

SOVEREIGN WEALTH FUND (SWF): COMPARISON BETWEEN INDONESIA, SINGAPORE AND MALAYSIA

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ABSTRACT

Sovereign Wealth Fund (SWF) is a state-owned investment institution that is professionally managed to secure financial surpluses, such as natural resource revenues or foreign exchange reserves. SWF aims to support economic stability, income diversification, and long-term development. Since 2020, the Indonesian Government has begun to strengthen the direction of its investment policy by establishing national SWFs, namely the Indonesia Investment Authority (INA) and Daya Anagata Nusantara (Danantara). The establishment of these two institutions is based on regulations such as the Job Creation Law, the BUMN Law, and their implementing regulations. In a global context, the concept of SWF has developed since 1953 and is standardized through the Santiago Principles by the IMF and the International Forum of Sovereign Wealth Funds. This study aims to examine the structure, role, and effectiveness of Indonesia's SWF, and compare it with the SWF models in Singapore (Temasek and GIC) and Malaysia (Khazanah and IMDB). Through a comparative approach, this study provides a more comprehensive picture of Indonesia's position in SWF management and lessons learned from successful and failed SWFs in neighboring countries.

Keywords: Sovereign Wealth Fund; Investment; Comparative; Neighboring Countries.

INTRODUCTION

Since 2020, the Indonesian Government has focused its policies on development and investment. In the process of attracting investment to support development, the Indonesian Government has made various efforts. In terms of law, Indonesia has issued the Job Creation Law which was ratified as Law Number 6 of 2023.¹ In addition, there are also Law Number 4 of 2023² and Law Number 1 of 2025 concerning Amendments to the State-Owned Enterprises Law³ which aim to encourage the development of development and investment in Indonesia.

As the executor of investment development tasks, the Government has established a number of investment support institutions that adopt the Sovereign Wealth Fund ("SWF") scheme. These institutions were established with a strategic role in managing and optimizing state funds for medium to long-term investment purposes. Two examples of SWFs established by the Indonesian Government include the Investment Management Institution or what is known as the Indonesia Investment Authority ("INA") and Daya Anagata Nusantara ("Danantara") which was established as the Indonesian Investment Management Agency.

In general, SWF is an institution established by a country's government to make medium to long-term investments.⁴ The term SWF first appeared in 1953 in the form of the Kuwait Investment Board which aimed to manage the country's rapidly growing oil wealth. Based

on the International Monetary Fund (“IMF”) work agenda in 2008, SWF is a collection of funds or special purpose investment institutions owned by the government for different purposes.⁵ The objectives of SWF include (i) a stabilization fund to maintain and mitigate the risk of commodity price fluctuations; (ii) a savings fund aimed at reducing foreign exchange dependence on natural resources that can cause “Dutch disease” and increasing the diversity of asset portfolios; (iii) Reserve Investment Corporations, which aims to seek profit on reserve funds; (iv) development funds; and (v) conditional pension reserve funds, to ensure the implementation of conditional pension obligations outside the government’s balance sheet.⁶

In addition to the IMF, the International Forum of Sovereign Wealth Fund Institute also provide category requirements to be called SWF through the Santiago Principle agreement. This forum was initiated by the International Working Group of Sovereign Wealth Fund which was approved by 28 countries that own SWF institutions along with the IMF. In the Santiago Principle in 2008, the three main keys of SWF namely:⁷

1. Is an institution formed and owned by the central government or local government.
2. Investment strategies include investment in foreign financial assets.
3. Established by the central government for macroeconomic purposes by investing government funds in various investment sectors in the medium to long term.

In Asia, the term SWF developed rapidly in the 2000s in Asian countries such as China, Hong Kong, Japan, Singapore, Malaysia, and Korea. According to the SWF asset ownership ranking published on the SWF Institute website, Singapore has two SWFs, namely the Government of Singapore Investment Corporation (“GIC”) ranked 7 and Temasek Holding (“Temasek”) ranked 15. Malaysia also has an SWF, namely Khazanah Nasional Berhad (“KNB”) which is ranked 35. As the largest economy in Southeast Asia, two Indonesian SWFs are certainly also included in the SWF asset ownership ranking, namely Danantara at rank 8 and INA at rank 62.⁸

INA as the first Indonesian Government institution categorized as a SWF, was established based on Article 165 of the Job Creation Law and Government Regulation Number 74 of 2020.⁹ As a parent regulation, the Job Creation Law has clearly regulated the functions and institutional structure of LPI. INA’s initial capital is also stated in the Job Creation Law, which is IDR 15,000,000,000,000.00 (fifteen trillion rupiah). As an implementing regulation, Government Regulation Number 74 of 2020 further regulates INA’s investment method in the form of a fund. Investment Management Funds or what are referred to as funds in Government Regulation Number 74 of 2020 are investment vehicles in the form of a collection of funds that contain INA investments and aim to seek economic benefits.¹⁰ In carrying out its duties, INA can invest by establishing a fund on its own initiative or by joining a fund established by a third party. This is what distinguishes it from financing by other institutions in the form of securities investments or direct investments.

Five years since the establishment of INA, SWF in Indonesia has grown with the formation of Danantara. The name “Daya Anagata Nusantara” for this new institution means “the future power of the archipelago”. The government hopes that the name can reflect Indonesia’s new spirit in national economic development towards Indonesia Emas 2045. Danantara as an SWF

⁵International Monetary Fund, *Sovereign Wealth Funds - A Work Agenda*, (Washington, IMF Publication, 2008), p.

⁶*Ibid.*, p. 5.

⁷International Forum of Sovereign Wealth Fund Institute, *International Working Group of Sovereign Wealth Funds, “Sovereign Wealth Funds Generally Accepted Principles and Practices (Santiago Principles)”*, (Chile: Santiago, 2008), p. 27.

⁸SWFI, “Top 100 Largest Sovereign Wealth Fund Rankings by Total Assets,” [swfinstitute.org/fund-rankings/sovereign-wealth-fund](https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund), accessed June 1, 2025.

⁹Government Regulation Number 74 of 2020

¹⁰Government Regulation Number 74 of 2020, Article 1 number 9.

was formed with the aim of encouraging economic transformation with professional staff and implementing the principle of good governance in managing state investment.¹¹

Danantara's operational model is inspired by similar SWF institutions such as Temasek in Singapore and KNB in Malaysia.¹² The similar institutional form of Danantara is expected to improve the performance and returns of state investments. With the establishment of Danantara, the government also hopes to change the way state investments are managed and ensure that every investment managed can benefit Indonesia's development.¹³

With the spirit of establishing a state investment institution based on the concept of Sovereign Wealth Fund, this study aims to examine in depth the structure, role, and effectiveness of SWF in Indonesia, especially through INA and Danantara. This study also makes comparisons with SWF models in neighboring countries such as Malaysia through KNB and 1MDB, and Singapore through Temasek Holdings and GIC. This comparison is expected to provide a more comprehensive understanding of the position and performance of Indonesian SWF in a regional context, so that readers can understand the governance and role of SWF in supporting sustainable economic development.

METHODOLOGY

In conducting research, accurate and systematic information search methods are important elements. This research used doctrinal research method with descriptive analysis. As a doctrinal research, this research reviews relevant legal sources to address the existing problem formulation, such as laws and regulations, books, research, related general legal principles, and doctrines.¹⁴ In addition, this writing uses an explanatory method that aims to explain the causal relationship between the variables studied so that it can conclude how or why certain phenomena occur.¹⁵

ANALYSIS AND DISCUSSION

INA as the first SWF recognized by an international SWF institution has been successfully operating since 2020. INA has successfully obtained a BBB rating globally in long-term investment and an AAA rating nationally in long-term investment according to Fitch's Rating.¹⁶ INA is also considered quite successful in its 4 years of operation. With the success of INA as an SWF in Indonesia, Prabowo Subianto, as the President of Indonesia, introduced an investment management agency called the Daya Anagata Nusantara Investment Management Agency or Danantara.

¹¹Margareth Henrika Silow, "Danantara: Building the Indonesian Economy with Transparent Fund Management," *kumparan.com*, February 25, 2025, available at <https://kumparan.com/henrika-silow/danantara-membangun-ekonomi-indonesia-dengan-pengelolaan-dana-yang-transparan-24ZHykGPm5P>

¹²Stefanno Sulaiman and Ananda Teresia, "New Indonesia sovereign wealth fund to invest \$20 billion in projects," *reuters.com*, February 24, 2025, available at <https://www.reuters.com/world/asia-pacific/indonesias-prabowo-officially-establishes-new-sovereign-wealth-fund-2025-02-24/>, accessed March 19, 2025

¹³Fika Nurul Ulya, Robertus Belarminus, "Prabowo: Danantara Bukan Sekadar Badan Pengelola Investasi...", *Kompas.com*, 24 Februari 2025, https://nasional.kompas.com/read/2025/02/24/11083171/prabowo-danantara-bukan-sekadar-badan-pengelola-investasi?page=all&utm_source=Google&utm_medium=Newstand&utm_campaign=partner, diakses pada tanggal 19 Maret 2025.

¹⁴Soerjono Soekanto and Sri Mamudji, *Penelitian Hukum Normatif: Suatu Tinjauan Singkat*, 9th ed (Jakarta: Rajawali Press, 2006), p. 23.

¹⁵Colin Elman, "Explanatory Typologies in Qualitative Studies of International Politics", *International Organization Journal*, Vol. 59, No. 2 (2005), p. 296–297

¹⁶Fitch Ratings, "Fitch Mengafirmasi Indonesia Investment Authority di 'BBB'/'AAA(idn)'; Outlook Stabil," *fitchratings.com*, 4 February 2025, available at <https://www.fitchratings.com/research/id/international-public-finance/fitch-affirms-indonesia-investment-authority-at-bbb-aaa-idn-outlook-stable-04-02-2025>, accessed 23 May 2025.

As a management Agency, Danantara was formed simultaneously with Law Number 1 of 2025¹⁷ which changed the authority structure of BUMN throughout Indonesia. Danantara was formed with the aim of becoming a private company that collects the remaining foreign exchange funds of the country to be reinvested. To carry out its duties, Danantara was given the authority hold the share of all BUMN in Indonesia. As a result, the executive power of the Ministry of BUMN over the management of BUMN was taken over by Danantara and the authority of the Ministry of BUMN became limited to regulator and supervisor only.

The launch of Danantara does indeed signify the development of SWF in Indonesia, especially the merger of BUMN which has made Danantara's assets exceed 1 trillion USD. However, this breakthrough on the other hand also reaped controversy related to transparency originating from public concerns regarding misuse of funds as occurred in the 1Malaysia Development Berhad scandal. This scandal is one of the largest misuse of funds scandals in ASEAN with an estimated loss of more than 4.5 billion USD.¹⁸ 1MDB,¹⁹ which was formed in 2009 during Najib Razak's tenure, for the first time in Malaysian history, sent a Malaysian prime minister, Najib Razak, to prison.²⁰

The existence of the SWF failure event that had such an impact, triggered a lot of pressure on the Indonesian government to ensure that the newly formed Danantara could run well.²¹ Especially when Danantara with the capacity of a BUMN superholding will collect funds of up to 14,000 trillion rupiah. This capacity is not only about government money but also affects the sustainability of BUMN in all important sectors in Indonesia. On this basis, the Indonesian government is required to study the footsteps of other successful SWFs such as Temasek in Singapore and KNB in Malaysia in order to be able to implement it in Danantara.

Previously, Temasek as the most widely known SWF in Southeast Asia was an SWF that was established in 1974. Temasek has grown from an initial portfolio of S\$354 million to around S\$389 billion as of March 2024.²² Temasek's portfolio is highly diversified, covering the transportation, financial services, telecommunications, media, technology, consumer, real estate, life sciences, and agri-food sectors.²³ Temasek is also known to have the highest corporate credit rating of AAA/Aaa from Standard & Poor's and Moody's, indicating strong market confidence in the quality of its management and financial stability.²⁴

In addition to Temasek, Singapore also has another successful SWF, the Government of Singapore Investment Corporation ("GIC"), which has earned an annual return of 3.9% after accounting for global inflation.²⁵ The capacity of GIC, which was only established in 1981, is

¹⁷Law Number 1 of 2025, Article 3E

¹⁸Ervana Trikarinaputri, "Ada yang Khawatir Danantara Bisa Bernasib Sama dengan 1MDB Malaysia: Kronologi Kasus 1MDB", *tempo.co*, 28 February 2025, available at <https://www.tempo.co/ekonomi/ada-yang-khawatir-danantara-bisa-bernasib-sama-dengan-1mdb-malaysia-kronologi-kasus-1mdb-1213330>, accessed 20 May 2025

¹⁹Ibid

²⁰Alinda Hardiantoro, Ahmad Naufal Dzulfaroh, "Looking Back at the 1MDB Scandal, the Megacorruption of Investment Funds that Dragged in the Former PM of Malaysia," *kompas.com*, February 25, 2025, available at https://www.kompas.com/tren/read/2025/02/25/141500065/melihat-kembali-skandal-1mdb-megakorupsi-dana-investasi-yang-menyeret?page=all#google_vignette, accessed May 20, 2025.

²¹CNN Indonesia, "DPR Believes BUMN Stocks Will Rise After Danantara Launched on February 24," *cnnindonesia.com*, February 21, 2025, available at <https://www.cnnindonesia.com/ekonomi/20250221050545-92-1200787/dpr-yakin-saham-bumn-bangkit-usai-danantara-diluncurkan-24-februari>, accessed May 20, 2025.

²²Temasek, "Portfolio Performance," *temasek.com.sg*, March 31, 2024, available at <https://www.temasek.com.sg/en/our-financials/portfolio-performance>, accessed May 21, 2025.

²³Su-Lin Tanin, "Singapore's US\$288 billion Temasek stays bullish on China – targets US, India for growth," *scmp.com*, 11 Jul 2024, available at <https://www.scmp.com/week-asia/economics/article/3269995/singapores-us288-billion-temasek-stays-bullish-china-eye-us-india>, accessed 21 May 2025.

²⁴Muhammad Raihan Muzzaki, "Profile of Temasek Holdings, the Singaporean BUMN that Prabowo is Said to Imitate," *tempo.co*, October 13, 2024, <https://www.tempo.co/ekonomi/profil-temasek-holdings-bumn-singapura-yang-disebut-sebut-akan-ditiru-prabowo--53882>, accessed May 21, 2025.

²⁵Christopher Caillavetgic Returns Fall To 10-Year Low As Real Estate Allocation Holds Steady, *mingtiandi.com*, July 25, 2024, available at <https://www.mingtiandi.com/real-estate/finance/gic-returns-fall-to-10-year-low-as-real-estate-allocation->

even larger than Temasek and is ranked 7th among international SWFs by asset capacity. GIC's investment returns contribute greatly to Singapore's state budget and support important sectors such as education, research, health, and infrastructure, thereby strengthening Singapore's economic stability and public welfare.²⁶

Besides Singapore, there is also a SWF owned by the Malaysian government, namely KNB. KNB was established in 1993 with the aim of supporting long-term economic growth in Malaysia. KNB's investment portfolio is divided into several main categories: Investments Portfolio (around 93% of the total portfolio), Impact Funds (investments with social and economic objectives), Developmental Assets (long-term development assets), and Special Situations (assets that require restructuring).²⁷ In 2024, Khazanah has recorded an operating profit of RM5.1 billion with a portfolio that includes Malaysian national companies and foreign companies.²⁸

To narrow the topic to the issue of transparency of the Danantara project, this study reviews the background of the formation, objectives, sources of funds, control mechanisms, supervision, and transparency of each SWF. The comparison is presented in the following text and table:

1. As briefly reviewed earlier, Singapore has two SWFs operating to date, namely Temasek and GIC.

I. Temasek

a. Background

Temasek is a holdings company formed on 25 June 1974 under the Singapore Companies Act. The formation of Temasek was a strategic move to separate the legislative function of the Singapore Ministry of Finance from its role as a shareholder of commercial entities. This serves to dedicate the Singapore Ministry of Finance specifically as a policymaker.²⁹

b. Purpose

Temasek aims to be a government investment company that manages assets previously owned by the Singapore Ministry of Finance with a total value of SGD 354 million.³⁰ With the transfer of assets to Temasek, Temasek has separate wealth from the government so that there is no government interference in Temasek's day-to-day operations.³¹

c. Source of Funds

Temasek was formed with an initial capital of SGD 354 million acquired through 35 companies under the Ministry of Finance. However, after the initial capitalization by the Singapore Government, Temasek operates like a general investment management company that must seek capital through its business activities such as:³²

- a) Proceeds from divestments with an average annual divestment of approximately S\$32 billion in the last five years;

holds-steady/, accessed May 21, 2025

²⁶Azhann Rosmin, "Singaporean Sovereign Wealth Fund (GIC): All you need to know," 99.co, 25 December 2023, available at <https://www.99.co/singapore/insider/singaporean-sovereign-wealth-fund/>, accessed 21 May 2025.

²⁷Khazanah Nasional Berhad, "Khazanah's recent 2025 Annual Review session," LinkedIn, February 25, 2025, available at https://www.linkedin.com/posts/khazanah-nasional_khazanah-annual-report-2025-activity-7294648374622859264-Ro_9/, accessed May 22, 2025.

²⁸Fitch Ratings, "Fitch Mengafirmasi Indonesia Investment Authority di 'BBB'/'AAA(idn)'; Outlook Stable," fitchratings.com, 4 February 2025, available at <https://www.fitchratings.com/research/id/international-public-finance/fitch-affirms-indonesia-investment-authority-at-bbb-aaa-idn-outlook-stable-04-02-2025>, accessed 23 May 2025.

²⁹Temasek, "Overview: Temasek Portfolio at Inception," tr22.temasekreview.com.sg, available at <https://tr22.temasekreview.com.sg/overview/temasek-portfolio-at-inception.html>, accessed May 23, 2025.

³⁰Lim, Puay Ling, "Temasek Holdings," nlb.gov.sg, April 2019, available at <https://www.nlb.gov.sg/main/article-detail?cmsuuiid=6f3fe829-113c-450a-bb4d-bfde6bb02e81>, accessed May 23, 2025.

³¹Rohit Sipahimalani, "What is the difference among MAS, GIC, and Temasek?" published on 4 October 2024, Video: 00.03-00.40, available at <https://www.youtube.com/watch?v=G2WHwh86ezw>, accessed on 24 May 2025.

³²Temasek, "Ins and Outs of Temasek," temasek.com.sg, available at <https://www.temasek.com.sg/en/our-financials/ins-outs-temasek>, accessed May 24, 2025.

- b) Dividends from portfolio companies, which averaged S\$10 billion per annum in the last five years;
 - c) Issuance of bonds through a guaranteed bond program;
 - d) Short-term borrowings through the issuance of ECP (Euro-commercial Paper);
 - e) Bank borrowings from time to time, mainly for short-term or temporary funding needs; and
 - f) Investments from its shareholders, namely the Singapore Ministry of Finance, made at their own discretion.
- d. Control and Supervision Mechanism

Although Temasek is a private company, Temasek is specifically regulated under the Fifth Schedule on Key Statutory Boards and Government Companies in the Singapore Constitution. Along with Temasek's identity as a Government Company, Temasek is subject to Article 22C and Article 22D of the Singapore Constitution.

Article 22C of the Singapore Constitution authorizes the President of Singapore to appoint Temasek's board of directors.³³ Meanwhile, Article 22D of the Singapore Constitution states that Temasek's budget must first be approved by the President of Singapore.³⁴ If no approval is given, Temasek can use up to 25% of the previous fiscal year's budget.³⁵ If still not approved, the previous fiscal year's budget applies. Article 22D also provides for the President of Singapore's approval to access Temasek's past reserves.³⁶

e. Transparency

Temasek is highly transparent in its financial reporting and investment portfolio. Its reports are audited and publicly available on Temasek's website, where in 2024 Temasek's net portfolio value was SGD 389 billion. Its credibility is supported by the credit ratings of "Aaa/AAA" from Moody's and S&P, reflecting market confidence in its management.³⁷ Temasek is also transparent about its sources of funds and investment allocations, providing clarity to stakeholders.

In addition, the majority of Temasek's Board of Directors are not affiliated with any political party or government agency in Singapore. The establishment of an unaffiliated board of directors is part of Temasek's principle to focus more on commercial objectives, like a private company. This transparency is not the result of strict laws, but rather the establishment and compliance with Temasek's own company regulations. However, it is impossible to be sure that Temasek is 100% independent and not affiliated with the Singapore Government.³⁸ This very high level of transparency makes Temasek difficult to imitate in other countries.

II. GIC

a. Background

GIC was formed 7 (seven) years after Temasek, namely on 22 May 1981 based on the Singapore Companies Act.³⁹ GIC was the brainchild of Dr. Goh Keng Swee, who at

³³Singapore, "Constitution of the Republic of Singapore," (Singapore, 2023), Article 22C.

³⁴Singapore, "Constitution of the Republic of Singapore," (Singapore, 2023), Article 22D. (Ibid?)

³⁵*Ibid*

³⁶*Ibid*

³⁷Temasek, "Our Portfolio," [temasek.com.sg](https://www.temasek.com.sg/en/our-investments/our-portfolio), available at <https://www.temasek.com.sg/en/our-investments/our-portfolio>, accessed May 24, 2025

³⁸Christopher C. Chen, "Corporate Governance of State-Owned Enterprises: An Empirical Survey of the Model of Temasek Holdings in Singapore," Singapore Management University School of Law Research Paper No. 6 (2014), p. 1-29

³⁹National Library Board, "Government of Singapore Investment Corporation is formed" [nlb.gov.sg](https://www.nlb.gov.sg/main/article-detail?cmsuuiid=13ca991b-fef6-4f87-a95a-40d360a66faa), available at <https://www.nlb.gov.sg/main/article-detail?cmsuuiid=13ca991b-fef6-4f87-a95a-40d360a66faa>, accessed 24 May 2025

that time served as Deputy Prime Minister and Chairman of the Monetary Authority of Singapore (MAS) or Singapore's central bank.⁴⁰ The formation of GIC was motivated by Dr. Goh's observation of the very rapid growth of Singapore's foreign exchange reserves and his prediction that the trend would continue. In addition, Singapore is a country with few natural resources so Singapore is prone to financial crises.

b. Objectives

Before the establishment of GIC, Singapore's foreign exchange reserves investment approach tended to be conservative with a focus on liquid but low-return assets. GIC was established to change this investment policy by allocating a larger portion of foreign exchange reserves to long-term assets with higher returns. This aims to maintain the consistency of Singaporean consumption in the event of a financial crisis.

c. Source of Funds

Unlike Temasek, GIC derives most of its capital from budget surpluses or government foreign exchange reserves accumulated since Singapore's independence. GIC's capital also includes Singapore Government Securities (SGS) and Special Singapore Government Securities (SSGS), and proceeds from the sale of government land. This capital is constant, not a one-time investment. In addition, GIC also obtains funds from investment proceeds through dividends or divestment.

d. Control and Supervisory Mechanisms

As an entity in the Fifth Schedule Entity in the Singapore Constitution, GIC is also subject to Articles 22C and 22D of the Singapore Constitution regarding the oversight mechanism of the President of Singapore. Like Temasek, GIC is also directly supervised by the Singapore Ministry of Finance as its sole shareholder without directly interfering in the day-to-day operations of GIC. In addition, the President of Singapore appoints the Auditor-General of Singapore to audit public finances, including the portfolio managed by GIC, to the President and the Singapore Parliament.

e. Transparency

In an effort to implement the principle of transparency, GIC makes financial reports every month and every quarter to the Accountant-General Department under the Ministry of Finance of Singapore. The report contains detailed information on the risks and distribution of GIC's portfolio. This report is also available to the public on the page report.gic.com.sg/governance.html. Based on the available information, it is clear that GIC has a fairly high level of transparency, especially regarding the use of public funds as investment capital.

2. Comparison with Malaysia

Malaysia has two SWFs, namely KNB and Danantara, but only KNB is currently operating.

I. KNB

a. Background

Khazanah Nasional Berhad was established on September 3, 1993 and only started operating in 1994. KNB was formed based on the Companies Act 1965 as a public limited

⁴⁰Government Investment Fund, "Who We Are," [gic.com](https://www.gic.com.sg/who-we-are/), available at <https://www.gic.com.sg/who-we-are/>, accessed May 24, 2025

company. As an SWF, 99% of KNB's shares are owned by the Malaysian Minister of Finance. The remaining 1% is owned by the Federal Land Commissioner. KNB has initial assets of USD 1.695 billion, which are government commercial assets.

b. Objectives

As an SWF, KNB was established with the aim of becoming a custodian for Malaysian government assets. KNB's investments focus on long-term investments with medium risk, including domestic and foreign investments. The investment results are expected to provide sustainable value for Malaysians. KNB also aims to generate sustainable financial returns and encourage investment in sustainable development areas and play a role in driving Malaysia's competitiveness.

In addition, Khazanah is also responsible for managing the government's equity portfolio in various economic sectors. The goal is to ensure that Malaysian SOEs or Malaysian Government-Linked Companies (GLCs) are managed efficiently and provide maximum contribution to the national economy. To achieve this goal, KNB is given authority that includes monitoring company performance and strategic decision-making aimed at driving the growth and sustainability of GLCs' businesses.

c. Source of Funds

KNB was established by the Malaysian Ministry of Finance at that time with initial assets worth 7 billion Ringgit or 1.69 billion USD. Then, KNB invested the funds in 4 types of investment approaches, including:

1) Cross-Generation Investment Portfolio

The cross-generation portfolio aims to generate long-term risk-adjusted returns, in order to maintain and increase the long-term value of assets.

2) Impact Fund Portfolio

The impact fund aims to improve Malaysia's economic competitiveness and build national resilience, as well as provide socio-economic benefits for the Malaysian people.

3) Development Asset Investment

This investment is intended to provide economic benefits through long-term development investments. This type of investment requires a longer investment period to realize the targeted economic and social benefits.

4) Special Situation Assets

This investment aims to generate assets that require improvements in profitability and sustainable operational cash flow.

Through the investment approaches above, KNB obtains quite a large income from dividends from its investment portfolio. Investments made by KNB are not only limited to Malaysian companies but also include foreign companies. KNB's investment portfolio based on the 2019 annual report includes at least the following companies:



Source: The Khazanah Report 2019

d. Control and Supervision Mechanism

The control mechanism implemented by Khazanah is the Framework of Integrity, Governance and Risk Management (FIGR) or the Integrity Framework, Governance and Risk Management system. This FIGR includes clear roles and responsibilities of the Board of Directors, Limitation of Authority for Management, Risk Management Policy, and other related policies and guidelines. In terms of supervision, Khazanah is also directly supervised by the Ministry of Finance of Malaysia and the Malaysian Land Commission as shareholders of Khazanah.

e. Transparency

In terms of transparency, Khazanah's financial statements are audited by independent external auditors and the audited financial statements are submitted to the Companies Commission of Malaysia. Financial data is disclosed to the Minister of Finance of Malaysia as the shareholder. Then Khazanah also publishes audited financial statements on the Khazanah website and through annual publications including the Khazanah Report.

II. 1MDB

a. Background

1MDB is a state investment fund established by Malaysian Prime Minister Najib Rajak in 2009. The corporate structure of 1MDB originated from the Terengganu Investment Authority (TIA), which was launched by the Menteri Besar (Chief Minister) of the Malaysian State of Terengganu, Ahmad Said, in February 2009. The company was established as a holding and investment company for the State, and was initially funded by issuing bonds of RM5 billion (US\$1.19 billion). The status of this institution was later changed to Malaysia's national investment fund under the name 1MDB by Najib Rajak shortly after being elected as Malaysia's prime minister.

1MDB's portfolio includes various development projects in Malaysia and the Middle East. This fund is structured in such a way that it is directly under the Prime Minister of Malaysia, Najib Rajak. Since its inception until 2013, 1MDB has succeeded in raising very large funds under the pretext of investment and development projects. However, in 2015, 1MDB became a mega-corruption scandal with the misappropriation of more than \$4.5 billion which ultimately led to the arrest of Prime Minister Najib Rajak.

b. Objectives

The main objective of establishing 1MDB was to fulfill the national interest, namely economic development through investment in strategic state projects. Reasons for the dissolution of 1MDB

c. Sources of Funds

1MDB had several sources of funding. The initial source was TIA funds, which mostly came from the issuance of conventional bonds transferred to 1MDB when it was formed in 2009. The second source of funding was Islamic bonds or sukuk issued for a fixed term in 2009, and short-term notes issued in 2014. The third source of funding was three conventional bond issuances in 2012 and 2013 that raised US\$6.5 billion from the local and international bond markets. Goldman Sachs played a major role in arranging and underwriting these bond issuances, charging an above-market fee of 7.7 percent of the securities. Together with other loans, the total amount of borrowings by 1MDB in 2015 was RM41.9 billion (US\$10 billion).

d. Control and Supervision Mechanism

Based on the Memorandum and Articles of Association (M&A) of 1MDB, the governance structure of 1MDB is divided into three, namely the Advisory Board, the Board of Directors and Management. Then, the control mechanism of 1MDB basically follows the Malaysian Companies Act 1965. However, the basic problems of 1MDB can be said to be directly derived from poor governance and supervision and sources of funds dominated by debt. In fact, 1MDB violated the Companies Act 1965, the Malaysian Code of Corporate Governance, and international best practices on corporate governance.

There are many examples of acts of ignoring the supervision mechanism in 1MDB's activities, including financial and investment decisions made outside the Board of Directors (BOD) meeting. Management and BOD were also found to have not conducted proper feasibility studies and evaluation processes on 1MDB investment projects such as the absence of a BOD Investment Subcommittee with the authority to examine the funding and investment risks for certain projects or debt issues. With such a loose control system, it can be said that the control and supervision mechanism at 1MDB was not implemented.

e. Transparency

In the context of 1MDB, Najib Razak, who was the prime minister at that time, also served as Minister of Finance. Therefore, the 1MDB company, which was directly under the supervision of the Ministry of Finance, clearly became Najib's personal financial field. In addition, there were also many non-transparent practices from the management side. As presented in the Report of the Public Accounting Committee (PAC) on the Management Governance Control of 1Malaysia Development Berhad (1MDB), the management was not transparent in providing information to the Board of Directors and the Supervisory Board.

For example, 1MDB management was not informed that the redemption proceeds of the SPC investment portfolio held by Brazen Sky Limited had been pledged to Deutsche Bank; Management did not inform that the actual payment for Aabar's option by 1MDB was made using the redemption proceeds of the SPC investment portfolio; and the Asset Sale Agreement signed on January 2, 2015 where Aabar Investments PJS Limited agreed to purchase the remaining SPC investment portfolio of USD 939.87 million from Brazen Sky Ltd. was also not presented.

CONCLUSION

Based on a comparative analysis of Sovereign Wealth Funds, namely Temasek and GIC; Khazanah Nasional Berhad and 1MDB; and Indonesia Investment Authority and Danantara; it can be concluded that the success of SWFs is highly dependent on governance, transparency, oversight mechanisms, and funding sources. This study concludes several keys to SWF success which are expected to be input in the management of SWFs in Indonesia. First, in terms of transparency and accountability, financial reports that are independently audited and published openly (such as Temasek and KNB) will be very useful in increasing public trust in SWFs. Second, a stable funding source is the key to the life of SWFs. A good SWF can obtain stable income through budget surpluses, foreign exchange reserves, and investment returns from its portfolio. Third, in terms of oversight mechanisms, supervision by an independent institution or independent supervisory board is common practice for SWFs and has proven to be beneficial to the professionalism of SWF performance. Fourth, good corporate governance as implemented by Temasek and GIC will be reflected in effective corporate governance that is not prone to violations.

In contrast, failed sovereign wealth funds such as 1Malaysia Development Berhad (1MDB) exhibit a number of negative characteristics that serve as important lessons. First, there were serious problems in terms of transparency, where management was carried out behind closed doors and financial reports were not prepared accurately. Second, fund management was heavily influenced by political intervention, especially by power elites such as Najib Razak, without an adequate system of checks and balances. Third, instead of using the state surplus as a source of funds as is common practice in SWFs, 1MDB relied heavily on debt financing through the issuance of high-cost bonds, which ultimately worsened the financial condition of the institution.

Thus, to ensure that the governance of Indonesian SWFs can run professionally and with integrity, the Indonesian Government needs to limit political intervention in the implementation of SWF institutional functions. One crucial step is to require financial report audits by independent public accountants, as has been implemented by INA. This provision should ideally be regulated in concrete laws and regulations. If this is not yet reflected in laws and regulations, the head of the SWF agency should also establish internal regulations that specifically regulate the obligation for audits by auditors registered with the Financial Services Authority and the Supreme Audit Agency. In addition, to build trust and create healthy governance, SWF Indonesia needs to encourage the formation of a transparent and accountable organizational culture, emulating the good practices that have been implemented by KNB, Temasek and GIC.

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