

## **CBDS COMMENTARIES : NO. 4/SC/2024**

### **Reestablishing New Sovereign Wealth Fund: Why Indonesia Investment Authority is not Performing Well**

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Developed nations around the world own at least one Sovereign Wealth Fund (SWF), an institution that manage a nation capital pool and assets. For some countries, such as Singapore and Malaysia, it is a tool for generating income especially by the work of Temasek Holdings, The Government of Singapore Investment Corporation (GIC), and the Khazanah Nasional Berhad. Based on the explanatory by Rozanov (2005) and IFSWF (2008), SWF is a body that focus on managing nation's wealth, capital or assets such as shares, golds, and infrastructure (Rozanov, 2005). The Indonesia Investment Authority (INA) is Indonesia's Sovereign Wealth Fund (SWF) that established in 2021, represents a significant initiative by the Indonesian government to attract foreign investments and manage state assets more effectively. As a sovereign wealth fund based on the government's regulations year 2020 number 74 and Job Creation law, INA aims to enhance Indonesia's economic resilience, create jobs, and foster sustainable development (Central Government, 2020). As explained by Rozanov (2005) and IFSWF (2008), SWF is a body which main focus is to manage the nation's wealth to maximize income and profit through its assets (IFSWF, 2008). However, the authority's operational ambiguity and strategic focus have raised concerns, particularly regarding its support for the private sector and technology companies.

We should underline that this investment institution was established during the Covid-19 pandemic, when the world faced financial instability (Noerhadi, 2023). However, Indonesia needs a sovereign wealth fund to manage the whole assets which able to attract overseas investors. Based the ranking of SWFs total assets, INA is still far away from some of ASEAN SWFs that have been mentioned earlier, also falling back from Timor Leste's SWF (Global SWF, 2024; SWF Institute, 2024). There is considerable scope for INA to address various areas promptly, including clarifying its role and increasing public awareness about their activities and responsibilities that should not primarily fall under INA's purview, as well as improving communication and investments within the private companies, that is still very limited.

Established by President Joko Widodo, INA is far from the ideal situation, even though INA was part of the joint investment that include Blackrock, Allianz, and Orion Capital (Maulina, 2022) While overseas SWFs and international venture capital firms are actively investing in local companies with the majority of private companies, the Indonesia Investment Authority (INA) has only invested few in the digital industry, such as Traveloka. This does not align with the central government's vision of accelerating digital transformation. Looking towards INA's commitment toward Indonesia's startups, the SWF has not been invested in any single company and somehow driven by political wills (Lie, 2024). INA has been overly involved in non-digital infrastructure investments such as toll roads, ports, and warehouses. For instance, the Indonesia Investment Authority (INA) has been involved in funding the development of national projects, such as the Trans-Sumatra Toll Road (Indonesia Investment

Authority, 2022). Essentially, there is no real difference between the government allocating USD 1 billion from the state budget (*Anggaran Pendapatan dan Belanja Negara - APBN*) for the project and injecting the same amount into INA, which then directs the funds to the toll road development program. From the outset, the construction of the Trans-Sumatra Toll Road has been under the responsibility of the central government and has already attracted interest from foreign investors. This points to a deeper issue within INA's operational framework, specifically regarding the efficiency of investment allocation in Indonesia.

These projects are strategic national projects that had already secured funding from the state budget and foreign investments long before INA was established. Additionally, INA has invested heavily and made agreements with State-Owned Enterprises. INA seems to be off the initial trajectory for becoming an ideal investment manager due to its investment strategies and incompetent manpower. There are initiatives to create a proper wealth management institution like the Jakarta Fund, an idea which is proposed by a candidate for the governor of the Special Capital Region of Jakarta and Danantara, a super-holding design by the central government with aims to manage assets with a total over Rp9,400 trillion (Salsabila, 2024; Uly & Ika, 2024). While Indonesia possesses plenty resources and abundant opportunities, the main problem is within the manpower. It is needed to be cleared out that the Jakarta Fund and Danantara must be managed by competent individuals that possess multidisciplinary knowledges and those who are not affiliated directly to political system. A strong and well-organised SWF plays an important role in managing and maximising the capital pool. All calculations and economic potential in Indonesia can be maximized through the presence of a sovereign wealth fund lead by competent and high-credential professionals, as a SWF is a crucial investment institution, financial management entity, and driver of sustainable development, capable of optimizing existing investments beyond the regular development program.

### Short Bio

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