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Sovereign Wealth Fund (SWF) Institution: Roles and Challenges of the Indonesia Investment Authority (INA)

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ABSTRACT

Sovereign Wealth Fund (SWF) refers to state-owned financing institutions designed to manage a nation's wealth, with the Indonesia Investment Authority (INA) being a key SWF operational since 2024. INA plays a pivotal role in advancing state investment management and attracting foreign investors, focusing on sectors such as infrastructure, healthcare, green energy, logistics, digitalization, and food security. This research explores INA's role in driving investments across these sectors and the challenges it faces, such as securing prospective investors, balancing economic interests with sustainable development goals, and overcoming regulatory obstacles. Using a qualitative approach, the study combines literature review and case study analysis, drawing from secondary sources, including government reports, INA's investment portfolios, and academic articles. The findings show that INA has supported critical infrastructure projects, such as the Belawan terminal and geothermal energy initiatives, yet continues to face challenges in attracting investors and aligning its efforts with both economic and sustainability objectives. Despite its contributions to Indonesia's economic development, INA's future growth is hindered by regulatory hurdles and global economic challenges, necessitating policy alignment and resolution of jurisdictional conflicts. This research suggests that strengthening regulatory frameworks and improving policy alignment are crucial for INA's continued success, and further research should explore how INA can address these challenges to sustain Indonesia's economic growth and development.

Key Words: Indonesia Investment Authority, Sovereign Wealth Fund, Investment

INTRODUCTION

A Sovereign Wealth Fund (SWF) is a form of specialized government investment in long-term facilities and projects that concern public welfare (Al-Khouri, 2011; Balding, 2011; Giovannini A., 2018; Parker, 2015a; Stewart, 2016). These funds are typically sourced from surplus national revenues, such as proceeds from natural resource exports, foreign exchange reserves, or budget surpluses. As a state-owned financial instrument, a Sovereign Wealth Fund (SWF) is designed to manage public assets in order to achieve long-term economic stability, income diversification, and strategic development (Hansson, 2020a).

The term "sovereign wealth fund" was first introduced in 2005 in an article by Andrew Rozanov titled "Who Holds the Wealth of Nations?" Conceptually, however, the first government institution in the world to embody the SWF model is the Kuwait Investment Authority, originally established in 1953 as the Kuwait Investment Board, with the aim of managing the nation's wealth generated from oil and natural resource exports (Bailey, 2017; Giovannini & Papageorgiou, 2018; Sandler D., 2019). Other successful institutions that operate under the SWF concept include the Public Investment Fund (PIF) of Saudi Arabia, established in 1971; the Government Pension Fund Global of Norway, established in 1990; SAFE Investment Company Limited, established in 1997; and the China Investment Corporation (CIC), formed in 2007.

Historically, Sovereign Wealth Funds (SWFs) were initially established in response to the instability of revenues derived from natural resources. Countries that rely heavily on commodity exports—such as oil and gas—face significant price fluctuations. To manage this instability, SWFs emerged as stabilization funds designed to balance national budgets and reduce dependence on volatile income streams. Additionally, SWFs were also created as savings funds to ensure that the wealth generated from non-renewable natural resources could benefit future generations. One of the most representative examples is Norway's Government Pension Fund Global (GPFG), managed by Norges Bank. This fund is among the largest SWFs in the world, sourced from oil revenue surpluses, and managed under strict sustainability and governance principles (Arezki & Cady, 2016; Baker & Baker, 2014; Hansson, 2020b; Parker, 2015b).

According to the International Monetary Fund's (IMF) 2008 working definition, a Sovereign Wealth Fund is a special-purpose investment fund or arrangement owned by the government, established for a variety of macroeconomic purposes. The objectives of SWFs include:

(i) Stabilization funds, which aim to preserve and mitigate the risks of commodity price volatility; (ii) Savings funds for future generations, which seek to reduce dependency on foreign exchange income from natural resources and avoid the effects of "Dutch disease" by diversifying the asset portfolio; (iii) Reserve Investment Corporations, which manage national cash reserves and aim to generate returns on those reserves; (iv) Development funds, which typically finance socio-economic projects or promote industrial policies to enhance a country's output growth potential; and (v) Contingent pension reserve funds, which provide (from sources other than individual pension contributions) for uncertain pension liabilities not recorded on the government's balance sheet.

Based on the definitions above, a Sovereign Wealth Fund (SWF) can be understood as an abstract concept referring to a government institution that manages a pool of assets.

This raises a common question regarding asset management institutions around the world, namely, which of them can be categorized as SWFs? To address this, the International Forum of Sovereign Wealth Funds (IFSWF) has sought to formalize the criteria for defining an SWF through the Santiago Principles, initiated by the International Working Group of Sovereign Wealth Funds (Group & (IFC), 2023). According to the 2008 Santiago Principles that endorsed by 28 SWF-holding countries in collaboration with the International Monetary Fund (IMF)—there are three core characteristics of Sovereign Wealth Fund: it is owned by a national government, either at the central or sub-national level, its investment strategy includes foreign financial assets, and it is established by the central government for macroeconomic purposes, investing public funds in a diversified portfolio of assets with a medium- to long-term horizon (Dixon, 2022).

Looking at the development of SWFs in Indonesia, historically, many government institutions have been established with the aim of improving public welfare. In terms of financing and investment management bodies alone, Indonesia has seen the creation of at least three key institutions designed to manage the government’s reserve investment funds. These include the Pusat Investasi Pemerintah (PIP), the Lembaga Pengelola Investasi (LPI)—later known as the Indonesia Investment Authority (INA)—and the Badan Pengelola Investasi Daya Anagata Nusantara (Danantara), which was newly launched in 2025. However, according to the core criteria outlined in the Santiago Principles and data from the Sovereign Wealth Fund Institute, the first government investment management institution in Indonesia that qualifies as a Sovereign Wealth Fund is INA, established in 2020 (I, 2024; Malik, 2023; Peraturan Presiden Tentang Rencana Pembangunan Jangka Menengah Nasional Tahun 2020-2024, 2020; Statistik, 2024).

Previous studies on Sovereign Wealth Funds (SWFs) have provided useful insights into their historical development and various functions, such as stabilization, savings, and development purposes. For example, Rozanov (2005) explored the origins and concept of SWFs, particularly the role of the Kuwait Investment Authority, which was one of the first institutions to implement the SWF model. However, this study primarily focused on the broader concept of SWFs without delving into the specific case of INA in Indonesia. In contrast, the work of Noviriska & Atmoko (2022) on Indonesia's economic development and the role of SWFs emphasizes the importance of Indonesia Investment Authority (INA) in attracting foreign investments. However, it overlooks the operational challenges faced by INA and the regulatory and institutional frameworks that affect its success. This research aims to address these gaps by focusing on INA’s role in Indonesia's economic development, the challenges it faces, and how its success has paved the way for the creation of a larger SWF in 2025, Danantara. By doing so, this research contributes a detailed analysis of INA's achievements, challenges, and its influence on the broader development of SWFs in Indonesia.

The objective of this research is to analyze the role of the Indonesia Investment Authority (INA) in Indonesia’s economic development, examining its achievements and challenges during its four years of operation. The benefits of this research include providing valuable insights into the operational and regulatory challenges faced by INA, which can help improve its effectiveness and efficiency. Furthermore, this study offers policy recommendations that could assist in the development of Indonesia’s SWF framework, ensuring better management of national assets and promoting long-term economic stability and growth.

RESEARCH METHOD

This study employs a doctrinal legal research method, focusing on a descriptive analysis approach. The doctrinal method examines relevant legal sources such as statutes, regulations, academic books, prior studies, and legal doctrines to address the research questions. This approach is essential for analyzing the legal frameworks and principles that underpin the issue at hand. By utilizing doctrinal research, the study aims to provide a comprehensive understanding of the legal structure and its practical implications within the context of Sovereign Wealth Funds and related policies.

Data collection for this study is based on secondary sources, including primary legal materials such as laws, regulations, and official documents, as well as secondary materials like scholarly articles, books, and previous research studies. These sources are critical for obtaining a broad range of perspectives on the subject. Additionally, the study uses legal commentaries and case law to understand the practical applications of the regulations governing Sovereign Wealth Funds, particularly in the Indonesian context.

The data analysis technique applied in this research is qualitative, focusing on identifying patterns, relationships, and implications within the collected legal sources. By using an explanatory approach, the study examines cause-and-effect relationships between the legal frameworks and their impact on Sovereign Wealth Fund operations in Indonesia. This method allows the researcher to identify underlying legal issues, their practical effects, and to explain how these factors influence the development and challenges of Sovereign Wealth Funds like INA.

RESULT AND DISCUSSION

Historically, Indonesia has established numerous government institutions with the goal of improving public welfare. In the context of fiscal policy and national investment strategies, the government has developed a range of institutional instruments to manage and optimize state assets. Specifically, in terms of state financing institutions, at least three government entities have been established with the intent of functioning as Sovereign Wealth Funds—namely the Pusat Investasi Pemerintah (PIP), the Indonesia Investment Authority (INA), and Danantara. These investment management institutions were created as state-owned investment funds professionally managed to achieve long-term fiscal and economic objectives.

As Indonesia’s first officially recognized SWF, INA was established in 2020 under Law No. 11 of 2020 on Job Creation, also known as Indonesia's first Omnibus Law. Its formation marked a significant milestone in institutional reform within the financial and investment sectors. However, the political atmosphere at the time of INA’s establishment was far from smooth, as it coincided with widespread opposition to the Job Creation Law and the height of the COVID-19 pandemic. To reinforce its legal foundation and operational authority, the Indonesian government issued Government Regulation (GR) No. 74 of 2020 on the Sovereign Wealth Fund, which governs INA's internal and external operations. This regulation covers INA's organizational structure, mechanisms for investment cooperation, and systems of oversight and accountability, making it a key reference for assessing INA's role in Indonesia's economic development and the evolution of SWFs in the country.

Prior to INA, PIP adopted a concept similar to that of an SWF, but with more limited authority and operational scope. One of the main criticisms of PIP during its formation was the uncertainty regarding its legal identity—specifically whether it qualified as a legal entity. From its establishment in 2007 until the issuance of Minister of Finance Regulation No. 135/PMK.01/2011, PIP was confirmed to be a Public Service Agency (Badan Layanan Umum or BLU) under the Ministry of Finance. This classification led to a fundamental contradiction: while an SWF typically includes investments in foreign financial assets and aims to generate returns, a BLU is defined as a government agency created to provide goods and/or services to the public without prioritizing profit. This regulatory ambiguity limited PIP's capacity to fully operate as a sovereign wealth fund in line with global standards.

Furthermore, PIP had not fully realized its potential as a Sovereign Wealth Fund during its operational period. In a working meeting between the Minister of Finance and the House of Representatives (DPR) in January 2015, the Minister of Finance presented a plan to merge PIP with PT Sarana Multi Infrastruktur (SMI) due to PIP's perceived underperformance. Following its liquidation, the Ministry of Finance revitalized PIP's mandate through Minister of Finance Regulation No. 91/PMK.01/2017. Under this new regulation, PIP's role was shifted from infrastructure financing to financing micro, small, and medium enterprises (MSMEs). For this reason, the first true SWF in Indonesia that aligns with global SWF standards is INA, not PIP.

Returning to the discussion on INA, Article 165 of the Job Creation Law states that INA's objective is to enhance and optimize the long-term value of assets in support of sustainable development. INA's primary function is to increase and optimize the value of assets under its management to support sustainable development. In line with this function, INA is responsible for planning, executing, supervising, controlling, and evaluating investments.

Learning from the shortcomings of PIP, INA was designed to accelerate sustainable development while simultaneously attracting foreign direct investment (FDI) in accordance with the national development vision outlined in the 2020–2024 National Medium-Term Development Plan (RPJMN).

What sets INA apart from other Sovereign Wealth Funds around the world is its funding structure, which relies heavily on co-investors or foreign investment. At first glance, this may seem to contrast with the 2008 Santiago Principles, which emphasize the role of SWFs in investing state funds into foreign assets.

However, in the context of Indonesia as a developing country, this approach reflects the government's collaborative strategy in adapting the SWF concept to suit national needs. Rather than solely relying on surplus national funds, Indonesia positions INA as a platform for partnership and co-investment to attract foreign capital into strategic sectors.

With an average economic growth rate of 4.69%, this unique investment strategy adopted by INA can be regarded as a successful adaptation of the traditional SWF model, tailored to support Indonesia's long-term development objectives.

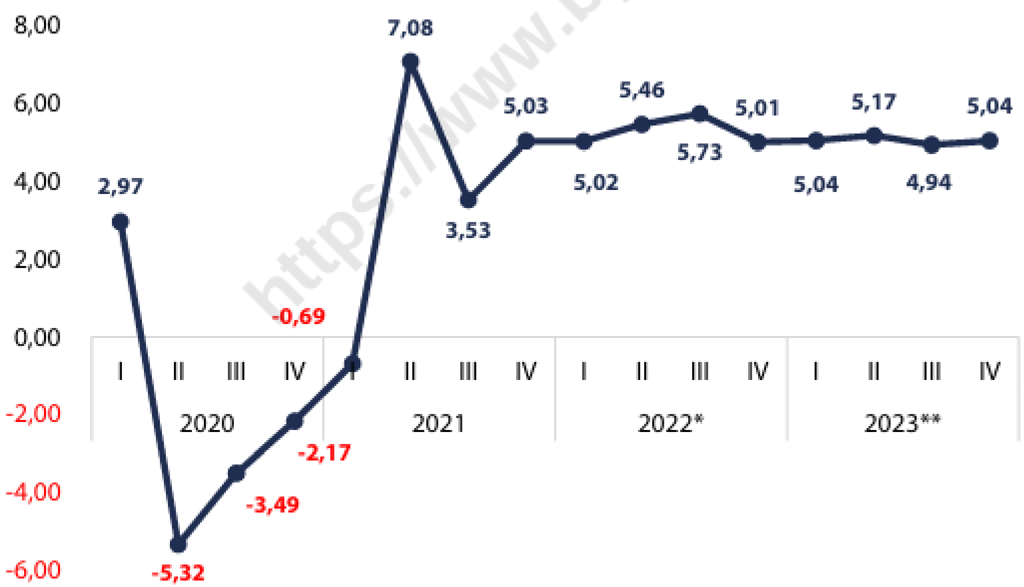

Figure 1. Average Economic Growth

Although different from conventional SWFs, INA—established in 2021—has performed well to date, with a diversified investment portfolio in transportation infrastructure, healthcare, food security, and energy. INA has successfully developed investment schemes that involve global investors, including sovereign wealth funds from strategic partner countries such as the United Arab Emirates, Singapore, Japan, and the United States.

In addition, INA has formed several co-investment platforms with international partners to support large-scale projects, including toll roads, ports, hospitals, and green industrial zones.

In terms of outcomes, INA's efforts to attract foreign investors into Indonesian development have generated tangible benefits for the national economy through the transfer of capital and technology. Furthermore, INA's unique approach has reinforced its role in Indonesia's economic development.

Several key benefits of INA's role as an active SWF in Indonesia include:

1) Strengthened infrastructure financing,
2) Increased attractiveness of foreign direct investment (FDI), and
3) Optimization of state-owned assets.

First, regarding infrastructure financing, Article 5 of Government Regulation No. 74/2020 stipulates that INA’s core mandate is to enhance and optimize the value of investments aimed at supporting sustainable development. One concrete expression of sustainable development is investment in infrastructure. For example, INA has participated in the development of the Trans-Sumatra and Trans-Java toll roads, as well as the Belawan Container Terminal.

Second, INA has also played an active role in attracting Foreign Direct Investment (FDI). Since its establishment, INA has served as a gateway for global investors to finance Indonesia’s strategic projects. One of the unique regulatory features in Government Regulation No. 74 of 2020 that has drawn foreign investment is INA's flexible investment mechanism in the form of funds. INA can invest by either establishing a fund independently or joining funds initiated by third parties, thus providing flexibility and convenience for foreign investors to channel their capital into Indonesia.

A notable example of INA’s success in collaborating with global investors includes partnerships with GIC Singapore, ADG, and the Abu Dhabi Investment Authority (ADIA) from the UAE, who have participated in investments in Indonesia’s digital infrastructure sector—most notably in PT Miratel, the country’s largest telecommunications tower company. Additionally, INA has partnered with a subsidiary of South Korea’s SK Group to invest in Indonesia’s first plasma fractionation facility. INA has also broadened access to technology and market networks, notably through its collaboration with Masdar Clean Energy for geothermal renewable energy investments.

Third, INA plays a critical role in optimizing state-owned assets, particularly those belonging to State-Owned Enterprises (BUMN). According to Article 7 of Government Regulation No. 74/2020, INA is authorized to collaborate with investment partners, including BUMN entities. INA has partnered with BUMNs in managing strategic assets—for instance, through its acquisition of shares in PT Pertamina Bina Medika IHC, which oversees 37 hospitals and 66 clinics across the country. INA has also invested directly in PT Kimia Farma Tbk and Kimia Farma Apotek, supporting the realization of market potential in Indonesia’s healthcare sector.

In addition to the benefits of INA's role in the Indonesian economy, there are also several challenges that need to be addressed. These challenges originate from both internal and external factors and significantly affect INA’s sustainability as a Sovereign Wealth Fund (SWF) in Indonesia. Internally, INA faces issues related to limited domestic funding sources and the high involvement of foreign capital. Externally, INA is currently confronted with the emergence of Danantara, another Indonesian SWF, which may lead to potential overlaps in roles and authority. Moreover, domestic political dynamics as well as social and environmental issues also pose challenges that must be anticipated by INA.

In terms of funding, INA differs from most SWFs, which typically rely solely on a country’s foreign exchange reserves. Since its establishment, INA has been tasked with inviting investors from around the world to co-invest in sustainable development projects in Indonesia. However, this approach also presents a challenge, as the dominance of foreign funding sources increases INA’s vulnerability to global economic volatility. According to INA’s 2024 annual report, the cumulative total investment disbursed by INA has reached IDR 50.1 trillion, with INA’s own capital accounting for IDR 31.3 trillion.

This data indicates that nearly 38% of INA’s investment portfolio originates from foreign direct investment. This means that any geopolitical shifts or changes in Indonesia's bilateral relations with investor countries could significantly impact INA’s investment activities. This is particularly critical in the current global context, where geopolitical uncertainties—ranging from armed conflicts to economic wars—are on the rise. Such instability could greatly affect the long-term funding sustainability of INA, especially in the event of capital outflows.

In addition to the challenges stemming from foreign capital involvement, INA also faces external challenges, particularly the establishment of a new SWF, Danantara. The presence of Danantara as a new sovereign wealth fund in 2025 poses a potential overlap in roles, especially if both institutions invest in infrastructure and energy sectors. Danantara was established under Law No. 1 of 2025, which constitutes the Third Amendment to the State-Owned Enterprises (SOE) Law. According to Article 3A paragraph (3) of the SOE Law, Danantara is authorized to hold Series B shares in both investment and operational holding companies. Through its investment holding, Danantara is permitted to engage in both direct and indirect investments.

This condition raises the possibility of a mandate duplication between INA and Danantara, which could result in suboptimal allocation of national investment resources. Furthermore, the specific targets of the investment holdings have not yet been clearly defined in Danantara’s implementing regulations. As a result, there is concern over potential conflicts of interest that may lead to competition over investors. This competition could create uncertainty for investors regarding the distinct roles of each institution. Additionally, rivalry between INA and Danantara may disrupt the financing of key national priority projects.

Therefore, regulatory clarity and a well-defined delineation of functions between INA and Danantara are urgently needed to ensure that both institutions can operate complementarily and avoid overlapping mandates, ultimately contributing to sustainable economic growth.

The domestic political environment also presents a crucial challenge that INA must anticipate. Political stability greatly influences the investment climate. Policy changes, the dynamics of a new cabinet, and potential political interference in strategic investment projects can affect investor confidence. Moreover, bureaucratic practices that are not yet fully efficient, along with the potential for conflicts of interest among government stakeholders, may hinder the smooth implementation of INA’s investments across various sectors.

On the other hand, social and environmental issues also represent significant challenges. Infrastructure and energy projects—INA’s primary investment areas—are prone to intersecting with community lands, indigenous territories, and critical ecological zones, which may trigger social conflicts or environmental degradation. While to date INA has not been publicly associated with human rights violations or environmental damage, these risks must still be addressed proactively, as they could have serious consequences if not managed in an inclusive and sustainable manner.

Social and environmental sustainability must become a key focus for INA, especially as it increasingly invests in National Strategic Projects (Proyek Strategis Nasional/PSN) that often involve balancing investor interests with local community needs. Therefore, INA must rigorously apply Environmental, Social, and Governance (ESG) principles and actively engage in open dialogue with local communities and civil society organizations to ensure that each investment not only yields economic benefits but also generates positive social and environmental impacts (Mochammad et al., 2024).

CONCLUSION

Based on the data and analysis above, it can be concluded that Sovereign Wealth Funds are strategic instruments widely utilized by countries to manage national wealth sustainably and with vision. In Indonesia, the Indonesia Investment Authority (INA) has played an important role as the first SWF that meets international principles in managing state funds, particularly based on the Santiago Principles. As the first successful SWF, INA has learned from the shortcomings of its predecessor, PIP, and can serve as a valuable reference for the establishment of new SWFs in Indonesia. INA's success in attracting foreign investment, optimizing state assets, and strengthening infrastructure financing marks a positive implementation of SWF institutions in restructuring long-term development financing strategies in Indonesia.

However, INA also faces several significant challenges. Internal challenges such as limited domestic funding and the high involvement of foreign capital pose risks to long-term stability. External challenges, including potential overlapping roles with Danantara and the dynamics of domestic and global politics, must be anticipated with adaptive institutional strategies and comprehensive regulations. Meanwhile, social and environmental issues must also be a focal point for INA to ensure that every investment not only yields economic benefits but also provides positive social and environmental impacts. Therefore, it is crucial for the government to establish clear delineation of authority between INA and Danantara so that both can operate effectively without overlapping roles and can carry out their respective duties in sustainable development. Lessons learned from INA's journey can serve as a foundation in shaping future policies and strengthening the institutional framework of Indonesia's SWFs, ensuring they remain relevant, accountable, and capable of supporting inclusive and sustainable economic growth.

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