

How to make Indonesia's sovereign wealth fund work

KYUNGHOON KIM

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HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

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CONTENTS

| | |
|--------------------------------------------------------------|-----------|
| Key findings | 2 |
| Executive summary | 3 |
| Introduction | 4 |
| The big picture: Expansion of state capitalism in Indonesia | 7 |
| What is Indonesia's Investment Authority for? | 15 |
| Sovereign development fund | 15 |
| Initial assignment: Enabling state enterprises' deleveraging | 18 |
| Searching for investment partners | 23 |
| How is Indonesia Investment Authority governed? | 28 |
| Conclusion | 36 |
| Notes | 39 |

KEY FINDINGS

- The Indonesian government has established a sovereign wealth fund: the Indonesia Investment Authority (INA). Unlike many other sovereign wealth funds that manage large national savings, INA seeks to attract foreign co-investors to help fund economic development.
- INA's near-term role is to purchase assets from heavily-indebted infrastructure-related state enterprises to improve their financial health and allow them to carry out further development projects. INA's corporate governance arrangements are reasonable on paper. Much will depend on implementation.
- INA has attracted interest from a variety of international financiers, including state-backed investors from the United States, Japan, United Arab Emirates, and China. Clarifying INA's investment goals and strengthening external monitoring mechanisms could help attract greater interest.

EXECUTIVE SUMMARY

Indonesia has finally joined a long list of emerging economies with sovereign wealth funds. Indonesia Investment Authority (INA) was established in 2021 with the task of making long-term investments to support sustainable national development. INA's immediate role is to purchase attractive assets from infrastructure-related state enterprises, which have built up large debts since the government actively mobilised them in the mid-2010s. Through this process, state enterprises will eventually be able to use the proceeds to strengthen balance sheets and conduct more development projects.

Moreover, INA is searching for external co-investors. Since domestic financial resources are limited, foreign investment could contribute to accelerating the implementation of economic projects. While benefiting from co-investors' large capital pool and know-how, INA, in turn, could help co-investors manage financial, political, and geostrategic risks. Although still at an early stage, talk on co-investment is progressing with diverse financiers.

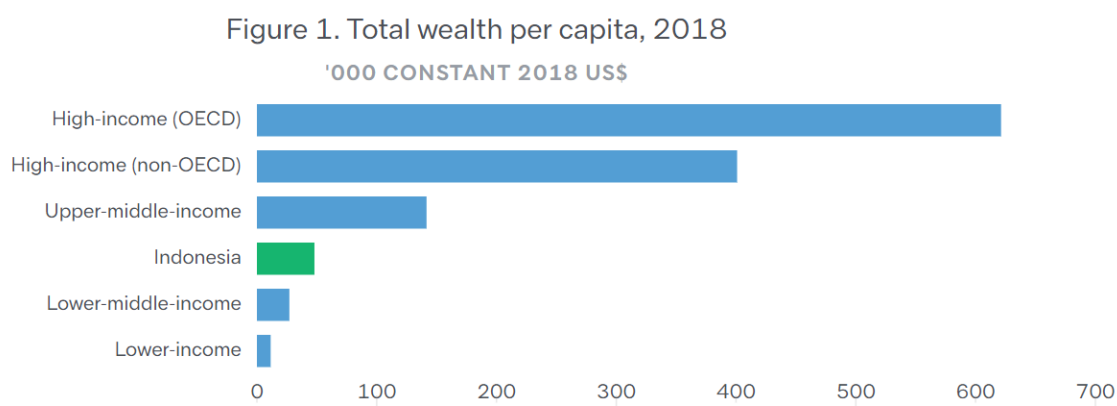
To achieve the twin goals of gaining public legitimacy and attracting international co-investors, the government has prepared regulations to ensure healthy corporate governance of INA. These regulations seem adequate, but the real test will be whether and how they play out in practice. The government must also determine how to balance potentially conflicting financial and socio-economic goals and clarify the role of external monitors.

INA offers international investors an opportunity to make long-term investments in Indonesia's large and vibrant economy while contributing to sustainable development. Co-investors can also play positive roles by sharing valuable expertise and overseeing INA's operation in cooperation with local civil society organisations and media.

INTRODUCTION

Huge windfalls from resources exports in many commodity-rich countries have led to a rapid emergence of sovereign wealth funds (SWFs) over the past two decades.¹ SWFs are not only prominent for their size, with combined assets exceeding US\$9 trillion as of 2021, but also for their global footprints.² For example, Norway Government Pension Fund Global, the world's largest SWF with assets of US\$1.3 trillion, held 11 235 investments across 72 countries in 2020.³ Qatar Investment Authority owns many of Britain's prize assets and landmarks: it holds substantial stakes in Barclays and Sainsbury's and possesses Canary Wharf, Harrods, Heathrow Airport, and the Shard.⁴

The Indonesian government revealed a plan to establish an SWF in January 2020. In a meeting with Sheikh Mohamed bin Zayed Al Nahyan, the Crown Prince of the Emirate of Abu Dhabi, Indonesia's President Joko Widodo (Jokowi) discussed the creation of Indonesia's SWF, which would pull together domestic and foreign financial resources and invest in economic projects.⁵ In contrast to many headline-grabbing SWFs, Indonesia's was designed to firmly focus on domestic development. More precisely, the government aimed to strengthen Indonesia's productive base by establishing a new investment institution. The World Bank's database on countries' wealth for 2018 demonstrates that Indonesia currently has weak capital assets: its total wealth per capita was \$48,046 (in constant 2018 US\$), which was less than 8% of that of high-income members of the Organisation for Economic Co-operation and Development (OECD) and a third of that of upper-middle-income countries (Figure 1). After the plan was unveiled in Abu Dhabi, home to one of the world's largest SWFs, Indonesia's SWF aroused interest around the world.



Source: World Bank, *The Changing Wealth of Nations 2021: Managing Assets for the Future* (Washington, DC: World Bank, 2021), <https://openknowledge.worldbank.org/handle/10986/36400>

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

Ironically, this interest is partly due to the fact that Indonesia was so late in establishing an SWF compared to large emerging economies (Table 1). China Investment Corporation (CIC) was established in 2007, Russian Direct Investment Fund (RDIF) in 2011, and India's National Investment and Infrastructure Fund (NIIF) in 2015. Brazil's Banco Nacional de Desenvolvimento Econômico e Social (BNDES), while classified as a development bank rather than an SWF, has been investing in "national champions" through its subsidiary BNDES Participações for decades.⁶ Indonesia was also far behind its neighbours including Malaysia, which set up Khazanah Nasional in 1993, and Singapore, which founded Temasek Holdings back in 1974.⁷ Indonesia's establishment of an SWF was long overdue, and it was a question of when, not if.

Table 1. Large developing countries' sovereign wealth funds

| | GDP, 2020 | Sovereign wealth fund (largest only) | Year of establishment |
|--------------|----------------------|----------------------------------------------------|----------------------------------|
| China | 14.87 | China Investment Corporation | 2007 |
| India | 2.66 | National Investment and Infrastructure Fund | 2015 |
| Russia | 1.48 | Russian Direct Investment Fund | 2011 |
| Brazil | 1.44 | Sovereign Fund of Brazil | 2008 (dissolved in 2019) |
| Mexico | 1.07 | Mexican Oil Fund for Stabilization and Development | 2014 |
| Indonesia | 1.06 | Indonesia Investment Authority | 2021 |
| Iran | 0.84 | National Development Fund of Iran | 2011 |
| Turkey | 0.72 | Turkey Wealth Fund | 2016 |
| Saudi Arabia | 0.70 | Public Investment Fund | 1971 |

Source: "World Economic Outlook Database: October 2021", International Monetary Fund, <https://www.imf.org/en/Publications/WEO/weo-database/2021/October>; "Top 100 Largest Sovereign Wealth Fund Rankings by Total Assets", Sovereign Wealth Fund Institute, <https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund>.

Since Jokowi started enthusing about the SWF, there has been much scepticism. On numerous occasions, critics have highlighted Indonesia's severe corruption problems, arguing that the new SWF may follow in the footsteps of 1Malaysia Development Berhad (1MDB).⁸ They are, of course, referring to the scandal that the United States' Federal Bureau of Investigation has labelled the "largest kleptocracy case to date" and that eventually led to the fall of Prime Minister Najib Razak.⁹ This multi-billion-dollar scandal also began with an aim to accelerate development of an emerging economy by stimulating domestic investment. However, taxpayers' money ended up being channelled to the oligarchs with the help of multinational investment banks and tax havens.¹⁰

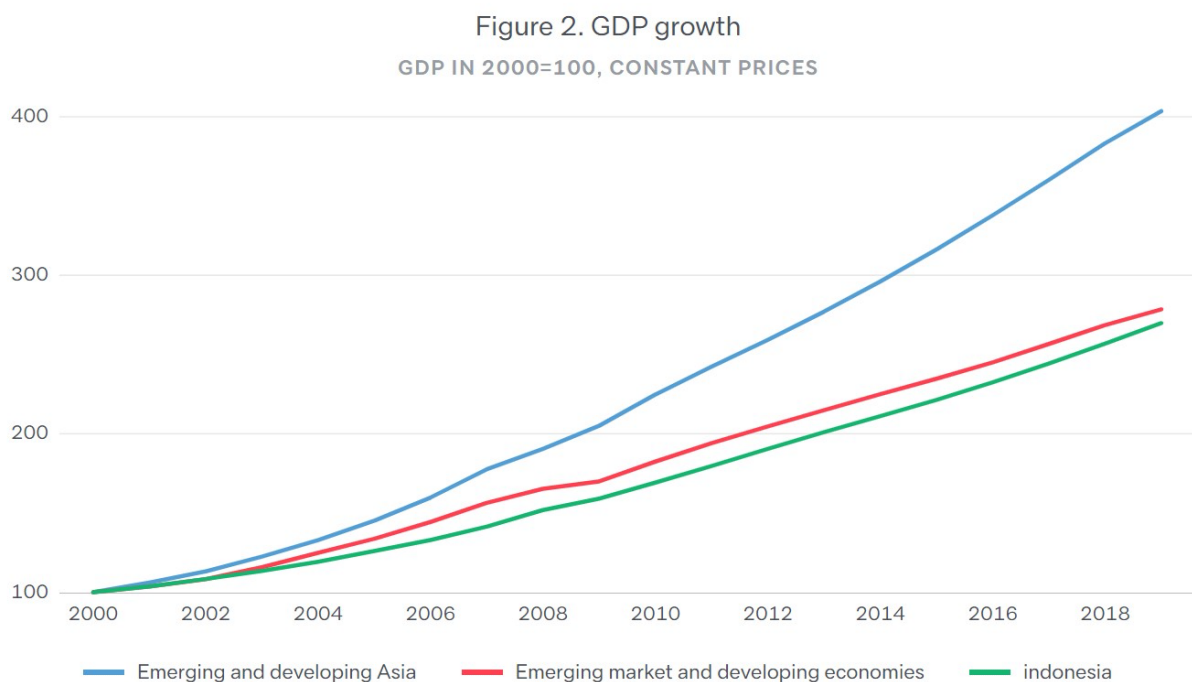
In October 2020, Indonesia's Parliament passed the Omnibus Law on Job Creation, which contains a range of legislation to stimulate economic advancement by improving the business environment, modifying labour policies, and accelerating development projects.¹¹ This law, which contains 186 articles, provided the legal basis for establishing Indonesia's SWF: Lembaga Pengelola Investasi (LPI), widely known as Indonesia Investment Authority (INA).¹² After the enactment of the law, Jokowi ordered his administration to prioritise the establishment of INA.¹³ In the following month, the government publicised a Covid-19 fiscal stimulus package that included an initial capital injection of 15 trillion rupiah (US\$1 billion) into INA.¹⁴ Having received government funding, INA was finally launched in February 2021.

The Indonesian government's decision to establish INA forms part of the country's state capitalist turn in national development strategy.

This Analysis discusses the context in which INA was established and shows how INA is an important part of Indonesia's state-led infrastructure development strategy. It investigates INA's immediate role in catalysing state enterprises' asset recycling in the infrastructure construction sector and, thereby, state enterprises' deleveraging process. It also discusses INA's role in attracting external investments by dealing with financial, political, and geostrategic risks that co-investors may face. This Analysis then examines INA's corporate governance: while it is too early to make a conclusive review, it finds that the regulations governing INA are reasonable, and the challenge will be in implementing them. The Analysis concludes with suggestions on governance issues, such as balancing financial and socio-economic goals and clarifying the role of external monitors.

The big picture: Expansion of state capitalism in Indonesia

The Indonesian government's decision to establish INA forms part of the country's state capitalist turn in national development strategy. When Jokowi came into office in 2014, Indonesia was experiencing a number of challenges that caused subpar economic growth (Figure 2). A key development challenge was the slowing economic structural transformation, characterised by the weak manufacturing sector. Since the Asian financial crisis in 1997, the industrialisation trajectory has lost dynamism, and concerns about "premature deindustrialisation" have spread.¹⁵ This worry intensified as the global commodities market began to cool down during the first half of the 2010s, affecting a key economic contributor, the mining sector. Critics have questioned the sustainability of Indonesia's services-centred economic development as services are often informal and digital, meaning that the sectors' ability to export, raise investments, and pay taxes is limited.¹⁶ In interpreting this problem of sluggish structural transformation, there was a broad consensus that a main culprit was Indonesia's deficient physical infrastructure supply over the previous decade.¹⁷



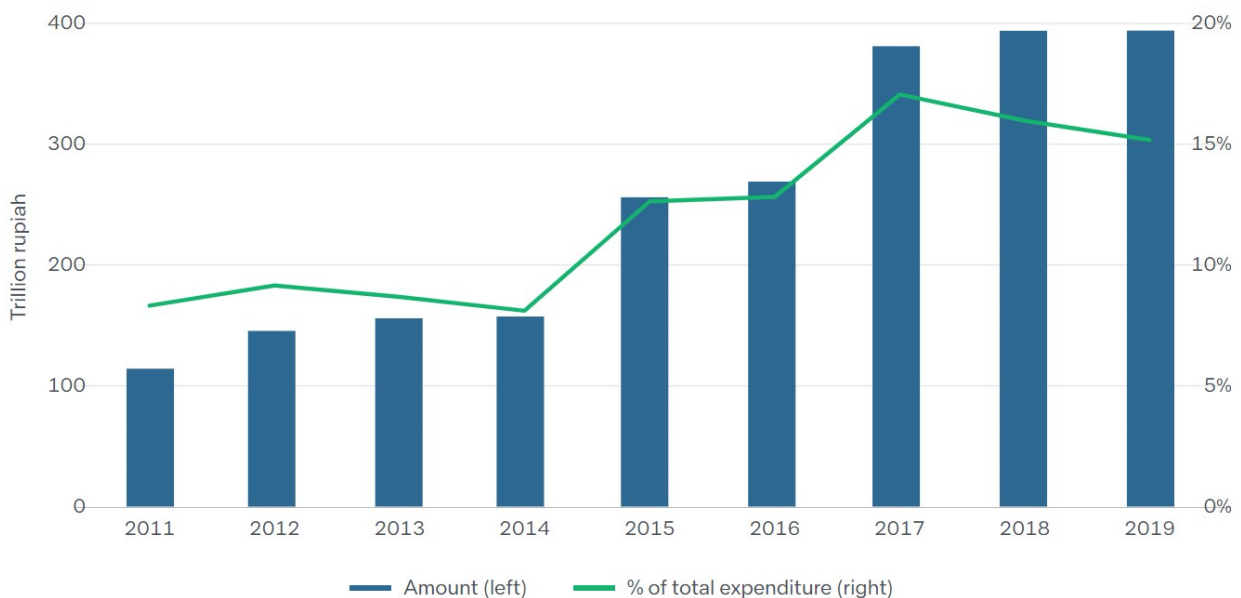
Concerns about Indonesia's economic structure and infrastructure deficits are present in many of the government's development plans. Indonesia's "Vision 2045" strategy sets out various goals including "acceleration of manufacturing industry development" and "integrated and equitable infrastructure

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

development” with an ultimate aim to turn Indonesia into the fifth largest economy in the world by the 100th anniversary of the country's independence.¹⁸ The medium-term development plan provides more detailed targets including raising manufacturing's share in GDP from 19.9% in 2019 to 21.0% in 2024; the length of toll roads from 1461 kilometres to 2500 kilometres; and the length of rail networks from 6164 kilometres to 7451 kilometres.¹⁹

The Jokowi government believed that greater state involvement, particularly in infrastructure investment, was necessary in order to escape Indonesia's mediocre economic growth.²⁰ Market failures were rife and political struggles in economic reform were serious, but the Yudhoyono government (2004–2009 and 2009–2014) was perceived as being complacent, as it enjoyed the fruits of a commodities boom.²¹ In the last few years of the second Yudhoyono administration, bureaucrats tinkered with some trade and investment policies and displayed a protectionist stance to support selected industrial sectors.²² Nationalist policies were also adopted in the natural commodity sector.²³ However, the government did not offer a viable plan to make significant changes to Indonesia's economic fundamentals.

Figure 3. Indonesian government's infrastructure budget

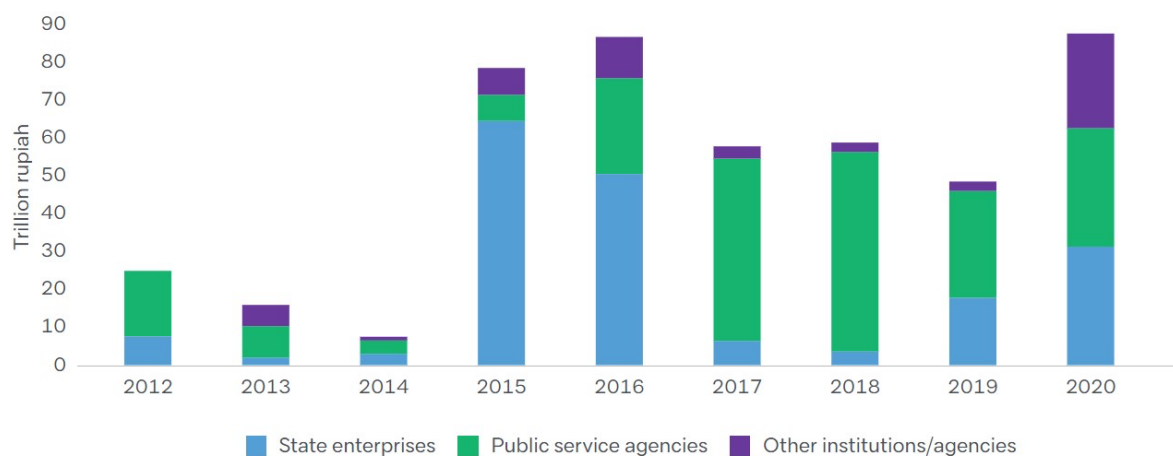


Source: Author's calculation based on data from Indonesia's Ministry of Finance and Bank Indonesia.

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

To deal with economic challenges, the Jokowi government mobilised state-owned entities as “agents of development” (*agen pembangunan*) from the very beginning of the presidency. The administration’s view was that relying on regulatory reform to attract private investment not only required significant time and resources but was also insufficient in certain areas, such as building physical infrastructure.²⁴ The political economic environment was conducive for reviving state capitalism. A rapid drop in international oil prices relieved the government from having to apportion a large chunk of fiscal budget to fuel subsidies and enabled the direction of resources towards development projects. The government’s infrastructure investment expanded significantly under Jokowi: its share in total government expenditure increased from below 10% during 2011–2014 to 12.6% in 2015, and 17.1% in 2017 (Figure 3). Also, Jokowi had significant policy wiggle room, as he maintained strong popularity and the political coalition extended.²⁵ The expansion of the state-owned sector also struck a chord among voters in a political situation of rising economic nationalism.²⁶

Figure 4. Indonesia’s government capital injection into state-owned entities



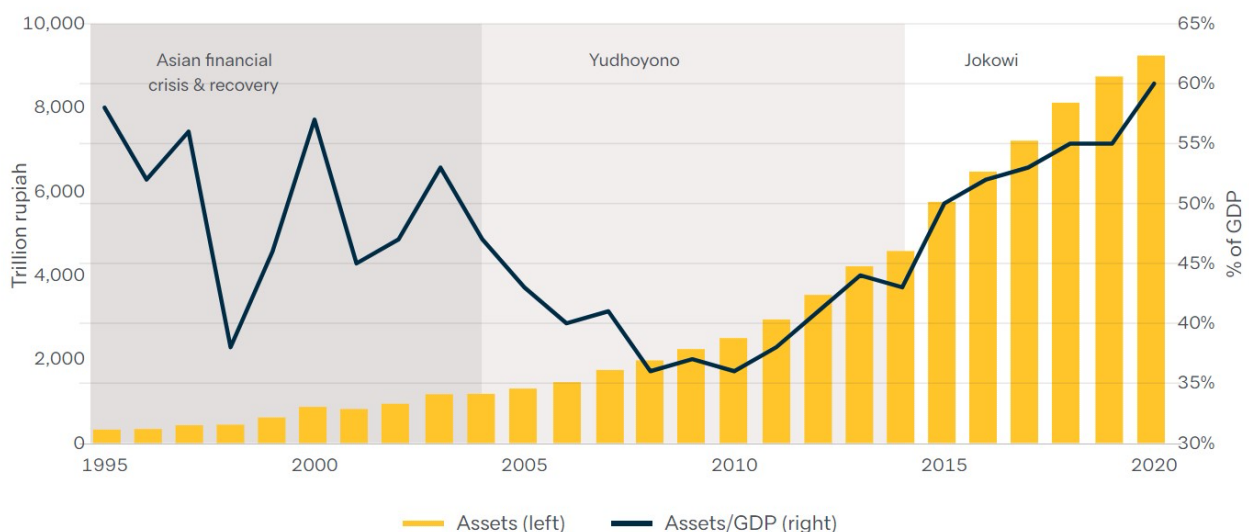
Source: Author's calculation based on data from Indonesia's Ministry of Finance.

With this policy space, the Jokowi administration adopted various measures to support state-owned entities.²⁷ In order to catalyse their expansion, the government lowered dividend-payout ratios, offered direct and indirect loans, gave tax incentives, assigned major projects, provided regulatory privileges, and reorganised ownership structure. A visible policy change occurred in the state’s capital injection into these entities, increasing from 16 trillion rupiah (US\$1.1 billion) per annum in the period 2012–2014 to 70 trillion rupiah (US\$4.9 billion) per annum in the period 2015–2020 (Figure 4).

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

With this new strategy, state capitalism surged beginning in the mid-2010s. Figure 5, which shows state enterprises' assets as a percentage of the GDP, illustrates this new phenomenon. The state enterprise assets-to-GDP ratio declined 1.3 percentage points per annum from 1995 to 2004, mainly due to the effects of the Asian financial crisis and subsequent fiscal consolidation. Governance reform of state enterprises began to receive serious attention around this period, along with democratisation and decentralisation.²⁸

Figure 5. Indonesia's state enterprise assets



Source: Author's calculation based on data from Indonesia's Ministry of Finance and the International Monetary Fund.

Note: State enterprises refer to corporations in which the government owns 51% or more of the capital and which are under the Ministry of State-Owned Enterprises.

The ratio's declining trend continued during the first Yudhoyono government. The direction of change was then reversed in the early 2010s as state enterprises benefited from a booming consumption market. State banks grew especially quickly as financial development accelerated. Despite this trend, the ratio was still lower in 2014 than it was in the first year of the Yudhoyono administration, translating into a decline of 0.4 percentage points per annum in the decade under Yudhoyono. In contrast, the ratio's movement under Jokowi was unidirectional, increasing 2.8 percentage points per annum from 2014 to 2020. As a result, the ratio in 2020 exceeded that in 1995, getting closer to the level the country recorded during "peak" state capitalism in the 1980s, when state-owned entities notably grew thanks to the resource windfall from the oil boom.

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

As of 2020, there are 107 state enterprises in which the Ministry of State-Owned Enterprises owns 51–100% of capital, and the largest state enterprises continue to hold prominent positions in Indonesia's corporate world. For example, the state owns four out of the six Indonesian companies in the 2021 *Forbes* Global 2000 and the only Indonesian company in the 2021 *Fortune* Global 500 (Table 2).

Table 2. Key characteristics of Indonesia's largest state enterprises

| State enterprise | Sector | Assets, 2020 (Trillion rupiah, US\$ <i>billion</i>) | State ownership, 2020 (%) | <i>Forbes</i> <i>Global 2000</i> 2021 (rank) | <i>Fortune</i> <i>Global 500</i> 2021 (rank) |
|-------------------------------------|---------------|------------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Perusahaan Listrik Negara (PLN) | Utilities | 1,588 <i>111</i> | 100.0 | | |
| Bank Rakyat Indonesia (BRI) | Banking | 1,512 <i>106</i> | 57.1 | 362 | |
| Bank Mandiri | Banking | 1,429 <i>100</i> | 60.1 | 507 | |
| Pertamina | Oil & gas | 974 <i>68</i> | 100.0 | | 287 |
| Bank Negara Indonesia (BNI) | Banking | 891 <i>62</i> | 60.1 | 1,742 | |
| Bank Tabungan Negara (BTN) | Banking | 361 <i>25</i> | 60.0 | | |
| Taspen | Insurance | 289 <i>20</i> | 100.0 | | |
| Telkom Indonesia | Telecoms | 247 <i>17</i> | 52.1 | 762 | |
| Indonesia Asahan Aluminium (Inalum) | Materials | 181 <i>13</i> | 100.0 | | |
| Garuda Indonesia | Transport | 139 <i>10</i> | 60.5 | | |

Source: Author's calculation based on data from Indonesia's Ministry of Finance; "Global 2000: How the World's Biggest Public Companies Endured the Pandemic", *Forbes*, <https://www.forbes.com/lists/global2000/#a0094055ac04>; "Global 500", *Fortune*, <https://fortune.com/global500/>.

Expansion of state enterprises has been outstanding in various industries during Jokowi's presidency.²⁹ Oil, gas, and mining state enterprises have nationalised commodity assets or taken over operational rights previously held by foreign companies and carried out investments in downstream industries. State enterprises in the manufacturing sector, including those producing transportation equipment, have been expanding their capacity (Table 3). Utilities and infrastructure management companies have also grown notably. As will be closely examined in the next section, the most dramatic growth has been among state enterprises in the infrastructure construction sector that conducted numerous projects to build toll roads, railways, ports, and airports.

Table 3. Indonesia's notable state-owned manufacturing companies

| State enterprise | Main product | Recent developments |
|----------------------|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Semen Indonesia | Cement | Cement production capacity increased from 37.8 million tons in 2018 to 52.6 million tons in 2019 after acquiring a competitor, Holcim Indonesia. |
| Krakatau Steel | Steel | Hot rolled coil production capacity increased from 2.4 million tons in 2020 to 3.9 million tons in 2021 with the construction of Hot Strip Mill #2. |
| Industri Kereta Api | Train | Passenger train production capacity is expected to increase from 400 units in 2020 to 800 units when the construction of Banyuwangi workshop is complete. |
| Dirgantara Indonesia | Aircraft | Homegrown aeroplane, N219, has entered the production stage after securing a type certificate in 2020. |

Source: Author's construction based on information from institutions' annual reports

Moreover, state capitalism expansion has been characterised by diverse types of state-owned entities involved in national development strategy. The government adopted various ways to fund development projects, leading to an expansion of "special mission vehicles" (SMVs). In particular, SMVs related to infrastructure expanded rapidly with government backing.³⁰ On top of taking advantage of state-owned commercial banks that dominated the financial market,³¹ the government has also fostered institutions specialising in financially supporting businesses at different stages of infrastructure projects.

Infrastructure-related SMVs that conduct the following roles have grown notably.³² Sarana Multi Infrastruktur (SMI) along with its subsidiary Indonesia Infrastructure Finance (IIF) provide project development facilities and assist government contract agencies in project preparation. Penjaminan Infrastruktur Indonesia (PII) is in charge of guaranteeing government contract obligations during the bidding process. Lembaga Manajemen Aset Negara (LMAN), a manager of the government's underutilised assets, provides land acquisition funds at the construction stage. SMI, whose assets have grown more than ten-fold from 9.1 trillion rupiah (US\$0.6 billion) in 2014 to 100.7 trillion rupiah (US\$7.0 billion) in 2020, plays a pivotal role as a lender throughout the entire project life cycle.

It is in this context of re-energising the state-owned sector that INA was born. At the broad level, Indonesia is in the midst of implementing a state-led national development strategy that aims at reinvigorating infrastructure development and eventually transforming economic structure. More specifically, this strategy involves diverse state enterprises, development financiers, and now INA, all of which participate in various development projects designated by the government.

WHAT IS INDONESIA'S INVESTMENT AUTHORITY FOR?

This section classifies Indonesia Investment Authority (INA) as a sovereign development fund and discusses its direct and indirect roles in enabling construction state enterprises' asset recycling: directly, by acting as a major investor and, indirectly, by acting as external investors' partner. By playing these roles, INA aims to aid state enterprises' deleveraging and contribute to improving the state-owned sector's financial health.

Sovereign development fund

INA is an entity wholly owned by the central government and is responsible directly to the President.³³ Its role as an SWF is to create and optimise the value of investments with a long-term aim of supporting Indonesia's sustainable development.³⁴ To achieve this goal, INA is authorised to place funds in financial instruments, administer and manage assets, and determine and cooperate with prospective investment partners. INA can also grant and receive loans.³⁵

INA's capital comes from state capital injection in the form of cash, goods, state receivables from companies, state-owned shares in companies, and from other sources including capitalisation of reserves, accumulated retained earnings, and gains from asset revaluation.³⁶ At the establishment stage, INA's capital was set at 75 trillion rupiah (US\$5.2 billion). In 2020, an initial capital of 15 trillion rupiah (US\$1 billion) was injected from the state budget in the form of cash.³⁷

The rest, 60 trillion rupiah (US\$4.2 billion), was allocated in 2021. Of the recent capital provision, 15 trillion rupiah (US\$1 billion) was in the form of budgetary transfer and 45 trillion rupiah (US\$3.1 billion) was in the form of government-owned shares in two banks.³⁸ INA's assets can originate from the institution's capital, as well as proceeds from business and asset development, transferred state or state enterprise assets, grants, and other legitimate sources.³⁹ INA's profits are used in the following ways: (i) at least 10% of profits need to be transferred to the mandatory reserves until the reserves reach 50% of INA's capital; (ii) profits after the provision for mandatory reserves are retained earnings which can then be invested; and (iii) after the accumulated retained earnings exceed 50% of INA's capital, part of the profit can be distributed to the

INA is authorised to place funds in financial instruments, administer and manage assets, and determine and cooperate with prospective investment partners.

government.⁴⁰ Safeguarding a proportion of profits to build capital base is aimed at strengthening INA's financial structure to allow the institution's dependence on government financing to be limited while enabling the institution to increase investments stably.

Considering these characteristics, INA fits the model of a sovereign development fund, a subset of SWFs. The International Monetary Fund (IMF) identifies five broad SWF types, namely stabilisation funds, savings funds, reserve investment corporations, pension reserve funds, and development funds. Definitively categorising SWFs is not easy because they often have multiple policy objectives, but a unique characteristic of development funds is their allocation of resources for funding "priority socio-economic projects".⁴¹ Furthermore, compared to other types of SWFs, sovereign development funds tend to be less directly linked to fiscal or balance of payment surpluses earned from resource revenues.⁴² While Indonesia is not without natural resources, economic dependence on the commodities sector is, comparatively, not large. Total natural resource rents as a share of the GDP were 2.9% for Indonesia in 2019, significantly lower than the 17.6% for the Middle East and North Africa, home to many large SWFs, and also lower than the 3.3% for middle-income countries.⁴³ Furthermore, Indonesia has been recording dual (fiscal and current account) deficits since 2012.⁴⁴

While Indonesia is not without natural resources, economic dependence on the commodities sector is, comparatively, not large.

The next question is why Indonesia needs INA, given that numerous SMVs already expanded during the first Jokowi administration. Table 4 summarises some of the key differences between INA and key SMVs. INA's most obvious distinction is that it is specifically designed to intervene in development projects as an investor. While Sarana Multi Infrastruktur (SMI) also makes investments, its main focus is on lending, with net loan receivables amounting to 65.0 trillion rupiah (US\$4.5 billion) in 2020 compared to 3.5 trillion rupiah (US\$0.2 billion) of equity investments.⁴⁵ Considering INA's size and main role, INA's investment is expected to be significantly larger. Penjaminan Infrastruktur Indonesia (PII) and Lembaga Manajemen Aset Negara (LMAN) do not make direct financial investments in economic projects. Overall, the government has chosen the path of functional specialisation of development financial institutions. This strategy is aimed at fostering institutions' specialisation, but success in the entire delivery life cycle will require well-organised coordination among these entities.

Another key difference is legal status. Under the Ministry of Finance, SMI and PII are classified as state enterprises and LMAN as a public service agency. In contrast, INA is a special institution (*sui generis*) that can operate more flexibly.

While INA is owned by the government, INA is a legal entity separate from the government, and it has full capacity to operate under its own governing organs.⁴⁶ INA's assets are owned by and the sole responsibility of the institution, and accordingly, INA's profits and losses are those of the institution.⁴⁷ INA adheres to regulations covering only itself, as opposed to regulations on state enterprises, in the case of SMI and PII, or regulations on state finance, in the case of LMAN.⁴⁸

Table 4. Key characteristics of infrastructure-related SMVs and INA

| | Assigned role in project delivery life cycle | Assets, 2020 (Trillion rupiah, US\$ billion) | Legal status |
|------|---------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------|
| SMI | Project preparation support; financing mainly through lending | 100.7 7.0 | State enterprise owned by the Ministry of Finance |
| PII | Project guarantee provision | 13.5 0.9 | State enterprise owned by the Ministry of Finance |
| LMAN | Land acquisition funding | 50.1 3.5 | Public service agency in the Ministry of Finance |
| INA | Investment | 15.0 1.0 | Sovereign wealth fund |

Note: State capital injection of 60 trillion rupiah (US\$4.2 billion) into INA in 2021 is not reflected here.
Source: Author's construction based on information from institutions' annual reports.

Having covered the reasons for creating INA, the rest of this section analyses INA's current and future assignments in detail.

Initial assignment: Enabling state enterprises' deleveraging

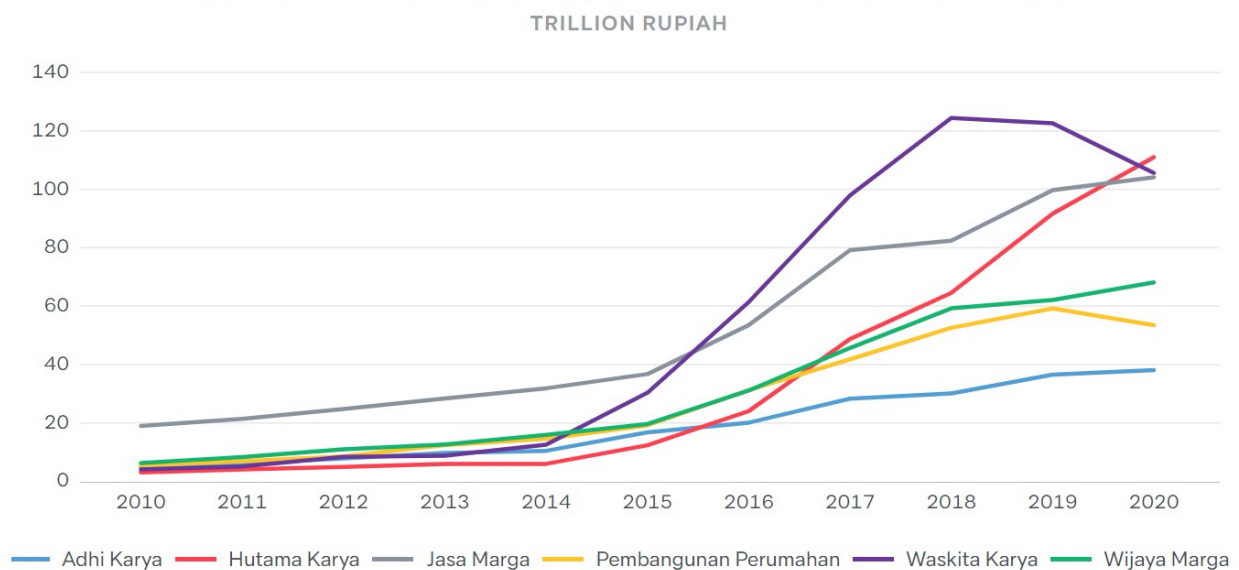
INA's designated investment areas are diverse: transportation infrastructure, supply chains and logistics, digital infrastructure, the green industry, healthcare services, the financial sector, consumer and technology, and tourism.⁴⁹ While projects in these areas are all potential investment targets, this subsection highlights INA's focus in the short to medium term, considering the Indonesian economy's current challenges and government goals.

With the Jokowi government's emphasis on infrastructure development, state enterprises in the construction sector have expanded at breakneck speed. Figure 6 shows that the assets of six major state-owned constructors ("6SCs" for convenience) grew rapidly during the period 2014–2020. Even the smallest of the pack, Adhi Karya, more than trebled in size. Hutama Karya and Waskita Karya expanded by factors of 18.5 and 8.4 respectively. Along with these two firms, assets of Jasa Marga, a toll road operator whose revenues now increasingly come from the construction business, have also surpassed the 100 trillion-rupiah (US\$7

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

billion) milestone. In total, the assets of 6SC more than quintupled since 2014, recording 480.3 trillion rupiah (US\$33.6 billion) in 2020. To put this figure into perspective, the assets of Astra International, a leading conglomerate in Indonesia, were 338.2 trillion rupiah (US\$23.6 billion) in the same year.

Figure 6. Assets of Indonesia's major state-owned construction companies

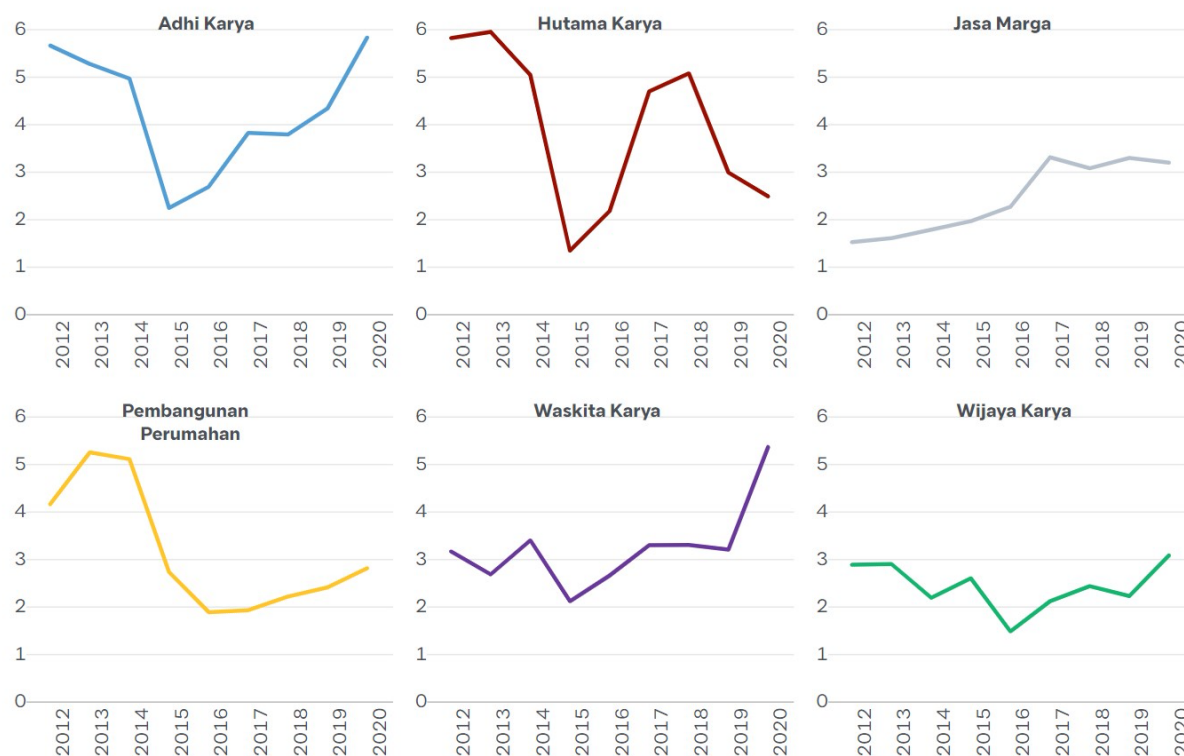


Source: Author's calculation based on data from Indonesia's Ministry of Finance.

Much of this growth has been driven by debts. Figure 7 illustrates how the Jokowi government's efforts to strengthen 6SC's balance sheet led to a decline in their debt-to-equity ratio in the early years. All of 6SC received state capital injections in 2015–2016. However, as these firms began to actively tap the bond market and take out loans for implementing massive infrastructure projects, the ratio started to shoot up. Initially, the deterioration of financial position was most serious in Hutama Karya, and the leverage ratio was only brought down after the government injected additional capital in 2019 and 2020. Increases in the ratios were also worrisome but less sudden for other constructors during the second half of the 2010s. Then, the Covid-19 pandemic made a huge dent in the state constructors' financial health. A prolonged delay in construction and a sudden drop in demand profoundly hurt their bottom line (Table 5).⁵⁰ As a result, the leverage ratio of Waskita Karya rose from 3.2 in 2019 to 5.4 in 2020. Adhi Karya also experienced a rapid deterioration of the balance sheet.

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

Figure 7. Debt-to-equity ratio of Indonesia's major state-owned construction companies



Source: Author's calculation based on data from Indonesia's Ministry of Finance.

The financial troubles for state constructors did not just pose a fiscal risk. They also signalled a potential halt in the national infrastructure development strategy on which Jokowi's legacy depended.⁵¹ State-owned constructors were in the process of implementing major projects — for example, pan-archipelago toll roads by Waskita Karya and Hutama Karya, and the Jakarta metropolitan light rail transit by Adhi Karya — which the Jokowi administration hoped to complete before the end of the second and last presidential term. Therefore, the government needed a mechanism that could relieve the financial pressure in a systematic manner. This is where INA came in.

The case of Waskita Karya, perhaps the most prominent rising star under the Jokowi administration, is illustrative. In 2020, the company's revenue declined by 48% and it recorded a large loss after years of healthy profits. The return-on-equity ratio of minus 48.3 was a shocking result compared to an average of 16.5 during 2016–2019. Fitch changed the company's National Long-Term Rating from A to BBB+ (May 2020), B (August 2020), and then to CCC+ (October 2020). This

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

downgrade of eleven notches meant that Waskita Karya's default risk level went from "low" to "very high" within just a few months.⁵²

Table 5. Financial highlights of Indonesia's major state-owned construction companies

| | State owner-ship | Revenue | | | Comprehensive income | | |
|-----------------------|------------------|-------------------------------------|-------------------------------------|------------|-------------------------------------|-------------------------------------|------------|
| | 2019–2020 (%) | 2019 (Billion rupiah, US\$ million) | 2020 (Billion rupiah, US\$ million) | Change (%) | 2019 (Billion rupiah, US\$ million) | 2020 (Billion rupiah, US\$ million) | Change (%) |
| Adhi Karya | 51.0 | 15,308 <i>1,070</i> | 10,828 <i>757</i> | -29.3 | 666 <i>47</i> | 65 <i>5</i> | -90.2 |
| Hutama Karya | 100.0 | 26,392 <i>1,845</i> | 21,643 <i>1,513</i> | -18.0 | 1,843 <i>129</i> | -1,816 <i>-127</i> | -198.5 |
| Jasa Marga | 70.0 | 26,345 <i>1,841</i> | 13,704 <i>958</i> | -48.0 | 1,996 <i>140</i> | 101 <i>7</i> | -94.9 |
| Pembangunan Perumahan | 51.0 | 24,660 <i>1,723</i> | 15,831 <i>1,106</i> | -35.8 | 1,243 <i>87</i> | 235 <i>16</i> | -81.1 |
| Waskita Karya | 66.0 | 31,387 <i>2,194</i> | 16,190 <i>1,132</i> | -48.4 | 963 <i>67</i> | -9,401 <i>-657</i> | -1,076.5 |
| Wijaya Karya | 65.1 | 27,213 <i>1,902</i> | 16,536 <i>1,156</i> | -39.2 | 2,528 <i>177</i> | 302 <i>21</i> | -88.1 |

Source: Author's calculation based on data from Indonesia's Ministry of Finance.

In July 2021, Waskita Karya successfully dealt with imminent trouble by reaching a loan restructuring agreement with five state-owned creditors, covering 65% of the parent company's loans worth 29.3 trillion rupiah (US\$ 2 billion). By September 2021, restructuring negotiation was complete for the parent company's entire loans with a total of 21 banks.⁵³ Restructuring was complete for 85.1% of total loans on a consolidated basis, including the subsidiaries' negotiation progress.⁵⁴ Thanks to this emollient corporate response, combined

with additional state capital injection in 2021 and the recovery of economic circumstances, the possibility of Waskita Karya's default has significantly reduced. The rescue plan gave a sense of deftly controlled chaos.

However, a structural improvement in the balance sheet is required if Waskita Karya is to address financial ills and participate in future development projects in a sustainable manner. One important way of restoring financial health is to deleverage by liquidating the assets it has accumulated over recent years under Jokowi's development strategy. Even before the Covid-19 pandemic, analysts underscored that Waskita Karya's debt situation was becoming unstable and required attention, given its growing corporate size that could potentially have a systemic economic impact.⁵⁵ Therefore, Waskita Karya, as well as other state-owned constructors, will continue to face the challenge of offloading assets, even when the effects of Covid-19 eventually dissipate.

There has already been some notable progress. For example, Waskita Karya sold shares in two toll road sections in 2019 and another section in 2021 to Hong Kong-based Road King Expressway International Holdings.⁵⁶ Akses Pelabuhan Indonesia, a state-owned port operator's subsidiary, purchased a toll road segment from Waskita Karya in 2021.⁵⁷ SMI, an infrastructure bank, agreed to buy shares in two toll road segments from Waskita Karya in 2021.⁵⁸

In this situation, INA has a major role of accelerating state-owned constructors' deleveraging, so it is also preparing to purchase toll roads. INA's initial focus is Waskita Karya's three toll road segments.⁵⁹ Furthermore, it is planning to establish an "infrastructure investment platform" in partnership with international investors. This platform can potentially provide funding of up to 54 trillion rupiah (US\$3.8 billion) for buying toll roads. On top of supporting deleveraging for short-term financial stability, INA is also to play a central role in enabling longer-term corporate transformation, with state-owned constructors moving out of the toll road industry as investors once they complete their current development mandates. The Ministry of State Owned Enterprises expects Waskita Karya to have completed toll road development projects by 2025 and to then concentrate resources on constructing, rather than financing, other infrastructure projects.⁶⁰

In choosing which toll roads to sell, state-owned constructors are facing a dilemma: the assets in which investors are interested can often offer a healthy stream of cash flows to current owners.⁶¹ A related worry is that divestment will

INA has a major role of accelerating state-owned constructors' deleveraging, so it is also preparing to purchase toll roads.

become a fire sale as state-owned constructors try to quickly improve financial health.⁶² Achsanul Qosasi, a leadership member of the Supreme Audit Board (Badan Pemeriksa Keuangan or BPK), warned that if state enterprises sell assets at a discounted price that does not cover the accumulated investment and operational costs, the sale could be treated as a loss to the government, which is a majority shareholder of these companies.⁶³ Here, INA as an SWF can act as a benevolent, patient investor that considers these diverse issues when evaluating potential assets to purchase. Moreover, the existence of INA as the potential last resort investor gives state-owned constructors some leverage when negotiating with other investors.

Overall, the government plans to mobilise INA for asset recycling in the infrastructure sector in which state enterprises are major players. On top of the short-term goal of deleveraging state enterprises' balance sheet, this plan has an important longer-term implication on fiscal policies. The government is shifting part of the financing burden of supporting state enterprises' ventures in infrastructure to INA. Therefore, INA has been properly capitalised and is required to build its own capital base using part of investment proceeds. For state enterprises, INA's investment would not be the same as the government's capital injection as an investment from INA involves transferring assets. As a result, although the state constructors' expansionary trend may continue in the foreseeable future, it would be checked compared to when the government capital injection was the main driver.

The government plans to mobilise INA for asset recycling in the infrastructure sector in which state enterprises are major players.

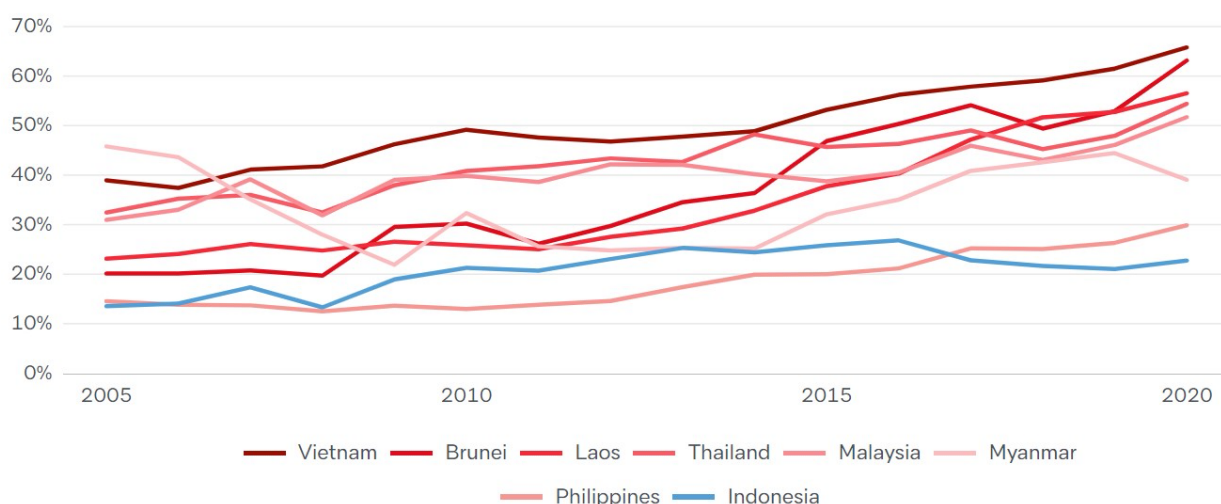
Looking ahead, INA will extend interest to other transportation infrastructures, such as ports, airports, and railways.⁶⁴ INA also plans to focus on telecommunications and the digital industry. It purchased shares in Dayamitra Telekomunikasi, or Mitratel, a subsidiary of partially state-owned Telkom Indonesia, at the initial public offering in November 2021 along with other foreign SWFs.⁶⁵ Another potential investment area is the energy sector. INA and Pertamina, Indonesia's state energy company, are currently discussing a potential investment partnership aimed at increasing oil and gas production and strengthening renewable energy capacity.⁶⁶

Searching for investment partners

Another of the Indonesian government's goals for INA is to put Indonesia on the agenda of major global investors. Tapping the domestic debt market for

infrastructure development has been difficult. In 2021, the size of the local currency bond market was just 31.3% of GDP in Indonesia, much smaller than in regional peers such as Malaysia (125.3%), Singapore (113.7%), China (100.7%), Thailand (91.0%), and the Philippines (50.5%).⁶⁷ Along with the small financial market and fiscal capacity, another challenge for Indonesia is limited foreign investment inflows. As a percentage of the GDP, Indonesia's foreign direct investment stock was only 22.7% in 2020, the lowest in Southeast Asia (Figure 8). On top of mending regulatory and labour issues through the Omnibus Law on Job Creation, the Jokowi government aims to attract foreign investment by using INA.

Figure 8. Foreign direct investment, stock
% OF GDP



Source: UNCATD Data Center.

Note: In 2020, figures for Singapore and Cambodia were 549.1% and 137.5%, respectively. They are excluded from the graph for presentation reasons.

In the early stage of discussion for establishing INA, the government considered Russia's SWF, Russian Direct Investment Fund (RDIF), as a model.⁶⁸ The Russian government's goal for creating RDIF in 2011 was to attract global investors. RDIF promotes investment in six themes: "improving quality of life", "infrastructure development", "import substitution and export potential", "regional development", "efficiency growth", and "technological development". During the first nine years of operation, RDIF and co-investors committed around US\$30 billion, with the former providing about a tenth of that amount. RDIF also played a role in attracting around US\$40 billion of foreign capital through strategic partnerships.⁶⁹ As of 2021, RDIF had established partnerships with 27 diverse entities, including France's state investor (Caisse des Dépôts International), Saudi Arabia's SWF (Public Investment Fund), Thailand's leading conglomerate (C.P.

Group), and Japan's overseas investment and export promotion agency (Japan Bank for International Cooperation).⁷⁰

Like RDIF, INA is allowed to work with potential partners to increase asset value. The cooperation mechanisms include transferring or receiving asset management rights and establishing joint ventures.⁷¹ INA can also create investment management funds in cooperation with third parties or participate in investment management funds established by third parties. These investment management funds can be in the form of joint ventures, mutual funds, or collective investment contracts, and can either be Indonesian or foreign legal entities.⁷² Through these methods, the government aims to raise up to 225 trillion rupiah (US\$15.7 billion) of external capital and expects that foreign co-investment would bring added benefits of external monitoring, project expertise, and signalling effects.

The government hopes that global investors will see INA as a strategic partner that is characterised by firm government backing, a strong legal and institutional basis, and professionalism, establishing it as a trustworthy intermediary through which they can hedge their financial risks when investing in Indonesia.⁷³ There are also some specific mechanisms designed to attract foreign investors. For example, INA has preferential rights when purchasing state enterprises' assets. INA will have priority when state enterprises attempt to transfer assets, a process that should be conducted based on an appraisal of fair market value. These rights can be delegated to INA's joint ventures after INA's approval.⁷⁴ Potential external investors may be attracted to and even compete with one another in order to benefit from preferential rights. Another mechanism is that INA cannot go bankrupt unless the institution is proven to be in an insolvent condition based on an insolvency test conducted by an independent agency appointed by the Ministry of Finance.⁷⁵ This feature could provide co-investors some assurance as it somewhat protects INA against creditors' unsubstantiated claims.⁷⁶ It can also potentially set stricter conditions compared to the existing Bankruptcy Law, which states that a debtor who has two or more creditors and who has failed to pay at least one debt that is due and payable can be declared bankrupt by a court decision.⁷⁷ The government has also prepared special tax treatments for INA's co-investors.⁷⁸

Despite INA's role in enabling foreign investors to hedge financial and political risks, challenges remain in aligning financiers' multiple asset allocation priorities.

The process of foreign investors purchasing state enterprises' assets or key utilities is political as much as it is financial. In Indonesia — a country with strong economic nationalism — societal backlash can be an especially significant

challenge with investments. In this respect, co-investors can hedge their political risks through INA, which acts as a guardian of national interest. In more sensitive investment areas, such as sole drinking water distribution in a city or regency and domestic oil and gas mining, INA must have a majority ownership and be central to decision making in joint ventures.⁷⁹

The government's plan to mobilise INA to attract foreign investment is partly due to the fact that the regulatory changes and economic liberalisation that would satisfy external financiers require time to be effected and often face political and societal challenges. The government's sectoral reform in land acquisition and public-private partnership has come a long way over the past two decades, but investors continue to perceive risks as high, although some projects promise sufficient rates of return. Under these circumstances, the government hopes that INA's co-investment would play a catalytic role in attracting external investors by compensating for gradual sectoral reform.

Despite INA's role in enabling foreign investors to hedge financial and political risks, challenges remain in aligning financiers' multiple asset allocation priorities. Institutional investors typically display differences in their return objectives, liquidity and financing needs, and investment horizons.⁸⁰ Considering the characteristics of sovereign development funds, INA's mission to stimulate Indonesia's socio-economic development may conflict with complex investment goals linked to profitability. So far, in terms of sectors and mechanisms, INA's investment plan indicates that INA is seeking projects offering development opportunities with close-to-market financial returns and crowding-in effects, rather than primarily being driven by projects' economic and social externalities.⁸¹ INA is expected to focus on large-scale projects in which risks are perceived as particularly high by external investors; therefore, its investment would generate crowding-in effects. However, unless INA clarifies its investment stance regarding the potential trade-off between each project's financial and non-financial goals, external investors may hesitate to partake. Partly for this reason, private institutional investors have so far been unenthusiastic about participating in INA's plan.⁸² We return to this issue in the next section.

Some analysts have highlighted that there is a geostrategic angle to the creation of INA, although the Indonesian government has not made an explicit remark on this issue.

In situations where the investment goals of INA and co-investors do not neatly align, geopolitical factors may give global institutional investors, especially state-owned or linked funds, a final nudge. Some analysts have highlighted that there is a geostrategic angle to the creation of INA, although the Indonesian government

has not made an explicit remark on this issue. China's investment has been growing rapidly in Indonesia and, more broadly, Southeast Asia.⁸³ In this situation, some analysts have speculated that INA may be viewed by external co-investors as a tool to counterbalance China's influence in Indonesia's infrastructure industry as China was not on the list of potential co-investors of INA at the early stage. However, the situation is expected to become more complicated as China's Silk Road Fund signed an agreement in July 2022 to invest up to US\$3 billion in INA.⁸⁴

In late 2020, Indonesia's high-ranking government officials successfully obtained a letter of interest from the United States International Development Finance Corporation that could potentially lead to a contribution of US\$2 billion in INA-related projects.⁸⁵ The Japanese Bank for International Cooperation also agreed to participate in such projects by committing an investment of up to US\$4 billion.⁸⁶ In early 2021, the United Arab Emirates (UAE) government agreed to become a co-investor by promising to invest as much as US\$10 billion.⁸⁷

There has been a more detailed plan for an investment partnership in the toll road section. The "infrastructure investment platform" mentioned previously will have a Canadian pension fund manager (Caisse de dépôt et placement du Québec), a Dutch pension fund manager (Algemene Pensioen Groep Asset Management), and UAE's SWF (Abu Dhabi Investment Authority) as participants.⁸⁸ The size of the co-investment is expected to be US\$3.75 billion, with INA contributing US\$750 million and other participants US\$1 billion each.⁸⁹ While the agreement is still under the form of memorandum of understanding, the plan represents serious progress in setting out a clear investment area and size.

Whatever the motives for participation, international co-investors will require high levels of transparency and professionalism from INA, as they are answerable to their owners and monitors back home.

HOW IS INDONESIA INVESTMENT AUTHORITY GOVERNED?

INA's governing body consists of a Board of Supervisors (BOS) and a Board of Directors (BOD).⁹⁰ BOS has the duty to supervise BOD's management activities.⁹¹ There are five BOS members who are appointed and dismissed by the Indonesian President.⁹² The country's Finance Minister is the chairperson of BOS, and a BOS seat is reserved for the Minister of State Owned Enterprises. Three BOS members come from professional fields, and they must meet a list of requirements, including not being political party members.⁹³ These three members are selected from the candidates submitted by the Selection Committee, which is formed by the President and consists of five members, including the Finance Minister and the Minister of State Owned Enterprises.⁹⁴ BOS is assisted by a secretariat and a committee which must include at least an audit committee, an ethics committee, and a remuneration and human resources committee.⁹⁵ BOD conducts the day-to-day management of INA.⁹⁶ BOD's five members all come from professional fields and are appointed and dismissed by BOS.⁹⁷ BOD members must also meet a set of criteria, such as not being political party members.⁹⁸ BOD is assisted by a committee that consists of at least an investment committee and a risk management committee. BOS and BOD members can only be dismissed based on specific grounds.⁹⁹ INA can also form a Board of Advisors (BOA) for BOD to seek advice on investment. BOA members are appointed and dismissed by BOS.¹⁰⁰ Furthermore, BOD may appoint representatives of INA to the management of organisations linked to INA, such as its joint ventures and investment management funds.¹⁰¹

The regulations governing INA stipulate that organisational and asset management need to be based on good governance.

Based on these guidelines, INA's first BOS and BOD were appointed in early 2021. Five BOS members have expertise in international/national governmental organisations, media, financial markets, law, and accounting, respectively (Table 6). BOD members have had long careers in the financial sector or corporate finance (Table 7). BOS and BOD members typically have a wealth of international experience. They have all worked abroad or for an Indonesian branch of a multinational company. Based on publicly available information, all but one of the BOS/BOD members completed at least part of their higher education in the United States.

The regulations governing INA stipulate that organisational and asset management need to be based on good governance.¹⁰² The regulations also highlight the importance of accountability, transparency, independence, fairness, and responsibility. To ensure that the organisation adheres to these values, INA is required to do the following. It needs to prepare annual reports consisting of activity and financial reports.¹⁰³ Financial reports need to be audited by public accounting firms registered with the Supreme Audit Board (Badan Pemeriksa Keuangan or BPK) and the Financial Services Authority (Otoritas Jasa Keuangan or OJK). The audited financial reports need to be announced no later than 30 April of the following year. Annual reports, which are signed by BOD and approved by BOS, are submitted to the President with BOS' accountability report.¹⁰⁴ In order to ensure good governance in asset management, the regulations also set out requirements for INA to (i) store detailed data on the investment management funds;¹⁰⁵ (ii) present the evaluation of investment management funds' assets in financial statements;¹⁰⁶ and (iii) receive annual reports, including audited financial statements from investment management funds.¹⁰⁷

Overall, the current regulations tick many of the boxes of the internationally accepted characteristics of SWFs. The Sovereign Wealth Fund Institute uses the Linaburg-Maduell Transparency Index to assess the quality of corporate governance of SWFs.¹⁰⁸ The index provides ten key principles that evaluate diverse aspects of SWFs' information sharing. The index gives SWFs one point for each principle they fulfil. The institute recommends a minimum score of eight in order to achieve an acceptable standard of transparency. As of December 2021, not enough time has passed to properly assess INA's score, as the first annual report is to be published in 2022. However, it is possible to make an informed judgement given the available guideposts. Based on the information INA shares on its website and in its quarterly financial reports, it realises four principles (see, (1), (6), (9), and (10) in Table 8). Based on INA's stipulations according to the applicable regulations and the reporting standard of state development financiers, which are bound by similar requirements, INA can be expected to fulfil five more categories, at least in theory (see, (2), (3), (4), (5), and (7) in Table 8), potentially bringing the total score to nine. But, of course, this is an optimistic expectation, as the real practice can diverge from what is set by regulations.

Table 6. INA's BOS members, December 2021

| Name (INA position) | Education | Current position | Past professional experience |
|--------------------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sri Mulyani Indrawati (Government Representative, Chairperson) | PhD in Economics, University of Illinois Urbana-Champaign | Minister of Finance | Managing Director and Chief Operating Officer of World Bank; Minister of Finance of Indonesia; Coordinating Minister of Economic Affairs of Indonesia; Executive Director of International Monetary Fund |
| Erick Thohir (Government Representative) | Master of Business Administration, University of California | Minister of State Owned Enterprises | Founder and President Commissioner of Mahaka Media; President Director of ANTV; President of FC Inter Milan |
| Darwin Cyril Noerhadi (Independent Member) | PhD in Strategic Management, University of Indonesia | Commissioner of Medikaloka Hermina; Commissioner of Austindo Nusantara Jaya; Chairman of Mandiri Sekuritas | Founder of Creador Indonesia; Chief Executive Officer of Indonesia Stock Exchange; Chief Financial Officer of Medco Energi International; Partner at PwC |
| Yozua Makes (Independent Member) | PhD in Law, University of Indonesia | Managing Partner of Makes & Partners; Lecturer at Universitas Pelita Harapan | Founder of Makes & Partners; Founder of Plataran |
| Haryanto Sahari (Independent Member) | Bachelor's in Economics, University of Indonesia | Commissioner of PermataBank; Audit Committee member of Unilever Indonesia; Audit Committee member of Medikaloka Hermina | Country Senior Partner at PwC |

Note: Education, current positions, and past professional experience are non-exhaustive lists.

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

Table 7. INA's BOD members, December 2021

| Name (INA Position) | Education | Past professional experience |
|--------------------------------------------------------|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ridha D. M. Wirakusumah (Chief Executive Officer) | Doctorate in Business Administration, City University of Hong Kong | Chief Executive Officer of PermataBank; Head of Indonesia at KKR & Co.; Chief Executive Officer of Bank Maybank Indonesia; President and Chief Executive Officer Asia Pacific of AIG Consumer Finance; President and Chief Executive Officer Asia Pacific of GE Capital Consumer Finance and Banking |
| Arief Budiman (Deputy Chief Executive Officer) | Master of Business Administration, Wharton School, University of Pennsylvania | Chief Executive Officer of Danareksa; Chief Financial Officer of Pertamina; President Director of McKinsey Indonesia |
| Stefanus Ade Hadiwidjaja (Chief Investment Officer) | Master of Business Administration, Wharton School, University of Pennsylvania | Investment and Risk Management Committee member of Medikaloka Hermina; Managing Director, Country Head of Indonesia and Singapore, Investment Committee member of Creador; Consultant at BCG |
| Marita Alisjahbana (Chief Risk Officer) | Master's in Architecture, University of California | Citibank's Indonesia Country and Corporate Risk Manager |
| Eddy Porwanto (Chief Financial Officer) | Master of Business Administration, University of Illinois Urbana-Champaign | Senior expert of Northstar Group; Chief Financial Officer of Delta Dunia Makmur; Chief Financial Officer of Garuda Indonesia; Chief Financial Officer of General Motors Indonesia |

Note: Education and past professional experience are non-exhaustive lists.

Table 8. INA's transparency: Application of Linaburg-Maduell Transparency Index, December 2021

| Principles | INA |
|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (1) Fund provides history, including reason for creation, origins of wealth, and government ownership structure | <p>Yes</p> <p>Reason for creation: INA's website states that the vision is to create "a better tomorrow by delivering investment in Indonesia's growth".</p> <p>Origins of wealth: INA's website states that the government "has committed to provide INA with capital of USD 5 billion within 2021, of which USD 1 billion was injected in late 2020".</p> <p>Government ownership structure: The financial statement shows that the government's ownership is 100%.</p> |
| (2) Fund provides up-to-date, independently audited annual reports | <p>Yes (in theory)</p> <p>INA needs to prepare and provide annual reports that include activity reports and audited financial statements. The audited financial statements need to be announced no later than 30 April of the following year (Article 52 of Government Regulation Number 74 of 2020). INA's first annual report is expected to be shared in 2022. Note: INA's website has provided quarterly financial statements in a timely manner.</p> |
| (3) Fund provides ownership percentage of company holdings and geographic locations of holdings | <p>Yes (in theory)</p> <p>INA is expected to provide such information, considering that INA's annual financial statements need to be prepared in accordance with International Financial Accounting Standards (Article 46 of Government Regulation Number 74 of 2020) and considering the information availability in the annual reports of other state development financiers such as SMI. Note: INA did not have any subsidiaries and investment as of 30 June 2021 according to the quarterly financial statement.</p> |
| (4) Fund provides total portfolio market value, returns, and management compensation | <p>Yes (in theory)</p> <p>See (3).</p> |
| (5) Fund provides guidelines in reference to ethical standards, | <p>Yes (in theory)</p> <p>Ethical standards: BOS needs to prepare the Code of Ethics (Article 13 of Government Regulation Number 74 of 2020). Members of BOS and BOD are dismissed if they take actions that violate ethics (Article 11 and Article 28 of</p> |

HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

| | |
|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| investment policies, and enforcer of guidelines | Government Regulation Number 74 of 2020). Investment policies: The processes of appointing investment managers and establishing or participating in investment management funds are included in Chapter 5's Part 4 and Part 5 of Government Regulation Number 74 of 2020. Enforcer of guidelines: BOS is assisted by a committee which is composed of an audit committee, an ethics committee, and a remuneration and human resources committee (Article 24 of Government Regulation Number 74 of 2020). BOD is assisted by a committee composed of an investment committee and a risk management committee (Article 32 of Government Regulation Number 74 of 2020). |
| (6) Fund provides clear strategies and objectives | Yes INA's website provides five missions: "delivering optimal returns", "collaborating with credibility", "creating value", "advancing Indonesia's competitiveness", and "developing people". It elaborates on these missions. The website also shows INA's key investment sectors: "transport infrastructure", "supply chain and logistics", "digital infrastructure", "green investing", "healthcare services", "financial services", "consumer & tech", and "tourism". It highlights key investment subsectors within each sector. |
| (7) If applicable, the fund clearly identifies subsidiaries and contact information | Yes (in theory) See (3). |
| (8) If applicable, the fund identifies external managers | Uncertain Available evidence is too limited to make an informed judgement. |
| (9) Fund manages its own web site | Yes See, https://www.ina.go.id/en . |
| (10) Fund provides main office location address and contact information, such as telephone and fax [numbers] | Yes Address: Prosperity Tower Lt. 38, District 8 SCBD Lot 28, Jl. Jend. Sudirman Kav. 52-53, Jakarta 12190 Telephone: +62-21-39709090. Email: investor.relation@ina.go.id . |

What matters most is how the rules are applied in practice. There have already been a few questions about the system of checks and balances. Criticisms have been made about the BOS member selection process, despite the Minister of State Owned Enterprises, Erick Thohir, having emphasised that it was open (receiving 218 candidates) and professional (involving interviews with 28 candidates). However, one parliamentarian complained about the lack of transparency, indicating that the selection process was highly centralised. Also, one BOS member, despite having relevant knowledge and experience, has been accused of being close to the President.¹⁰⁹ Currently, it is uncertain what role and how much power the Parliament will have in scrutinising INA. Considering the existing division of responsibilities, Commission VI and Commission XI are likely to play a role in looking into INA's operations.¹¹⁰ Moreover, concerns about BPK's ambiguous position have been raised.¹¹¹ BPK has stated that it would carry out a supervisory role, given that INA's capital originates, although it is separated from, the state budget. As INA's capital is related to state capital, BPK argues that it can still audit INA's operation like it does state enterprises.¹¹² However, the current regulation does not specify BPK's role. In sum, clarification is required on the role of external monitoring institutions, such as BPK and the Parliament, which are key external overseers ensuring that regulations are appropriately implemented in practice and INA's preferential rights do not lead to crowding out and rent seeking.¹¹³

The potential trade-off between financial returns and socio-economic benefits needs to be stated clearly in order to ensure transparency and provide certainty to external investors.

One important issue that has not been seriously discussed is how the Indonesian government will shape governance mechanisms for measuring INA's success. INA's multiple objectives make assessing investment performance inherently difficult, and lack of transparent assessment can in turn hurt public accountability. The potential trade-off between financial returns and socio-economic benefits needs to be stated clearly in order to ensure transparency and provide certainty to external investors. Quantitative and qualitative indicators for measuring individual projects' financial and socio-economic targets, as well as their associated risks, need to be defined and specified from an early stage.

Regarding financial objectives, the government could consider setting (i) a minimum rate of return threshold for individual projects, which could be linked to, for example, the inflation rate or long-term borrowing costs, and (ii) a rate of return target for INA's entire investment portfolio.¹¹⁴ Under this system, INA can decide the investment composition that involves projects with different levels of financial

return and development contribution, as long as the fund as a whole achieves the predetermined rate of return target. At the same time, INA can avoid any project where the goal is purely socio-economic and therefore is unlikely to achieve the minimum rate of return. Such projects are perhaps best achieved through government budgetary measures.

As for socio-economic goals, INA can learn from the Anticipated Impact Measurement and Monitoring (AIMM) system, which the International Financial Corporation (IFC) adopted in 2017 to assess the potential development contribution of its projects.¹¹⁵ AIMM measures expected development impact by analysing two dimensions: (i) the “project outcome” dimension assesses stakeholder effects, economy-wide effects, and environmental effects; and (ii) the “market outcome” dimension assesses effects on market competitiveness, resilience, integration, inclusiveness, and sustainability.¹¹⁶ Based on AIMM, the IFC offers analytical frameworks involving specific, detailed indicators and benchmarks tailored for numerous sectors in which INA plans to invest, such as roads, ports, airports, and telecoms.¹¹⁷

It is much too early to make a definite and conclusive comment on INA's corporate governance, especially that in practice. Based on the available evidence, this section finds that many of the regulations governing INA are adequately designed to ensure transparency and accountability. However, there are many issues which have been left unanswered: How will INA ensure that BOS and BOD are not swayed by political pressure? What is the role of external bodies, such as BPK and the Parliament, in scrutinising INA? How will INA's performance be measured? How will INA balance potentially conflicting goals? These issues will need to be clarified if INA wants to make a meaningful contribution to Indonesia's development while attracting co-investors and gaining public legitimacy.

CONCLUSION

Establishing a sovereign development fund that focuses on long-term targeted investment in productive economic sectors is an ambitious endeavour for democratic Indonesia. Compared to SWFs that follow investment strategies based on global, diversified, and passive portfolios and provide direct financial distribution to citizens, INA's success requires stronger local capabilities for investment and management and greater efforts to win popular legitimacy.¹¹⁸

Given the many corruption cases involving state-owned entities in Indonesia, suspicion of INA is understandable. However, a number of INA's features discussed in this Analysis cast a positive light.

First, INA is expected to play a central role in managing the final stage of Jokowi's decade of state-led infrastructure development strategy. INA has been assigned to support the deleveraging of state enterprises in the infrastructure construction sector by acting as a patient investor and potential last resort investor, and its short-term performance could significantly affect Jokowi's legacy. In the longer term, INA is likely to provide much needed capital, thereby playing a pivotal role in asset recycling in the infrastructure sector. Therefore, Jokowi has devoted a great amount of political and bureaucratic resources into INA's success. Even during the fiscally challenging period of 2020–2021, 75 trillion rupiah (US\$5.2 billion) of capital was allocated to INA. Jokowi has assigned a globally respected technocrat, Sri Mulyani Indrawati, and a next generation presidential hopeful, Erick Thohir, to lead supervision of INA.¹¹⁹

INA is expected to play a central role in managing the final stage of Jokowi's decade of state-led infrastructure development strategy.

Second, INA represents the Jokowi government's eclectic development strategy, which aims to bridge the state and financial markets. While INA forms a crucial part of Jokowi's state-led infrastructure development strategy, it also aims to attract much-needed foreign investment. The government aims to utilise international capital, expertise, and monitoring while helping overseas investors deal with financial, political, and geostrategic challenges. As large sums of money cross borders from institutional investors' pockets into the archipelago under this mechanism, the Indonesian government's global reputation is on the line, and INA's troubles can even cause diplomatic conflicts. This possibility should incentivise the Indonesian government to maintain INA's vigorous corporate governance.

Third, the current rules signal the Indonesian government's determination to create healthy corporate governance. The Board of Supervisors and the Board of Directors are filled with adequate personnel who have notable experience and reputations. The regulations emphasise the importance of professionalism and transparency. While the precise measures for operationalising these values need to be clarified, meaning a need for further regulatory advancement, the first step in setting up strong corporate governance has been reasonable. Maintaining the healthy corporate governance of INA will be key in attracting external investment partners, which are also answerable to their owners. Strong governance is also important in determining and justifying the balance between profitability and socio-economic goals, which will inevitably evolve with changes in developmental needs, societal demands, and financial circumstances over time.

In the meantime, INA has the challenging tasks of clarifying the role of external monitoring bodies and determining performance indicators that reflect an adequate balance between financial and development goals. As more information on corporate governance becomes available, analysts will be able to assess INA's level of adherence to the Santiago Principles, which is a more comprehensive and detailed guideline than the Linaburg-Maduell Transparency Index used in this paper. The Santiago Principles is a voluntary code that provides 24

Generally Accepted Principles and Practices for examining the soundness of SWFs' governance, management, and investment activities.¹²⁰ It has been endorsed by members of the International Forum of Sovereign Wealth Funds (IFSWF), which have published their self-assessments.¹²¹ By joining IFSWF as an associate member in May 2021, INA has voluntarily agreed to apply the Santiago Principles.¹²²

Although the Santiago Principles highlights important indicators, policymakers should understand that the principles that have a tendency to focus on financial returns may not fully reflect SWFs' role of contributing to national development.¹²³ This issue highlights the need for contextualising global standards.

Indonesia, the world's fourth most populous country, has recorded stable economic expansion over the past two decades, and it offers attractive opportunities for international institutional investors. Moreover, Indonesia faces many socio-economic challenges that global development financiers can help manage. By appropriately cooperating with INA, co-investors will be able to

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HOW TO MAKE INDONESIA'S SOVEREIGN WEALTH FUND WORK

achieve their financial goals while supporting Indonesia's long-term progress. They may also play an important role in strengthening INA by sharing expertise and experience. On top of consistent monitoring of and communication with INA, another way of ensuring INA's healthy governance would be for co-investors to work closely with local civil society organisations and media.

NOTES

Image: [Nick Agus Arya/Unsplash](#)

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¹¹ In November 2021, the Omnibus Law of Job Creation law was ruled conditionally unconstitutional by the Constitutional Court (See, Mahkamah Konstitusi Republik Indonesia, *Putusan Nomor 91/PUU-XVIII/2020*, Jakarta: Mahkamah Konstitusi Republik Indonesia). The law's errors are related to irregularities in the legislative procedure, which lacked openness and a systematic approach. The court has ordered revision of the law within two years and stated that the law could be declared permanently unconstitutional if changes are not satisfactory. For the time being, the law and its regulations are still valid, but issuing new implementing regulations and carrying out strategic action related to the law are prohibited. Although the Constitutional Court's decision has raised uncertainty for INA, the impact is likely to be limited for the following reasons. First, the implementing regulations issued prior to the Constitutional Court's decision continue to be in effect until the deadline for the revision of the Job Creation law. The regulation for establishing and governing INA has already been adopted. Second, regulations for the government's capital allocation of 75 trillion rupiah (US\$5.2 billion) into INA were adopted before the Constitutional Court's decision. Third, the creation of INA has not been the main point of contention. Civil society groups have criticised the potential detrimental effects of the Job Creation law's other articles related to labour and environment (See, Lukas Schlogl and Kyunghoon Kim, "After Authoritarian Technocracy: The Space for Industrial Policy-Making in Democratic Developing Countries", *Third World Quarterly* Online first (2021).). Although the law's contents have not been declared unconstitutional, there is a slight possibility that articles related to labour and environment may be amended via compromise. In contrast, the articles on INA are likely to remain as they are. Even if there are any changes to the articles related to INA, they are unlikely to affect INA's existence and goals and may only involve measures to strengthen INA's governance. This Analysis has been written based on these assumptions.

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ABOUT THE AUTHOR



KYUNGHOON KIM

Kyunghoon Kim is an Associate Research Fellow at the Korea Institute for International Economic Policy (KIEP) where he is analysing the political economy and industrial policies of Asia's developing countries. He holds a PhD in Development Studies — Political Economy from King's College London and his thesis focused on the role of state-owned entities in economic development. Prior to his PhD, he received a master's degree from London School of Economics and Political Science (LSE) and worked at the Samsung Economic Research Institute (SERI) covering the Association of Southeast Asian Nations (ASEAN) and the European Union (EU) for six years. His recent publications include journal articles in *Structural Change & Economic Dynamics*, *Competition & Change*, *Journal of Contemporary Asia*, and *the Pacific Review*.

LOWY INSTITUTE

31 Bligh Street
Sydney NSW 2000

Tel. +61 2 8238 9000
Fax +61 2 8238 9005

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