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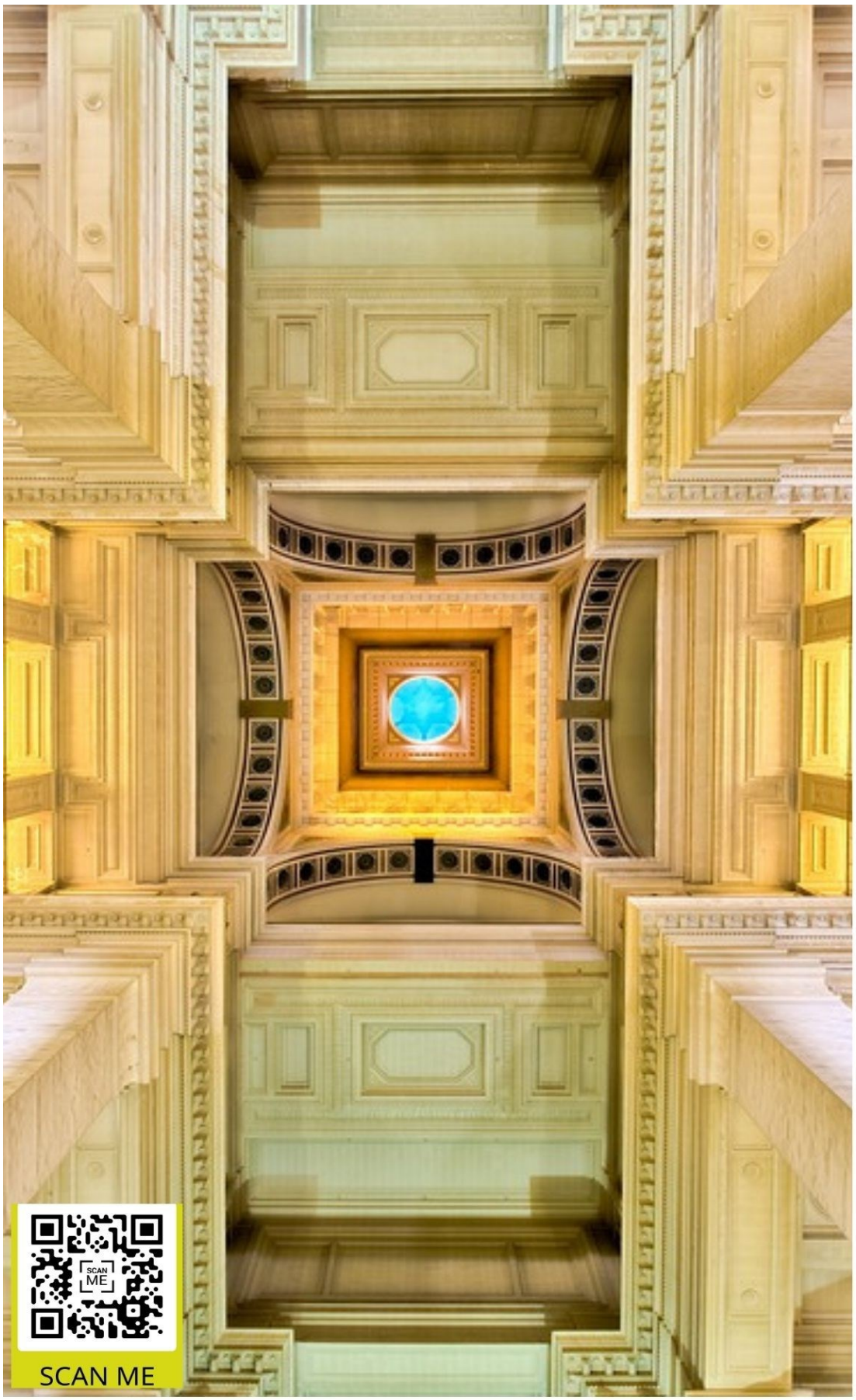

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About Sovereign Wealth Fund : Comparative Study Between Dana Anagata Nusatara And 1malaysia Development Berhad

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Abstract

General Background: Sovereign Wealth Funds (SWFs) function as state-owned investment instruments designed to support macroeconomic stability and long-term development. **Specific Background:** Indonesia's Danantara and Malaysia's 1MDB represent two national models with shared objectives but divergent governance outcomes. **Knowledge Gap:** Despite Danantara's strategic role in state-asset consolidation, limited research has compared its legal foundation and governance vulnerabilities with the failed 1MDB model. **Aims:** This study examines the governance structures, legal legitimacy, and oversight mechanisms of Danantara in comparison with 1MDB to identify potential risks. **Results:** Findings show that both institutions exhibit similarities in centralized executive control, ambiguous regulatory frameworks, and insufficiently independent auditing processes, creating vulnerabilities to conflicts of interest and weakened accountability. **Novelty:** This research provides an early, systematic legal-comparative assessment of Danantara, highlighting structural parallels with 1MDB before similar governance failures materialize. **Implications:** Strengthening Danantara's sui generis legal basis, clarifying institutional status, and reinforcing checks-and-balances mechanisms are critical to preventing maladministration, ensuring transparency, and safeguarding national assets.

Highlights:

- Danantara and 1MDB share governance risks rooted in concentrated executive authority.
- Weak legal frameworks and unclear institutional status heighten vulnerability to maladministration.
- Strengthening oversight, transparency, and checks-and-balances is crucial to prevent 1MDB-like failures.

Keywords: Danantara, 1MDB, Sovereign Wealth Fund, Governance, Legal Accountability

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Introduction

A Sovereign Wealth Fund (SWF) is an investment fund established or owned by a country, financed by foreign currency reserves, privatization proceeds, government transfer payments, fiscal surpluses, and/or revenues generated from the export of resources and public pension assets.[1] An SWF is a special fund or investment mechanism owned by the government. This fund is established for macroeconomic purposes, whereby the government manages and administers assets to achieve financial objectives. The investment strategies used by SWFs include investing in various international financial assets. Generally, SWFs originate from balance of payments surpluses, official foreign exchange operations, privatization proceeds, budget surpluses, and/or revenues from commodity exports.

SWFs are broadly guided by the , which is a set of generally accepted principles and practices (GAPP), namely the Santiago Principles. These rules are designed to regulate the governance, transparency, accountability, and investment practices of sovereign wealth funds. The Santiago Principles were developed by the International Working Group of Sovereign Wealth Funds (IWG).[2] The Santiago Principles aim to ensure that SWFs are managed with good governance, have a clear legal framework, documented and transparent investment objectives, and comply with international regulations and standards. These principles also emphasize the importance of SWF operational independence without direct political interference, timely and complete disclosure of information regarding SWF activities and financial performance, and sound risk management.

SWFs are not new in the world of global investment. Indonesia itself has made several attempts to establish an SWF over the years, starting with the issuance of Minister of Finance Regulation No. 52/PMK.01/2007 as the first step towards establishing an SWF in Indonesia by the Ministry of Finance through the formation of the Government Investment Center (PIP) in 2015. Further efforts were made with the establishment of the Investment Management Institution "Indonesia Investment Authority" or commonly known as INA in 2020.[3]

it is logical to declare that the state of a country’s legal and economic life is essential to its livelihood. It is also reasonable to state that the implementation of a country’s economic policies in its activities is important. Not only to indicate and direct its economic growth but to maintain the prosperity of its people.[4] In 2025, under the leadership of President Prabowo Subianto, efforts to establish an SWF remain one of the government's options to bring hope for national economic progress.

Daya Anagata Nusantara, or Danantara as it is commonly known, is the new face of Indonesia's investment management agency, which was officially launched on Monday, February 24, 2025. Danantara was born during the administration of Indonesia's 8th President, Prabowo Subianto. Danantara was launched as a strategic step by the government in managing state investments to support sustainable investment development, by becoming a renewable Investment Management Agency (BPI) in Indonesia.[5]

Danantara, which was established as the country's newest sovereign wealth fund, is evidence of the big and risky steps taken by the Indonesian government, especially in the context of investment management. Its role as an investment vehicle is designed to transform the economy and boost the global competitiveness of Indonesian state-owned enterprises (BUMN).[6]Danantara is tasked with overseeing and restructuring state-owned companies and significantly expanding its asset base. These assets are also a key tool in President Prabowo Subianto's growth strategy, which is committed to accelerating Indonesia's Gross Domestic Product (GDP) growth from the current 5 percent to 8 percent by 2029.[6]

Danantara is an extension of the SWF model adopted by countries such as Singapore and Norway, with Danantara modeled after Temasek Holdings and GIC Singapore. According to IWG, there are three types of SWFs. Danantara as a Investment Management Agency (BPI) itself can be categorized as an SWF in the form of a company or state-owned enterprise subject to the Law.[3] BPI Danantara was established by Undang-Undang Nomor 1 tahun 2025 concerning the third amendment to Undang-Undang Nomor 19 tahun 2003 (SOE Law), and it’s currently established by Undang-Undang Nomor 16 Tahun 2025 concerning the fourth Amendment to Undang.Undang Nomor 19 Tahun 2003 concerning State-Owned Enterprises (SOE Law). However, unlike Indonesia, Malaysia and several other countries have already taken the lead.

The Malaysian government, specifically in 2009, began exploring the establishment of an SWF by founding 1Malaysia Development Berhad (1MDB). It began with the Terengganu Investment Authority (TIA), an investment management agency with the hope of becoming an SWF to promote the economic interests of the state of Terengganu, located on the east coast of the Malaysian peninsula.[7] In fact, several months after the establishment of TIA, the Malaysian federal government, through a government decision issued by the then Prime Minister Najib Razak, decided to take over its management and transform TIA into 1MDB.[8] As an investment in government-linked companies (GLCs) and government-linked investment companies (GLICs),[9] 1MDB is subject to the Companies Act 1965, which regulates the establishment, management, and dissolution of companies.[10] The same rules form the basis for the audit process and governance of Malaysia's SWF.

Danantara and 1MDB share similarities in terms of their objectives, as both are aimed at promoting sustainable economic development by providing additional capital to national development projects from the proceeds of their investments. In terms of the supervisory governance of these two SWFs, similarities can be identified in the regulation of financial audit reporting obligations. However, the rules regarding the appointment of auditors authorized to conduct intensive audits of these SWFs are still not specific enough, as there are weaknesses and ambiguities in the regulations.

The management of public agencies that is transparent and accountable is the main foundation for creating clean governance, thereby avoiding maladministration. The principle of good governance must always go hand in hand with clean

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governance and is inseparable from the principle of good governance.[11] In addition, the principle of good governance strongly emphasizes the need for state administration that is not only effective and efficient, but also fulfills the principles of legality, legal certainty, openness, and accountability.[12] However, this principle faces challenges, particularly at BPI Danantara.

BPI Danantara, which has just taken its first steps, is in stark contrast to 1MDB, which has already sunk along with its debts. In managing the investments made by 1MDB, the Malaysian government is considered to be incompetent in its governance of 1MDB, as evidenced by weak oversight and conflicts of interest within its management structure, leading to massive corruption cases and fund misappropriation that resulted in the accumulation of national debt estimated at RM42 billion, or the equivalent of 161 trillion rupiah.[13] Therefore, it is important for an SWF institution to uphold the implementation of a good corporate governance (GCG) system so that it can provide effective protection to the debtors and creditors involved.[14]

In this context, the author feels it necessary to express deep concern because there are significant similarities between the two. This is the main reason for the author to conduct further analysis in order to anticipate potential risks or negative impacts that may arise due to these similarities, as well as to identify preventive measures that can be implemented.

Method

This study uses a normative legal research or library research approach, which primarily uses the Indonesian law, Undang-Undang Nomor 1 Tahun 2025 and Undang Undang Nomor 16 Tahun 2025, and also uses Malaysian law, such as the Companies Act 1965. This is an approach that prioritizes the study of legal norms. This study uses secondary data, including legal documents and literature, as the basis for analysis. [15] The The approach used in this study is the statute approach, which focuses on analyzing legislation relevant to the research object. This approach aims to systematically and comprehensively understand and interpret applicable legal provisions. [16] The researcher also uses a comparative approach, focusing on the similarities and differences among applicable laws. [17]

Results and Discussion

A. Analysis of Provisions Regarding Governance and Supervision Carried Out by Danantara

This sub-section delves into an in-depth analysis of the legal provisions governing the governance mechanisms within Danantara. Understanding these regulations is crucial to evaluate how effectively the organizational structure operates and ensures accountability. By examining the relevant legal frameworks, this section aims to provide a clear depiction of the responsibilities, authority, and oversight processes that underpin Danantara's institutional integrity.

1. Legitimation conspiracy of the Legal Basis for BPI Danantara

The government's optimism regarding the target of 8 percent economic growth through efficient economic management based on logic and accurate calculations,[18] has brought pressure to immediately pursue economic restructuring and redistribution, ushering in a new era in the management of state assets. The establishment of Daya Anagata Nusantara (Danantara) with the grand objective of becoming an agency for strengthening and unifying all state-owned enterprises in implementing asset performance improvements to support the Indonesian economy in a productive and visionary manner in the face of increasingly competitive global economic competition.[19]

With this objective, Danantara was born with a Sovereign Wealth Fund (SWF) model design, following the third amendment of UU Nomor 19 Tahun 2003 to UU Nomor 1 Tahun 2025 (SOE Law) was officially passed by the House of Representatives (DPR) on February 24, 2025, accompanied by the passing of Government Regulation Number 10 of 2025 concerning the Organization and Governance of the Daya Anagata Nusantara Investment Management Agency.

Danantara as an Investment Management Agency (BPI) is listed in Article 1 number 23 of the SOE Law, namely "The Daya Anagata Nusantara Investment Management Agency as an agency that carries out government duties in the field of BUMN management as regulated in this Law." Then, Article 3E paragraphs (1) and (2) of Chapter IC explain that in managing state-owned enterprises, BPI Danantara has direct authority from the President and is classified as a legal entity.[20] Before discussing BPI Danantara in more detail, it is important to understand the two main aspects that are the subject of this agency's authority, namely Investment Holding and Operational Holding.

Investment Holding is regulated in Article 1 number 24 of the SOE Law. Investment Holding is an Investment Parent Company or SOE whose entire capital is owned by the state. BPI Danantara has the authority to manage dividends and/or empower SOE assets as well as other tasks determined by the Minister and/or BPI Danantara itself. Meanwhile, an Operational Holding Company is an Operational Parent Company or SOE whose entire capital is owned by the state. BPI Danantara has the authority to supervise the operational activities of SOEs and other business activities[20]

In addition, the third amendment to the SOE Law also adds several new chapters to support Danantara's activities in managing investments in Investment Holdings and Operational Holdings. Among them is BPI Danantara's authority over the management of SOEs as stated in Chapter IB of the SOE Law, specifically in Article 3A paragraph (3), namely as a series B shareholder in Investment Holding Companies and Operational Holding Companies as a representative of the central

government. Part One of Article 3AB paragraph (6) of Chapter ID explains that in exercising its authority, BPI Danantara has 99 percent authority over series B shares in the Investment Holding Company.[20]

Therefore, through the third amendment to the SOE Law, BPI Danantara was established to become a superholding entity responsible for managing strategic investments by consolidating and optimizing government assets to support national economic growth.[21] With a target of managing assets worth IDR 14,000 trillion, Danantara has a very big ambition to become the largest SWF in the world.[22] However, this grand ambition is not supported by sound legal legitimacy.

From a constitutional perspective, specifically Article 1 paragraph (3) of the 1945 Constitution, which stipulates that Indonesia is a country based on the rule of law, the establishment of a state institution based on state authority should be subject to the principle of legality.[23] However, several potential weaknesses have been identified , concerning the aspects of legislation and legal legitimacy in the establishment of the largest SWF in Indonesia. One of these is that BPI Danantara is not regulated by a specific (sui generis) law that protects the principles of independence, authority, and accountability mechanisms.[24]

The legal vacuum caused by the absence of primary legislation that explicitly and comprehensively regulates the establishment, functions, and supervision of BPI Danantara raises concerns about the legality and legal legitimacy of this institution within the national legal system.[25] The establishment of a public institution that is given the authority to manage the state's enormous wealth and plays a role in regulating strategic fiscal policy should have a legal basis in the form of a special law, not just a Government Regulation.[26] This legal vacuum could pose the risk of ultra vires or acting beyond authority, which could harm the state and contradict the principle of the rule of law.[27]

The status of BPI Danantara, which is proclaimed as an "independent public legal entity," is still widely questioned as to whether it can be classified as part of the executive branch, an independent state institution, or another entity that is explicitly regulated in the Constitution.[28] The uncertainty surrounding the "form" of BPI Danantara may have constitutional implications, given that in a constitutional state such as Indonesia, the relationship between high state institutions is one of mutual control in accordance with the principle of checks and balances.[29] Therefore, the existence and authority of a state institution must have a valid legal basis and be subject to the principles of legality and accountability in order to create a good checks and balances mechanism.

Although the form of BPI Danantara is explicitly mentioned in Article 3E paragraphs (1) and (2) as a Legal Entity that has been delegated authority by the President in the context of managing state-owned enterprises, when viewed in terms of its purpose as an investment manager, BPI Danantara also implicitly aims to make a profit. The characteristics of an entity that seeks profits indirectly classify BPI Danantara as a business entity or company. Articles 3G and 3H also state that BPI Danantara has capital sourced from state capital participation in the amount of at least Rp. 1,000,000,000,000,000 (one thousand trillion rupiah) and can make direct and indirect investments.[20] This fact reinforces the assumption that BPI Danantara is not only a legal entity but also an entity with business characteristics, which raises dilemmas and ambiguities regarding its legitimacy.

BPI Danantara has also explicitly stated in Article 3H paragraph (2) that the profits or losses incurred by BPI Danantara in carrying out investments are categorized as profits or losses of BPI Danantara itself.[20] The change in the category of state losses and profits to losses and profits of BPI Danantara in this article raises serious concerns, because if there is corruption or misuse of assets within BPI Danantara, law enforcement officials will face difficulties in determining the appropriate legal basis and legal channels for taking action.

This is a major concern given that BPI Danantara has absolute authority over investment management, especially in the state-owned enterprise sector, while almost all cases of corruption in state-owned enterprises can be uncovered due to the existence of Article 2 paragraph (1) and Article 3 in Law No. 31 of 1999 concerning Eradication of Corruption Crimes (Anti-Corruption Law). This means that the majority of corruption cases involving state-owned enterprises require proof through calculations of state financial losses in order to identify corruption. However, after the revision of the SOE Law in the third amendment, the losses incurred by BPI Danantara are no longer categorized as state financial losses, but rather as corporate losses, thus making it difficult for law enforcement officials to follow up on allegations of corruption at Danantara due to the loss of an important legal basis for proving one of the elements of a corruption crime.

In other words, without a clear and separate legal umbrella that specifically regulates BPI Danantara, potential weaknesses in the oversight and law enforcement mechanisms will become more apparent. This risks weakening efforts to prevent corruption and violations at BPI Danantara. Therefore, a special law that comprehensively regulates BPI Danantara is needed so that the management and supervision of this agency is transparent, accountable, and legally responsible in a clearer manner.

Currently, the Ministry of State-Owned Enterprises and BPI Danantara clearly have different focuses, especially in terms of authority, regulation, and supervision between the two. This underscores the urgent need for a special law that comprehensively regulates BPI Danantara exclusively and no longer “rides along” under the auspices of the State-Owned Enterprises Law. This urgency prompted the government to make a fourth amendment to the SOE Law itself by issuing Undang-Undang Nomor 16 Tahun 2025 concerning the Fourth Amendment to the SOE Law on October 6, 2025. In this fourth amendment, the Ministry of State-Owned Enterprises has been “dissolved,” so that authority over the implementation of government tasks in the field of state-owned enterprise regulation has now been transferred to the State-Owned Enterprise Regulatory Agency or BP BUMN.[30] As a result, both government agencies related to state-owned enterprises are now in the form of agencies with the intention of separating the functions of regulator (BP BUMN) and operator (BPI

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Danantara).

In addition to the classification of BPI Danantara entities, Article 9G of the State-Owned Enterprises Law explicitly states that members of the Board of Directors, Board of Commissioners, and Supervisory Board of state-owned enterprises are not state administrators. This regulation adds to the list of dilemmas faced by BPI Danantara entities, as it contradicts the principles of transparency and accountability that should be inherent in every public agency, especially one that has significant authority over the management of state assets and wealth. [12]

Figures who are members of the BPI Danantara organizational structure are also suspected of being involved in alleged dual positions. Dual positions (interlocking directorate) is a condition in which one or more persons serve as top leaders (executives) in two or more companies that are in the same competitive sphere. In addition, interlocking directorates can also refer to a situation where a member of a company holds a position in two or more companies, either as a commissioner or as a director representing the company.[31]

Confusion regarding the legal status of the BPI Danantara entity has the potential to cause uncertainty in the handling of future legal disputes. This ambiguity could complicate the determination of the responsible parties and the type of legal action to be taken, raising concerns about the effectiveness of resolving legal issues that may arise in connection with BPI Danantara's operations in the future, both in terms of potential maladministration and irregularities in the administration of state affairs.

In addition to the problems in the substance of the SOE Law, which is the basis for the establishment of BPI Danantara, the process of drafting and formulating the SOE Law is also important to highlight because the implementation of the amendments seems rushed. Based on critical notes by the Indonesian Forum for Budget Transparency (FITRA) to the Indonesian Parliamentary Center, the formal aspects of the legislative drafting process by the House of Representatives and the government are considered to have ignored public participation. The BUMN Law bypassed the drafting and harmonization stages by the House of Representatives' Legislation Body and lacked transparency. It is important to note that the BUMN Law is not included in the National Legislation Program (Prolegnas), Annual Priorities, nor is it included in the carryover from previous discussions. In the same report, FITRA believes that the drafting of the revised SOE Law should be carried out with sufficient time so that the substance can be reviewed thoroughly and rushed discussions can be avoided, ensuring that the resulting regulations do not become problematic in the future.[32]

In the provisions of Article 88 of Undang-Undang Nomor 15 Tahun 2019 concerning Amendments to Undang-Undang Nomor 12 Tahun 2011 on the Formation of Legislation (P3 Law), It is stated that the dissemination of information to the public and stakeholders through electronic and print media must be carried out by the DPR and the Government so that they can provide input and feedback.[33] This obligation applies at every stage, from the drafting of the National Legislation Program (Prolegnas), the drafting of bills (RUU), to the enactment of laws. In addition, Article 96 of the P3 Law emphasizes that the public has the right to provide input, either verbally or in writing, at every stage of the formation of legislation. Paragraph (4) of the same article also stipulates that the public must be given easy access to academic papers and draft legislation that is being prepared. However, Article 23 paragraph (2) of the P3 Law itself stipulates that the DPR and the President do have the authority to submit a Draft Law (RUU) outside of Prolegnas, but with the condition that the substance of the RUU is intended to address extraordinary circumstances, conflicts, or natural disasters and other specific circumstances that ensure national urgency.[33]

Therefore, the fact that the third amendment to the State-Owned Enterprises Law was not included in the National Legislation Program raises serious questions among the public regarding the procedure, whereby the draft bill and academic paper were prepared without first changing the National Legislation Program and without any public announcement.

The drafting of the State-Owned Enterprises Law, while still in draft form, must meet certain criteria such as a state of emergency or national strategic policy because it was not previously registered in the National Legislation Program. Law Number 13 of 2022 as the Second Amendment to Law Number 12 of 2011 concerning the Formation of Legislation requires that academic papers be made available for public review before further discussion in the House of Representatives.[34] If the SOE Bill is processed hastily without sufficient discussion, there is a risk that the legislation will be reactive and not based on long-term needs. A rushed legislative process often results in regulations that are difficult to implement and have the potential to cause problems in the future.

2. Governance Concerns in BPI Danantara

BPI Danantara, which has taken over strategic authority in the management of all state-owned enterprises (SOEs) that were previously scattered under the Ministry of SOEs and the Ministry of Finance, has significant structural consequences, given its functional role as the parent company of strategic SOEs and the center for state investment decision-making.[35] Investment decision management, which includes supreme authority over majority shares, cross-sector corporations, and state-owned enterprise dividend policies, previously held solely by the state, has now been transferred to more flexible, business-oriented entities.[36]

As the entity with the greatest authority over asset management, the regulations governing the powers of BPI Danantara are set out in Article 3A of the State-Owned Enterprises Law, paragraph (3) of which states that BPI Danantara will be the shareholder representing the Central Government in the ownership of separated state assets.[20] However, Article 3A of the SOE Law defines that state assets that have been separated are no longer public property, but are considered corporate

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capital, which means that SOE assets are now considered purely corporate assets subject to private law and are no longer part of state finances. As a result, losses incurred by SOEs in their business activities are no longer considered state losses, further complicating the process of accountability for criminal acts of corruption and implying a philosophical shift from a bureaucratic state model to an investor state model.[37]

Initially, under the SOE Law prior to its third amendment, or Law No. 19 of 2003, SOE funds were still classified as state assets, so that supervision of these funds was carried out directly by public institutions such as the Supreme Audit Agency (BPK), the Corruption Eradication Commission (KPK), and the House of Representatives (DPR), along with SOE directors and commissioners who were categorized as state administrators. This ensured greater transparency and public accountability due to the obligation to comply with the principle of openness in SOE financial reports.[38] Meanwhile, when looking at this issue and reflecting on it in relation to Article 3H paragraphs (1) and (2) of the State-Owned Enterprises Law, a decline in public transparency can be identified. This may occur because the article stipulates that the profits and losses incurred by BPI Danantara in carrying out investments are profits or losses of BPI Danantara itself and are no longer classified as profits or losses of the state.[20]

Concerns about the governance of BPI Danantara also arose due to the intense politicization of strategic positions within the structure of BPI Danantara itself, because after its launch, President Prabowo Subianto directly appointed several prominent figures to join the organizational structure of BPI Danantara. Through Presidential Decree No. 30 of 2025 concerning the Appointment of the Supervisory Board and Executive Board of Danantara, the president appointed the supervisory board and executive board of BPI Danantara.[39] Among them are Rosan Roeslani as Minister of State-Owned Enterprises and Chief Executive Officer (CEO), Dony Oskaria as Chief Operating Officer (COO), and Pandu Sjahrir as Chief Investment Officer (CIO). Erick Thohir serves as Chairman of the Supervisory Board and Muliaman Hadad as Deputy Chairman of the Supervisory Board. Former British Prime Minister Tony Blair was appointed as a member of the Supervisory Board alongside Sri Mulyani. Former Presidents Susilo Bambang Yudhoyono and Joko Widodo serve as members of the Advisory Board. Burhanuddin Abdullah serves as Chair of the Expert Team and Initiator of BPI Danantara. Meanwhile, President Prabowo Subianto serves as Advisor and Person in Charge of Danantara.[40]

Within the organizational structure of BPI Danantara, there are significant problems related to figures appointed directly by the president, as stated in the previous paragraph. Several figures have been identified as meeting two criteria. The first is figures who have been identified as having close political ties to the president, while the second category is figures who have close relationships, such as family members or close relatives. This situation creates a conflict of interest, where appointment decisions are not based on competence but on personal relationships, which ultimately undermines the objectivity and integrity of BPI Danantara's governance. In addition, the practice of nepotism that arises from the placement of family members or close confidants in important positions also threatens transparency and accountability within the organization, potentially leading to injustice and undermining public trust in the institution.

The figures mentioned were selected based on the president's full discretion in accordance with the mechanism for appointing supervisory boards, board members, and advisory boards as stipulated in Article 3N paragraph (2), 3Q paragraph (3), and 3W paragraph (4) of the State-Owned Enterprises Law. Although most of those announced by the president to fill strategic positions at Danantara are entrepreneurs, it is important to note that the president's sole authority to appoint and dismiss supervisory boards, board members, and advisory boards without going through a process such as a selection committee is heavily weighted toward the executive branch and makes it difficult to guarantee the credibility, professionalism, and accountability of the individuals appointed. Looking at the backgrounds of the selected individuals, it is clear that the majority are close associates of the president. This fact reinforces the suspicion of a conflict of interest within BPI Danantara in the future.[41]

Under the State-Owned Enterprises Law, the president does indeed have the authority to select and directly appoint individuals whom he considers capable of occupying strategic positions at BPI Danantara. However, the credibility of this direct appointment mechanism has been questioned because there was no prior discussion or structured recruitment process involved in the selection. This also undermines the principles of fairness and professionalism in organizational management, which can lead to an unhealthy work culture and hinder the overall progress of BPI Danantara.

B. Danantara governance analysis compared to 1MDB as a Sovereign Wealth Fund

1. Background and Brief History of 1MDB

In the context of developing countries, discussions about SWFs cannot be separated from major cases that have occurred in various countries. As an entity that manages large amounts of capital and has full authority over a country's financial investments, SWFs are highly vulnerable to significant losses if they are not accompanied by good and transparent governance. One concrete example is the scandal that befell Malaysia's 1Malaysia Development Berhad (1MDB), which experienced serious governance problems that led to its collapse and huge financial losses. This case serves as an important lesson for SWF management in other developing countries to ensure that good governance principles are consistently applied to prevent similar problems from recurring.

In July 2009, Prime Minister Najib Razak and his finance minister, Low Taek Jho, or Jho Low, launched 1Malaysia Development Berhad (1MDB). This investment fund, owned and controlled by the Malaysian government, aimed to function as a “strategic development company that promotes new ideas and new sources of growth.” 1MDB was born as Malaysia's new hope in the area of SWF.

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The establishment of 1MDB as a company under the State Finance Minister (MKD) is directly related to the Terengganu Investment Authority Berhad (TIA), which was established by the State Finance Minister (MBI Terengganu) on February 27, 2009. The initial purpose of establishing TIA was to create a state wealth fund with an initial capital of RM11 billion. These funds would be obtained from RM6 billion in unpaid oil royalties and funds from the issuance of bonds in local and foreign financial markets, with a proposal from the Federal Government to provide a total of RM5 billion based on Terengganu's future oil revenues.[43]

On April 1, 2009, the Cabinet Meeting approved TIA's request for the Federal Government to provide guarantees to TIA to borrow up to RM5 billion from local and foreign financial markets through Islamic Medium Term Notes (IMTN) for investment. The guarantee was provided in accordance with the Loan Guarantee (Corporations) Act 1965, which covers principal and interest payments for a period of 30 years.[43]

After that, on May 15, 2009, a program agreement was signed between TIA and AmInvestment Bank Berhad for the issuance of RM5 billion in IMTNs. However, this agreement was rejected by MBI Terengganu. The Federal Government then decided to take over TIA, and the takeover process was successfully completed on July 31, 2009. The name TIA was changed to 1Malaysia Development Berhad (1MDB) on September 25, 2009.[43]

1Malaysia Development Berhad (1MDB) envisions itself as a strategic catalyst that aims to introduce new ideas and growth opportunities to enhance the country's competitiveness, particularly in the global economic environment. Its main mandate includes investing in projects that support strategic initiatives for Malaysia's long-term sustainable development and attracting foreign direct investment (FDI). In addition, 1MDB leverages its existing network with sovereign wealth funds in the Middle East and China to secure suitable foreign investment for national projects. 1MDB also utilizes its overseas investment network and strong international relations to increase strategic foreign investment in Malaysia.[43]

1MDB was established through a merger and acquisition (M&A) by the Minister of Finance on July 31, 2009, but there were irregularities in the M&A. Looking further at Article 117 of the 1MDB M&A, this article gives the then Prime Minister, Datuk Seri Najib Razak, the authority to approve the appointment of directors and senior management, as well as decisions related to financial commitments. However, this article was added without consulting the Minister of Finance Incorporated (MoF Inc).[44]

Datuk Siti Zauyah Mohd Desa, a former Ministry of Finance official, testified that the preparation of the memorandum and articles of association of 1MDB did not involve her division, which was responsible for MoF Inc at the time, and that normally such documents had to be referred to the Ministry of Finance under the Minister of Finance (Inc) Act 1957. Meanwhile, Article 117 of the M&A specifically requires Najib's written approval for any financial commitments by 1MDB, including investments and government guarantees, and this article gives the federal government the final say on what is in the national interest, security, and policy. In other words, all important decisions relating to 1MDB's finances and policies must obtain the written approval of the prime minister, and this decision is final and binding on the state.[44]

The 1MDB scandal is one of the most severe cases of corruption ever recorded, involving the embezzlement and laundering of billions of US dollars through false statements by officials. The scandal also includes illegal profits from bribery and bond price manipulation. Most of the stolen money was transferred and laundered internationally. The key figures involved in this scandal are a group of bankers, businessmen, and senior government officials, mainly from Malaysia. In addition, this scandal was exacerbated by the intervention of countries such as Saudi Arabia and the United Arab Emirates.

Since 2016, increasing attention has focused on former Malaysian Prime Minister Datuk Najib Razak, who also served as Chairman of the 1MDB Advisory Board. The scandal also involves his wife Rosmah Mansor and businessman Low Taek Jho (Jho Low), who is suspected of being the mastermind behind this widespread financial fraud.[45]

Clare Rewcastle Brown, editor of the UK-based whistleblower website Sarawak Report, actively stated in March 2015 that excessive concentration of power in Malaysia, coupled with weak public institutions, a muzzled mainstream media, and a lack of transparency, had enabled businessman Low Taek Jho to allegedly siphon billions of ringgit from 1MDB. She claimed that most of this concentration of power was held by Datuk Najib Razak, who controlled the two most important government portfolios, resulting in an erosion of checks and balances as Najib served as both Prime Minister and Minister of Finance. He emphasized that this overly powerful government and weak institutions created a dangerous scenario, which he described as a recipe for disaster, and singled out excessive concentration of power as a key factor behind the 1MDB scandal, viewing it as a significant disaster for Malaysia.[46]

Rewcastle also pointed out that there is an excessive concentration of power in Malaysia, to the extent that the same person serves as both Prime Minister and Minister of Finance. Clare Rewcastle Brown pointed out that many people misunderstand the idea of strong government, particularly as it has developed in Malaysia. She emphasized that Najib Abdul Razak holds two full-time jobs as Prime Minister and Minister of Finance. She actively states that excessive concentration of power, which means too much power in one place, exists alongside weak national institutions, or institutions that lack power. She believes that this misunderstanding has allowed excessive concentration of power to grow, resulting in the weakening of national institutions.[46] The governance failures at 1MDB are related to its unique ownership structure, as it is wholly owned by the state but exempt from the governance procedures applied to government-related companies. This has allowed 1MDB to operate without transparency or proper public reporting.

Deep political motives and the existence of secret funding channels were the main factors that prolonged the governance failures within the 1MDB structure. This reflects a broader pattern, whereby financial institutions are used as tools to

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pursue specific political agendas, allowing large flows of funds to occur without adequate accountability mechanisms.[47] This situation poses a high risk of conflict of interest and corruption. Poor governance has led 1MDB to become a hotbed of fund misuse, which affects the country's economic stability.

Extreme concentration of power within the executive branch, particularly the state's excessive role in business and the lack of proper checks and balances for those in strategic positions at 1MDB, has resulted in rampant misuse of public funds and the awarding of lucrative contracts to privileged businessmen who contribute to the finances of parties acquired by officials associated with 1MDB. These businesses inflated construction costs to maximize profits, which also led to higher service costs. This means that the concentration of power within the structural system of a massive organization such as an SWF, especially the excessive power given to executives and money politics, has resulted in corruption and repeated violations in the governance of 1MDB.[47]

The magnitude of the 1MDB scandal caused the SWF to meet its end in bankruptcy in 2016, as it was unable to meet its principal debt payments. With so much of the funds having been embezzled, the remaining funds for investment in numerous projects were insufficient to meet the interest payments on the entire amount borrowed. The Malaysian government also had to step in directly to pay RM6.98 billion, equivalent to Rp 27.927 trillion, in debt payments in 2016 and 2017.[47]

2. The Impact of the Malicious Governance on 1MDB

There are indications that internal controls over expenditures, loans, and investments at 1MDB were weak and reflected in a flawed governance system. This was highlighted in the 2016 AGM report on 1MDB. The report found that management practices were contrary to the Companies Act 1965 regarding the Malaysian Corporate Governance Code. 1MDB's governance was also not in line with international corporate governance practices.

The 1MDB Annual General Meeting (AGM) report revealed that many important decisions were made through Board Written Resolutions without going through Board meetings and without adequate oversight. The Board often received incorrect and inaccurate information. This clearly does not comply with the provisions set out in section 165 and 174 of the Companies Act 1965 regarding annual returns by companies having a share capital and Exemption from filing list of members with annual return for certain public companies. However, given that the federal government fully controls 1MDB, it arbitrarily exempts it from this regulation.

Several financial and investment decisions were made without the Board's approval. Management and the Board also failed to carry out the necessary feasibility studies and evaluations, as evidenced by the absence of an Investment Subcommittee that should have overseen the risks of financing and investing in specific projects or debts. The Auditor-General of Malaysia (AGM) report in the Report of the Auditor-General on 1MDB then showed that record keeping and documentation at 1MDB were very poor and seriously deficient.[47]

Weaknesses in the internal control system have rendered financial audits less effective in identifying and preventing embezzlement. This situation has worsened as efforts to eradicate corruption related to the 1MDB case have faced serious obstacles due to political interference that hinders the independence and performance of supervisory bodies and investigative agencies. As a result, the oversight and investigation processes have been hampered, allowing perpetrators of corruption to easily circumvent the system, prolonging the period of state losses and undermining public trust in law enforcement institutions and governance.

This is evidenced by the special task force formed in 2015 to uncover evidence of 1MDB corruption, which was soon sidelined and then abandoned after incriminating evidence against Najib emerged. The Attorney General was removed from office in 2015, MACC officials were harassed and arrested, and the Public Accountants Committee's investigation into 1MDB was disrupted. The AGM's own investigation in 2016 was hampered by a lack of access to 1MDB documents, compounded by the fact that they were not allowed to access 1MDB's computers and servers.[47]

The original AGM report on 1MDB in 2016 has been edited, removing destructive evidence relating to Najib, Low, and others. Furthermore, the report was categorized under the Official Secrets Act so that it could not be read by members of parliament, the press, and the public, and was observed up by the MACC and the Attorney General. The MACC's own investigation into 1MDB was also restricted. In 2015, the MACC stated that the funds transmitted from 1MDB to Najib's account were not the result of embezzlement, but rather donations from Saudi Arabia, and the officials who conducted the investigation were removed from their positions.[47]

Najib, as Prime Minister and Chairman of the 1MDB Advisory Board, was also involved. Najib is suspected of profiting from embezzlement and showing no political will to tackle corruption. Ministers who questioned the management of 1MDB were fired and expelled from the ruling party, the United Malays National Organization (UMNO). As an executive, Najib was able to thwart investigations into corruption, control top-level appointments for his own ambitions, and engage in bribery, embezzlement, and fraud on a grand scale, as evidenced by the 1MDB scandal. This was facilitated by his close connections with high-level business leaders through various members of his family, as well as a core of powerful political allies and business cronies who owned or held stakes in multiple major companies, both in Malaysia and overseas. Najib thus personified the cruelty of conflict of interest in Malaysia's government.[48]

3. BPI Danantara and 1MDB

BPI Danantara and 1MDB are two entities that have similarities, mainly because both act as SWFs in their respective

countries. These two entities are highly dependent on public fund management and large investments that require high transparency and accountability. Both have the objective of promoting national economic growth through large and complex investment management. However, both also face governance risks, particularly related to the dominance of executive influence in investment decision-making and the management of resources that lacks transparency and accountability. The risk of conflicts of interest and the politicization of organizational structures have emerged as major issues that weaken the effectiveness of governance and oversight in both entities.

Despite four amendments, the SOE Law is still considered unable to address loopholes that allow conflicts of interest to occur within the structure of BPI Danantara. The SOE Law still gives the president full authority to appoint members of the supervisory board and executive body without a transparent selection mechanism. This opens up the risk of conflict of interest and can weaken the independence of management and the checks and balances mechanism, which are important foundations of good governance.

Due to its lack of transparency and structure that is heavily influenced by executive power, Danantara has the potential to experience problems similar to those of 1MDB, namely misuse of public funds, massive corruption, and obstruction of internal and external oversight mechanisms. 1MDB proves how the concentration of power coupled with weak oversight can trigger a financial and reputational crisis, resulting in hundreds of trillions of rupiah in state losses and institutional bankruptcy. If Danantara does not immediately carry out comprehensive reforms in institutional and governance aspects through changes in laws and regulations, this will further open the door to maladministration and similar irregularities, which will be very detrimental to the state.

Conclusion

SWFs such as Indonesia's BPI Danantara are state-owned investment mechanisms that manage public assets from foreign exchange reserves, privatization proceeds, and fiscal surpluses, with the aim of promoting sustainable national economic growth. Launched in 2025, Danantara is designed to consolidate and optimize state-owned enterprise assets and serve as a transparent and professional strategic investment instrument, with the goal of increasing Indonesia's Gross Domestic Product by 8 percent by 2029. However, there are significant challenges related to legality and governance, where Danantara's ambiguous legal status and weaknesses in legal oversight risk triggering maladministration and corruption, especially with the politicization of strategic positions that undermine the transparency and professionalism of the institution.

By comparison, the 1Malaysia Development Berhad (1MDB) scandal demonstrates the real risks of SWF governance failures, which resulted in huge losses due to political intervention and weak oversight mechanisms. Both Danantara and 1MDB have the same economic development objectives and audit reporting obligations, but oversight gaps and regulatory deficiencies threaten both with malpractices such as conflicts of interest and politicization. Therefore, to ensure the successful management of Danantara as an effective and accountable SWF, specific legislation is needed to strengthen governance, transparency, checks and balances, and the separation of regulatory and operational functions. This will help avoid major mistakes such as those experienced by 1MDB and maintain the integrity of state assets for the advancement of Indonesia's economy.

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