the National Medium-Term Development Plan (RPJMN) and various other national policies. Such harmonisation is crucial to avoid regulatory disharmony that could potentially create legal uncertainty for investors. From an investment law perspective, regulatory certainty is one of the key factors in determining the stability of the investment climate. Therefore, the synchronisation of central and local policies serves as a legal instrument to maintain consistency in the direction of national economic development.

The spatial planning aspects of the RPJMD indicate that local governments play a vital role in providing legal certainty regarding the use of space for investment activities. The

integration of the Regional Spatial Plan (RTRW) into regional development policy demonstrates that investment is directed to remain within the framework of spatial planning and environmental protection. In the context of development law, this regulation reflects local governments' efforts to balance economic interests with the principle of sustainability. This is particularly relevant as uncontrolled investment practices often lead to agrarian conflicts, environmental degradation, and social inequality in the region.

Furthermore, the focus on clean and participatory governance indicates that local governments are also directed to build legitimacy in the implementation of investment policies. The principles of transparency, participation and accountability in the RPJMD have implications for improving the quality of public services and reducing bureaucratic barriers. From an administrative law perspective, this reflects a paradigm shift from 'government' to 'governance', where the administration of government no longer relies solely on power, but also on the involvement of the public and stakeholders in the regional development process.

However, the success of local governments in promoting investment is determined not only by the existence of regulations but also by the effectiveness of policy implementation on the ground. Empirically, the main challenges often manifest as regulatory overlap, slow licensing bureaucracy, and a mismatch between development planning and technical implementation at the local level. Therefore, East Java Provincial Regulation No. 4 of 2021 essentially provides a sufficiently strong normative foundation, but its effectiveness remains dependent on the institutional capacity of the local government to carry out regulatory, service delivery, and supervisory functions regarding investment activities.

Empirically, East Java Province recorded investment realisation of approximately Rp147.7 trillion in 2025, positioning it as one of the national investment growth centres. However, spatial analysis indicates that investment remains concentrated in specific areas such as Gresik, Sidoarjo, and Pasuruan, suggesting regional economic distribution disparities. This phenomenon demonstrates that whilst investment policies have succeeded in increasing investment value quantitatively, there remains a qualitative failure to achieve the objective of equitable development as mandated by law.

Consequently, there is a significant gap between legal norms (law in book) and policy implementation (law in action). Normatively, Regional Regulation No. 4 of 2021 has established a comprehensive legal framework for investment that is consistent with the principles of public administration law; however, empirically, its effectiveness remains limited as it has not yet addressed spatial investment disparities nor ensured uniform policy implementation across all regions. This situation reinforces the argument that the effectiveness of the law is determined not only by the quality of the legal norms, but also by institutional capacity, coordination among government actors, and the consistent application of good governance principles in the practice of regional investment management.

4.2. The policies and initiatives of the East Java Provincial Government aimed at creating a conducive investment climate in accordance with East Java Provincial Regulation No. 4 of 2021

The policies and initiatives of the East Java Provincial Government aimed at creating a favourable investment climate form part of the regional economic development strategy, which is designed to improve public welfare and strengthen the region's competitiveness. This is legally enshrined in East Java Provincial Regulation No. 4 of 2021 on the Provision of Investment Incentives and/or Facilitation, which serves as the legal basis for the local government to provide facilities to investors.

The existence of these regulations demonstrates that local governments play an active role in creating a conducive business environment, acting not only as rule-makers but also as

facilitators and drivers of investment growth. In the implementation of regional autonomy, the authority of local governments to formulate investment policies is of paramount importance, as each region has different economic conditions and potential (Nugroho, 2021).

Investment plays a vital role in regional economic development as it can drive economic growth, increase local revenue, and create employment opportunities for the community. The greater the inflow of investment, the greater the potential for improving the welfare of the local community. Therefore, local governments need to design policies capable of attracting investors, including through the provision of facilitation measures and various forms of incentives.

One form of policy regulated under East Java Provincial Regulation No. 4 of 2021 is the provision of incentives to investors. These incentives include reductions, relief, or exemptions from local taxes and local levies. This policy aims to enhance investment attractiveness, particularly in priority sectors that have a significant impact on the regional economy (Nurfaizah et al., 2023). Furthermore, the provision of incentives can also promote equitable economic development across regions within East Java Province.

In addition to fiscal incentives, the local government also offers non-fiscal incentives to investors. These incentives include the provision of information on business opportunities, assistance with land acquisition, and support with the licensing process. These measures are designed to reduce the barriers faced by investors in starting and running their businesses.

With regard to licensing, the local government has implemented a One-Stop Integrated Service (PTSP) system designed to streamline administrative procedures. Through the PTSP, the entire licensing process is carried out in a single location, making it more efficient and integrated. This has simplified what were previously convoluted bureaucratic procedures and improved the quality of service provided to the public (Anjani et al., 2020).

The One-Stop Integrated Service (PTSP) is a key instrument in streamlining business licensing through an integrated service system within a single agency. The existence of the PTSP is regulated under Article 25(4) of Law No. 25 of 2007 on Investment and Article 350 of Law No. 23 of 2014, which stipulate that licensing services must be provided in an integrated manner to enhance efficiency and legal certainty.

In East Java Provincial Regulation No. 4 of 2021, investment facilitation is enshrined in Article 15, which provides for the provision of prompt, accurate and transparent services to investors. This provision is in line with Articles 3 and 4 of Law No. 25 of 2007, which emphasise the principles of legal certainty, transparency and the creation of a conducive business climate (Rohendi, 2014).

Furthermore, Articles 6 and 7 of East Java Regional Regulation No. 4 of 2021 regulate the provision of incentives and investment facilitation, which are in line with Article 18 of the Investment Law regarding facilities for investors. Guarantees of investor protection are also enshrined in Article 14 of Law No. 25 of 2007, which provides legal certainty for business operations.

Consequently, investment policy in East Java demonstrates alignment between central and regional regulations, with the PTSP acting as a technical support body in creating a conducive, efficient and competitive investment climate.

Furthermore, the implementation of the Online Single Submission (OSS) system as an electronic licensing system is also a key step in bureaucratic reform. This system enables investors to apply for licences online through a faster and more transparent process. The integration of the OSS system with regional PTSPs provides convenience for investors whilst enhancing the accountability of public services (Arifin et al., 2014).

Legal certainty is one of the key factors in creating a conducive investment climate. Local governments must ensure that the regulations they implement are clear, consistent and do not overlap. This legal certainty is vital for providing investors with a sense of security in conducting their business activities and for minimising any legal risks that may arise.

Further, investor protection is also part of the effort to create a conducive investment climate. Local governments need to guarantee that investors' rights are protected and provide certainty regarding the continuity of the businesses they operate. This will enhance investors' confidence in the stability of local government policies (Sidabutar et al., 2025).

The development of industrial estates is one of the strategies employed by the East Java Provincial Government to attract investment. Industrial estates provide a range of supporting facilities, such as infrastructure, utilities and adequate logistics access. The existence of these industrial estates offers efficiency to investors, as they can reduce operational costs and boost business productivity (Pratama, 2021). In addition to industrial estates, local governments are also developing other strategic areas with high economic potential. The development of these areas aims to create new centres of economic growth capable of attracting investment across various sectors.

Infrastructure development is one of the key factors in creating a conducive investment climate. Adequate infrastructure, such as roads, ports, airports, and transport and logistics networks, will improve connectivity between regions. This will lead to a reduction in distribution costs and increased efficiency in economic activities. In addition to physical infrastructure, local governments must also prioritise digital infrastructure as part of economic transformation. Robust digital infrastructure will support technology-driven economic development and enhance the appeal of investment in the digital sector.

Improving the quality of human resources is also a key focus for local governments. Through education and vocational training, the government aims to create a workforce that is competent and aligned with industry needs. The availability of a high-quality workforce will boost productivity and provide added value for investors (Tien et al., 2021).

The East Java Provincial Government is also actively promoting investment through various activities such as investment forums, exhibitions, and partnerships with various parties. These promotional efforts aim to introduce the region's potential and available investment opportunities to both domestic and foreign investors. In addition, the local government conducts evaluations of the investment policies that have been implemented. These evaluations aim to assess the effectiveness of the policies and identify any obstacles encountered during their implementation. Through these evaluations, the government can refine policies to make them more effective and targeted.

In their implementation, investment policies must also adhere to the principles of sustainability and equity. This is crucial to ensure that incoming investments not only generate economic benefits but also take social and environmental aspects into account. Consequently, the resulting development can be sustainable and provide long-term benefits for the community (Saarinen, 2019).

The policies set out in East Java Provincial Regulation No. 4 of 2021 demonstrate that the local government acts not only as a regulator but also as an active facilitator in promoting investment through the provision of incentives and business facilitation measures. This reflects a shift in the governance paradigm from a rule-based approach towards service-oriented governance that is more responsive to the needs of investors and economic dynamics. Furthermore, the synergy between regional policies and the Investment Law demonstrates regulatory harmonisation, which is a key factor in creating legal certainty and enhancing investor confidence in the stability of the investment climate in the region.

Overall, the policies and efforts undertaken by the East Java Provincial Government to create a conducive investment climate demonstrate a comprehensive and integrated approach. Synergy between the provision of incentives, streamlined licensing, infrastructure development, legal certainty, and the improvement of human resource quality are key factors in attracting and retaining investment in the region.

Consequently, the implementation of East Java Provincial Regulation No. 4 of 2021 is expected to increase the volume of incoming investment and drive inclusive, sustainable, and equitable regional economic growth. Nevertheless, despite the comprehensive regulatory framework established under East Java Provincial Regulation No. 4 of 2021, several structural and institutional challenges remain in its implementation.

Although East Java Provincial Regulation No. 4 of 2021 has established a relatively comprehensive regulatory framework for investment, the implementation of investment policies at the regional level still faces various structural and institutional challenges. Differences in bureaucratic capacity across regions, disparities in infrastructure readiness, inconsistencies in policy implementation, and the uneven distribution of investment indicate that the effectiveness of investment policies has not yet been fully optimised across the entire province of East Java. These conditions highlight a gap between the normative design of the law (law in books) and the reality of policy implementation (law in action). This perspective is consistent with (Botutihe et al., 2023; Mohas & Fasyehhudin, 2021; Pratama et al., 2025; Qadar et al., 2024) which emphasises that the effectiveness of regional investment policies depends not only on the quality of regulations, but also on institutional capacity and the quality of governance.

In practice, the existence of incentive policies, PTSPs and the OSS system has indeed provided administrative ease for investors. However, various studies indicate that the delivery of investment services at the regional level still frequently faces issues such as overlapping authorities, bureaucratic fragmentation, slow inter-agency coordination, and differing interpretations of regulations between the central and regional governments. This situation ultimately reduces the effectiveness of investment services and affects the level of investor confidence in the stability of regional policies. Complex bureaucracy and a lack of transparency remain the main obstacles to improving the quality of regional investment services (Aqmarani et al., 2021).

Furthermore, the provision of fiscal and non-fiscal incentives is not always the primary factor in attracting investment if it is not accompanied by legal certainty, good governance and effective public services. Investors do not merely consider economic returns, but also take into account regulatory stability, bureaucratic transparency, business security, and the consistency of local governments in implementing investment policies. Consequently, the quality of local government institutions is a crucial factor in creating a genuinely conducive investment climate. The principles of good governance, bureaucratic accountability, and the quality of public services have a significant impact on enhancing investor confidence and the effectiveness of local investment policies (Pinto & Ribeiro, 2022).

On the other hand, the development of infrastructure and industrial estates undertaken by the East Java Provincial Government does indeed demonstrate the local government's commitment to enhancing regional investment competitiveness. However, this development still faces challenges in the form of development disparities between regions, particularly between major industrial estates and outlying areas that do not yet have adequate connectivity and economic facilities. Consequently, investment flows tend to be concentrated in specific regions that already possess better infrastructure readiness and industrial ecosystems. Infrastructure development, digital transformation, and the integration of public service

systems are essential prerequisites for building a competitive and sustainable investment climate (Choirunnisa et al., 2023; Suhartoyo, 2019).

In addition to infrastructure factors, the readiness of human resources and the bureaucracy's capacity to adapt to the digitalisation of services also present significant challenges in the implementation of the OSS and PTSP. Although the digitalisation of investment services aims to improve efficiency and transparency, its implementation in various regions still faces obstacles in the form of limited digital infrastructure, the quality of human resources, and the readiness of local government institutions to adapt to electronic service systems. This indicates that investment bureaucratic reform cannot be achieved solely through the establishment of regulations and the digitisation of systems, but also requires the strengthening of institutional capacity and a comprehensive transformation of bureaucratic culture.

Consequently, the effectiveness of regional investment laws cannot be measured solely by the existence of regulations and the various investment facilities provided by local governments. Such effectiveness also depends heavily on the institutional capacity of the government, the quality of inter-sectoral coordination, the consistency of policy implementation, and the application of good governance principles in the practice of local government administration. These findings reinforce the argument that creating a conducive investment climate requires not only legal certainty, but also governance that is adaptive, responsive, and oriented towards the sustainable effectiveness of public services (Badawi & Wedhatami, 2025).

5. Conclusion

Based on the findings of this study, it is evident that local governments play a strategic role not only as regulators but also as facilitators and promoters in enhancing the competitiveness of regional investment. The scientific contribution of this study lies in the finding that the effectiveness of investment policies is significantly influenced by the integration of licensing reforms, infrastructure readiness, legal certainty, and inter-agency coordination. The research findings indicate that local policies and regulations related to investment have essentially been implemented, particularly through the simplification of the licensing system, the provision of incentives to investors, and the development of industrial estates and supporting infrastructure. The implementation of these policies has led to an increase in investment, particularly in the industrial, trade, and infrastructure development sectors, which are the sectors with the most dominant investment growth and make a significant contribution to regional economic growth.

However, this study also found that the implementation of investment policies still faces various obstacles. The most problematic aspects lie in bureaucracy that is not yet fully efficient, overlapping authority between agencies, inconsistencies in policy implementation, and limitations in supporting infrastructure in some regions. These conditions mean that the effectiveness of investment services has not yet been optimised and has the potential to reduce investor confidence, even though supportive regulations are in place. Therefore, the practical implication of this study is the need for local governments to strengthen institutional coordination, improve administrative efficiency, and ensure policy consistency and legal certainty in regional investment governance.

Furthermore, this study emphasises that sustainable investment growth depends not only on regulatory reform but also requires improvements in human resource quality, transparent investment oversight, and the implementation of investment practices that

consider social and environmental aspects. Thus, this study contributes to the development of regional investment governance through a more comprehensive understanding of local government strategies in creating a competitive, sustainable, and investor-friendly investment climate without neglecting social and environmental balance.

6. References

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