Investment Policy Statement as an Embodiment of Governance Mechanisms: Indonesian Sovereign Wealth Funds Context

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Abstract: Investment of Sovereign Wealth Funds are getting challenging and tremendous globally. We scrutinize the problem of governance the Sovereign Wealth Fund (SWF) which start from asymmetric information, then describes the governance approach to manage the broader investment mechanisms of the SWF.This paper examines the main aspects of investment information sharing which preferably concern SWF investment governance to create an excellent order to reduce asymmetric information. By using qualitative research, approaching the signalling theory proposes governance mechanisms of information to respond asymmetries information. By providing a solution in the form of governance mechanisms of SWF through prudent authority, we outline suggestions for prudential authority as an idea that implements the Indonesia Investment Authority (INA) encouraging investment policy statement as an embodiment of governance mechanisms to improve good performance of sovereign wealth fund.

Keywords: Sovereign Wealth Fund; Asymmetric Information;Signaling theory; Governance Mechanisms; Investment Policy Statement.

1. INTRODUCTION

The growth of the Sovereign Wealth Funds (SWF) around the world has increased very sharply and tremendous, accumulated from 1990; there were only around 5 SWFs until the end of 2019, there were 70 SWFs owned by 54 countries (holding 70% of the World Gross Domestic Product). The increase in the number of SWFs was also accompanied by an increase of more than 13 times the value of their assets. SWF has also globally marketed more than $6.4 trillion in tangible and financial assets. Asset capitalization is almost 10% of the world stock market capitalization. (Sovereign Investor, 2020).

Indonesia officially has a *Sovereign Wealth Fund* (SWF) after being legalized byLaw No. 11/2020, which attracting investment through institution. The institution, named the Indonesia Investment Authority (INA), which is different from other SWF's in terms of sources of funds, where SWF is generally a surplus fund, but INA sources of fund actually comes from state equitywhich is deficit state income actually. Indonesia Investment Authority (INA) aims to SWF can respond to required financing and increase investment through Foreign Direct Investment. The formation of the INA aims to increase job creation and increase foreign investment. On the other hand, Indonesia is currently experiencing inefficient development challenges related to energy and food security which lead to unsustainability, INA's goal should be to optimize asset values to aims development.

In other fact, INA still has dependency with State Owned Enterprises (SOE) as their asset was coming from SOE's debt. Therefore INA will prioritize repaying SOE's debt as a corporation receiver investment and at the same time acting as a modal capital provider. INA surely has not been able to leverage state-owned enterprises and help reduce their debt burden significantly. INA if forced to take over the role of SOE's in the success of their projects, it will experience problems with agency costs and asymmetric information related to threshold return on investment. SWF investors will read capital and debt problems to be concerned about placing their capital in Indonesia. SWF investors definitely care about the asymmetric problem of internal INA information, therefore they will take into account agency costs as fulfilling transaction costs economically. So far INA has not succeeded in obtaining home state investors, unlike several SWFs in Southeast Asia, namely Temasek, Khazanah and Brunei Investment Agency, INA still occupies the 18th position out of 29 SWF owning countries in Asia Pacific, this is an early signal of SWF failure in Indonesia. (CaproAsia, 2023)

Many investment problems in Indonesia, especially those involving SOE's entities, have experienced investment failures, As happened to two SOE's companies, Asabri with a loss of Rp. 23 trillion and Jiwasraya with a loss of Rp. 17 trillion, withinvestment failure due to information asymmetry from management that promised *high returns* to the client as investors, which not reflect on their capabilitiesand also provided incorrect information to shareholders, especially to the public as stakeholders. Because of this problem, public trust in state-owned enterprises can sag sharply, especially those related to investment with a very large scale of funds.There are problems faced by SOE's entities where sometimes there is a conflict of interest and information asymmetry experienced between principals and agents. This gives the agent (manager) the opportunity to act opportunistically, that is, to obtain personal gain.

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Reflecting on SWF investment problems that occur abroad, some SWFs need to pay attention to the disclosure of information to the public. (Seward, et al., 2014). Most SWFs avoid public disclosure; some countries, such as China and Kuwait, do not provide accurate information regarding their investment objectives and strategies.(Riskmetrics group, 2008). For example, The Kuwait Investment Authority prohibits public exposure of any evidence. China's CIC, one of the biggest SWFs in the international, does not provide an enough information andvaguely presented anopportunity for control over its investment company. Conversely, the SWF countries of Singapore, Norway, and several European countries provide information about the purpose of their SWF. This Lack of information and even tend to be asymmetric information (also related to transparency) has created deep mistrust and insecurity among host countries, who fear that the SWF may be set up to pursue political and strategic objectives that may be detrimental to the host country's interests(Truman, E. M. ,2007). In some cases, for instance, Dubai Ports of UAE procured British-belonged freight firm P&O in the US, which gave it control of some US seaport amenities. Thus a year next, Dubai Port World is requested to relinquish its controls refer to public security concerns (Rose, P. ,2009).Concerns regarding the constrained clarity information and investment failure causes of SWF surfaced in host countries that prompted host countries to enable more governance mechanisms properly.

This article questions the existence of the Indonesian Investment Authority (INA) as SWF institution in Indonesia to find out the potential for information asymmetry to occur, and whether management can prevent risks due to information asymmetry. It will provide an analysis of SWF-related information structuring by filling in some concepts to outline the existing literature on information asymmetry in investment institutions. How to understand the information sharing used by INA also needs to follow a certain set of investment policy that are packaged to fulfill SWF governance properly.

By using qualitative research, this article endeavours to explain the following chapter, starting with a brief background which described Indonesia SWF phenomenon. Second,explain about asymmetric information in investment decisions, institution and Governance in Sovereign Wealth Funds.It scrutinizes the problem of the SWFs governance mechanism, then describes the governance mechanism approach to the broader investment management of the SWF especially in Indonesia. The third section examines investment institution and governance mechanisms. Then fourth section,to elaborate the signalling theory that bridges sovereign wealth fund. Fifth section, explore the recommendation for Indonesia sovereign wealth funds, The last section are conclusion will discuss a development strategy: the utilization of prudentialauthorityto improve good performance of sovereign wealth fund.

2. ASYMMETRIC INFORMATION IN INVESTMENT DECISIONS

According to Scott (2000), there are two types of information asymmetry, namely adverse selection (managers know more information than principals) and moral hazard (managers' activities are not entirely known by principals so that they can carry out inappropriate actions). The existence of a conflict of interest between the principal and the agent can cause agency costs. Agency costs are the costs of declining welfare experienced by principals due to differences in information between principals and agent interests.

Jensen and Meckling (1976) define the agent and principal relationship as a contract in which one party (principal) involves the other party (the agent) in interacting with the management ofthe institution. The form of interaction on the part of the principal (on behalf of the owners) delegates authority to the agent in making decisions. Thus, institutional management is carried out with direct access in the form of delegation information, which in the management routine of course there is information sharing. Information sharing activities related to management can be in the form of economic and financial activities, administration, legal rules and norms that apply to institutions. Institutions need clarity on information sharing policies and a proactive approach to information sharing conduct. (Fawcett et al., 2011).

In carrying out information sharing, of course, there are successes and failures, if success will have an impact on good institutional performance, but if failure will result in losses due to the high cost of sharing information. The relationship between the failure of information sharing and institutional collaboration(interorganizational and interpersonal)has been shown to have a significant impact, thus affecting the performance of institutions, as Zaheer et al., (1998) revealed.

Failure to share information has also been disclosed by Kenneth G. Crowther (2014), by identifying four failures namely: partnerships failures, communication failures, actions failures, feedback failures. Failure of partnerships results from ambiguity of responsibilities, rivalries, and distrust. Communication failure is caused by poor messaging, inadequate sharing or discovery. Failure of actions results from inadequate or incorrect details for decisions. Feedback failures result from inadequate detection or correction of failures. The failure of information sharing is often considered asymmetric information.

Information asymmetry is information that is not evenly distributed and lacks transparency, so this condition causes agents to tend to act inconsistently with the interests of the principal, and only prioritize their interests. This is also called dysfunctional behavior. Jensen &Meckling also said there was a conflict of interest from the agent, which would result in agency problems. Every cost incurred for agency problems is called an agency cost. Jensen and Meckling (1976) explains that agency costs are costs incurred as a result of *monitoring expenses* (Examples of these costs are internal and external audit costs, management compensation costs, budget restrictions, and operating regulations) by company owners, *bonding expenses*(example of this cost is the cost incurred by management to provide financial statements to shareholders) by agents and residualloss (example of this losses is return on assets loss).

With the problem of high agency costs due to low asset utilization, it demands optimal investment decisions. Investment decisions are an important factor in the financial functioning of the company. Investment decisions largely determine the value of the company's value. Investment decisions are needed to achieve the company's goals that prioritize optimizing shareholder welfare. (Fama, 1974). With the motivation to optimize welfare, of course, investment decisions are needed that target the highest return on investment and profits. With targeted investment decisions, the level of risk and the process of achieving the investment can be mitigated. A high rate of return on investment can cause the value of the company to also increase. (Fama et al., 1992)

In making investment decisions, it really requires the support of effective and efficient company resources, which include tangible and intangible assets, current assets (short term) and fixed assets (long term) all of which information about these assets can only be known by the company's internals, but if given open information, it can be providing opportunities for investors to be interested in investing or investing in their shares.

Capital investment as part of current assets,are the one of main aspects of investment decisions in addition to determining the composition of assets. The decision on the allocation of capital into investment proposals whose benefits investor and investee, must be carefully considered. Due to uncertainty in the investment circumstances, the benefits obtained become uncertain, so the investment proposal contains risks and prospects. To avoid any losses, investment proposals should be evaluated and linked to the prospects, risks, and expected results. Thus the value of the company can be achieved as well as possible (Gaver and Gaver, 1993),

Investment decisions cannot be observed directly by outsiders. In fact, Kallapur and Trombley (1999) agree that the company's investment opportunity cannot be directly known by parties outside the company, but can be observed based on the variables it has, so an indicator is needed to observe the variables. Some studies conducted in relation to investment decisions include Myers (1977) who introduced the investment opportunity set. The set of investment opportunities provides a broader clue as to which the value of the company depends on the company's future prospects which include assets and equity. So the prospects of the company can be calculated from the current operating assets and equity which capitalize for investment opportunity. The set of investment opportunities is a set of estimated assets and enough equity, and also investment options in in the right placement.

According to Modigliani and Miller (1958), investment decisions and funding decisions are different each other and also not correlated When market perfection occurs. They added that there are 3 (three) variables that are the focus of analysis as factors influencing investment decisions. The three variables are: (i) liquidity aspects, (ii) investment opportunities, and (iii) financial constraint. However, Fazzari, Hubbard, and Petersen (1988) suggests a correlation between funding decisions and investment decisions, through the usance level of liquidity and the strength level of investment. However, Hoshi, Kashyap, and Scharfstein (1991) argues that investment decisions are also moderated by financial constraints, in addition to aspects of liquidity and investment opportunities. Kaplan and Zingales (1997) also added that companies that are experiencing external financial constraints tend to use liquidity to fund investments. This happens because the company lacks access to information to investors. Vice versa, if the company does not have external financial constraints, it will easily get access to information to investors, so that investment can run smoothly.

In the fact that there is a falsification of access to information, according to Fazzari, Hubbard, and Petersen (1988), it becomes a limitation of information and can also be information bias, which in this case can be declared asymmetric information. However, according to Myers and Majluf (1984) proves that asymmetric information can actually be beneficial for internal parties, because it can manipulate information about the existence of liquidity and financial constraints. There is even the fact that asymmetric information also benefits certain external parties if they can take advantage of information supplied by internal parties, this is often called insider trading when it occurs in the capital market.

From this fact, it can be identified that the three variables aspects of liquidity, financial constraints and investment opportunities can be information material to benefit or harm internal parties and external parties, depending on which side to use each of these variables as a factor causing asymmetric information. Likewise, decision processes and investment processes are prone to asymmetric information from external factors, this may emphasize the existence of bounded rationality in the decision-making process and also vested interest in the later investment process.

From several descriptions of factors that affect asymmetric information which occurs in investment management activities, the researcher tried to conceptualize the following asymmetric information investment framework which is decomposed in Fig. (**1**) below:

Fig. (**1**) alt text: Factors influencing inter-organizational investment information sharing which influenced by: environmental layer, investment layer, investment decision layer, organizational layer and perceived layer. (modified from Bigdeli et al., 2013).

Some of these factors were identified from research of Bigdeli, et al., (2013), which parse the factors that influence decision-making factors related to information sharing. Some of the factors described are maintained because they are still relevant to investment management activities, which is organizational layer (management capability, investment / network collaboration, financial matters, trust, goals / objectives), and perceived layer (barriers, benefits, risks). The relevant layer to this research is that the environment layer (politics, legal & legislation, economics) plays an important role in the background of asymmetric information. As Dawes (1996) stated, political pressure is a trigger for asymmetric information in an institution's policy making. Landsbergen Jr., D. and Wolken Jr., G. (2001) also argue by revealing the influence of bureaucracy that tends to utilize multiple interpretations of information from a rule of law, law and legislation as a factor that triggers the impact of policy errors on institutions. Theresa A. Pardo, Giri Kumar Tayi, (2007) also added that the influence of the economic interests of a decision maker is the cause of asymmetric information in institutions.

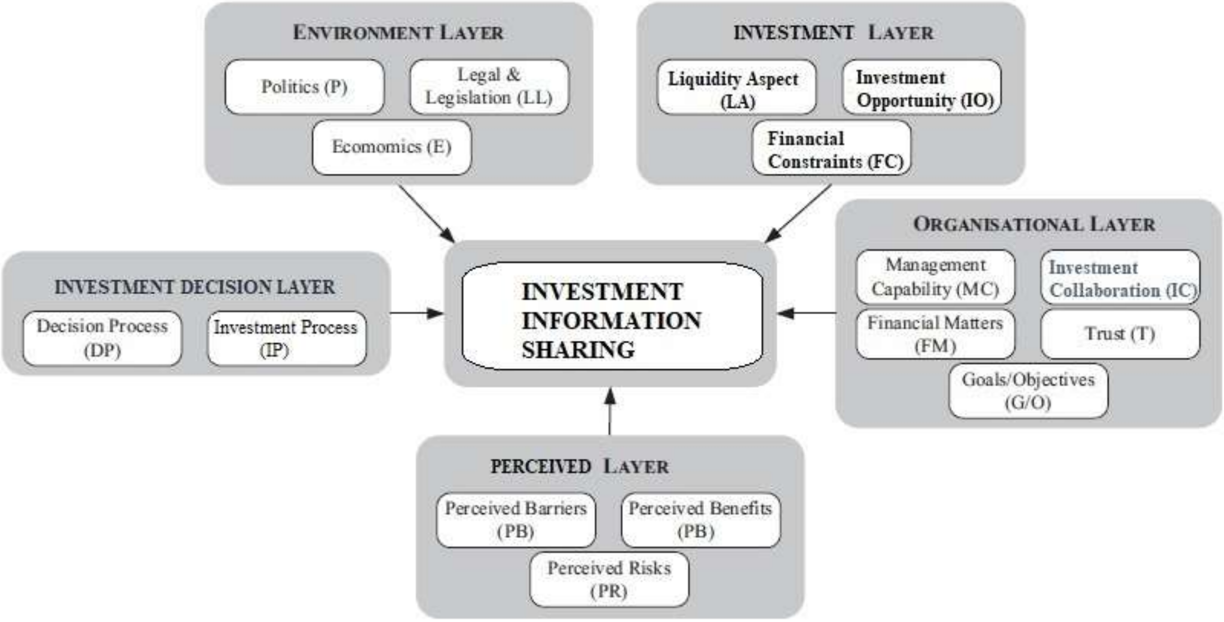

ENVIRONMENT LAYER
Politics (P)
Legal & Legislation (LL)
Ecomomics (E)
INVESTMENT LAYER
Liquidity Aspect (LA)
Investment Opportunity (IO)
Financial Constraints (FC)
ORGANISATIONAL LAYER
Management Capability (MC)
Investment Collaboration (IC)
Financial Matters (FM)
Trust (T)
Goals/Objectives (G/O)
INVESTMENT DECISION LAYER
Decision Process (DP)
Investment Process (IP)
INVESTMENT INFORMATION SHARING
PERCEIVED LAYER
Perceived Barriers (PB)
Perceived Benefits (PB)
Perceived Risks (PR)

Fig. (1). caption: Proposed conceptual framework Investment Information Sharing.

Authors tried to adjust other supporting factors based onModigliani and Miller's (1958) findings on investment layers, and investment decision layer factors, which Fama (1974) has revealed and Myers' findings, as well as empirical findings, which show that there are differences in application between investment decisions and funding decisions, each of which is independent. Nevertheless, both of decisions require the same factors which contain investment / funding opportunity, liquidity aspect and financial constraints. In the implementation of investment, according to Modigliani and Miller's emphasized the need for a liquidity aspect as a support for investment capabilities, besides that it is also necessary to consider the projection of financial constraints that occur due to investment, as well as calculate how much investment opportunity can be realized as an investment that boosts performance. These three factors are often the asymmetric basis of information, only to pursue the interests of some decision makers, which in the organizational layer is determined by the ability of management in making investment decisions. This is an affirmation of the existence of bounded rationality and vested interest which also affects the occurrence of asymmetric information in an investment decision in the institution.

3. THE SIGNALING THEORY BRIDGES SOVEREIGN WEALTH FUNDS

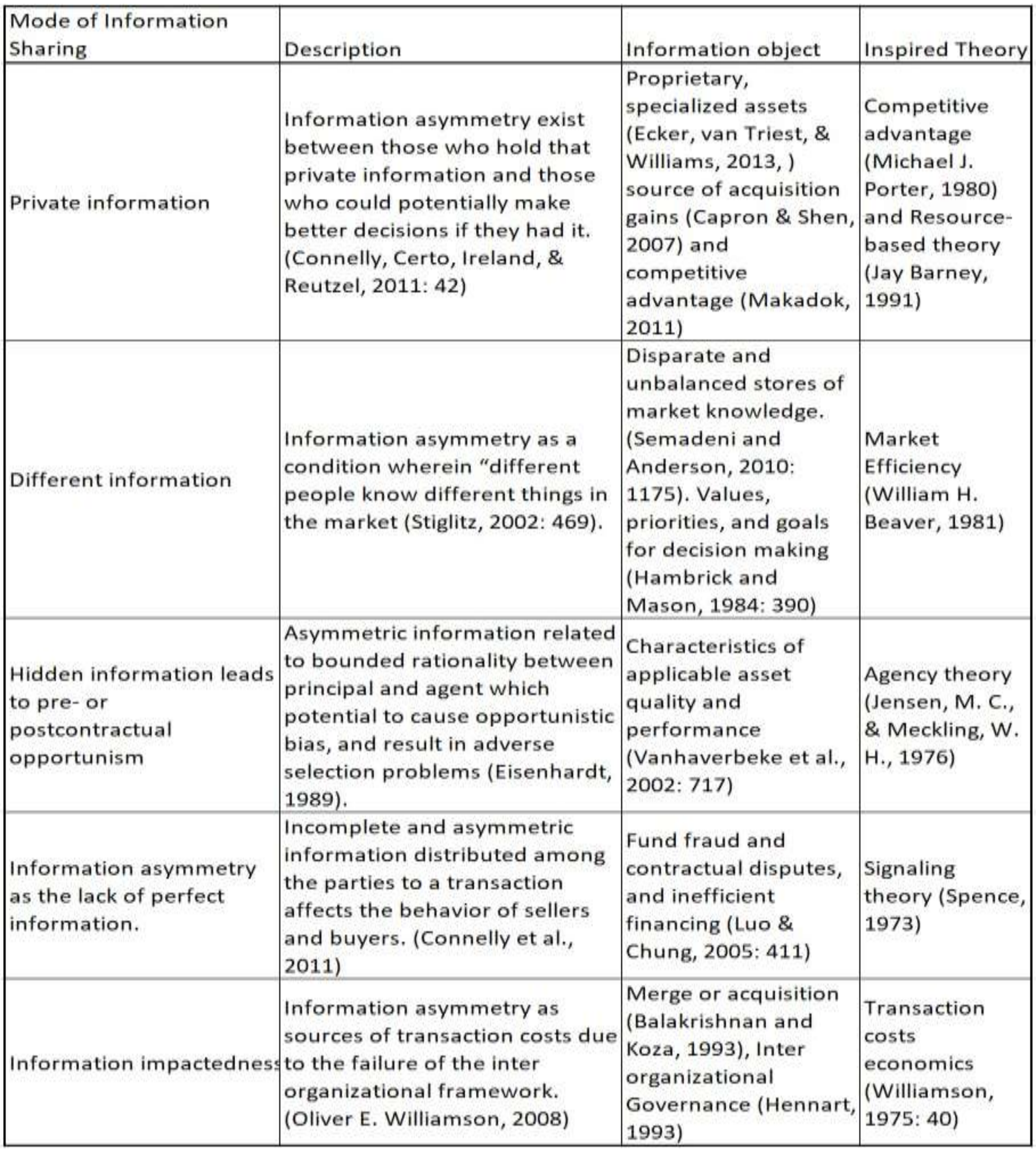
The deepening of the role of institutions in economic development has led to a new perspective on institutional economics. The economics of this institution focuses on deepening the effect of transaction costs on economic development. In the deepening of the transaction cost analysis, there is also an analysis of property rights (property rights), control over natural resources and production factors, imbalances in access and control of information (asymmetric information), and opportunistic behavior.

Stigler (1961) identify the existence of inequalities in the receipt of information that result in the benefits of information recipients in the market. Spence (1973) conceptualizes information signals (unstructured) that affect the quality of market participants and have an impact on expensive market attributions. Then Connelly et al., (2011), clarified with his review which stated the behavior between market participants that affects market quality.

Demsetz and Lehn (1985) identified the influence of the company's asymmetric information environment on governance mechanism, namely the existence of monitoring by boards have relatively low costs for firms with low information asymmetry, this indicates that the board will always carry out supervision and control that is very frequent (inherent oversight) to the company in order to obtain high benefits at relatively low costs. Rather, this monitoring costs indicate also that for companies with large amounts of asymmetric information, intensive monitoring by the board may not be worth the cost, and instead their governance will rely more heavily on external controls and incentives.

Brigham & Houston (2007) synchronizing the signaling theory in investment institutions is an action taken by institutional management to provide guidance to investors on how to see investment prospects in institutions. Investments with favorable investment prospects will try to avoid selling shares and raising new necessary capital by other means, such as investments and even including the use of debt that exceeds the normal capital structure target. Information is an important element for investors and business people because it presents information, records or pictures of both past, current and future conditions regarding investment prospects and how they affect investment returns. Complete, relevant, accurate and timely information is needed by investors as an analytical tool to make investment decisions (Horne et al, 2004).

Table 1. Mode of Information Asymmetry (modified from Berg et al., 2014).



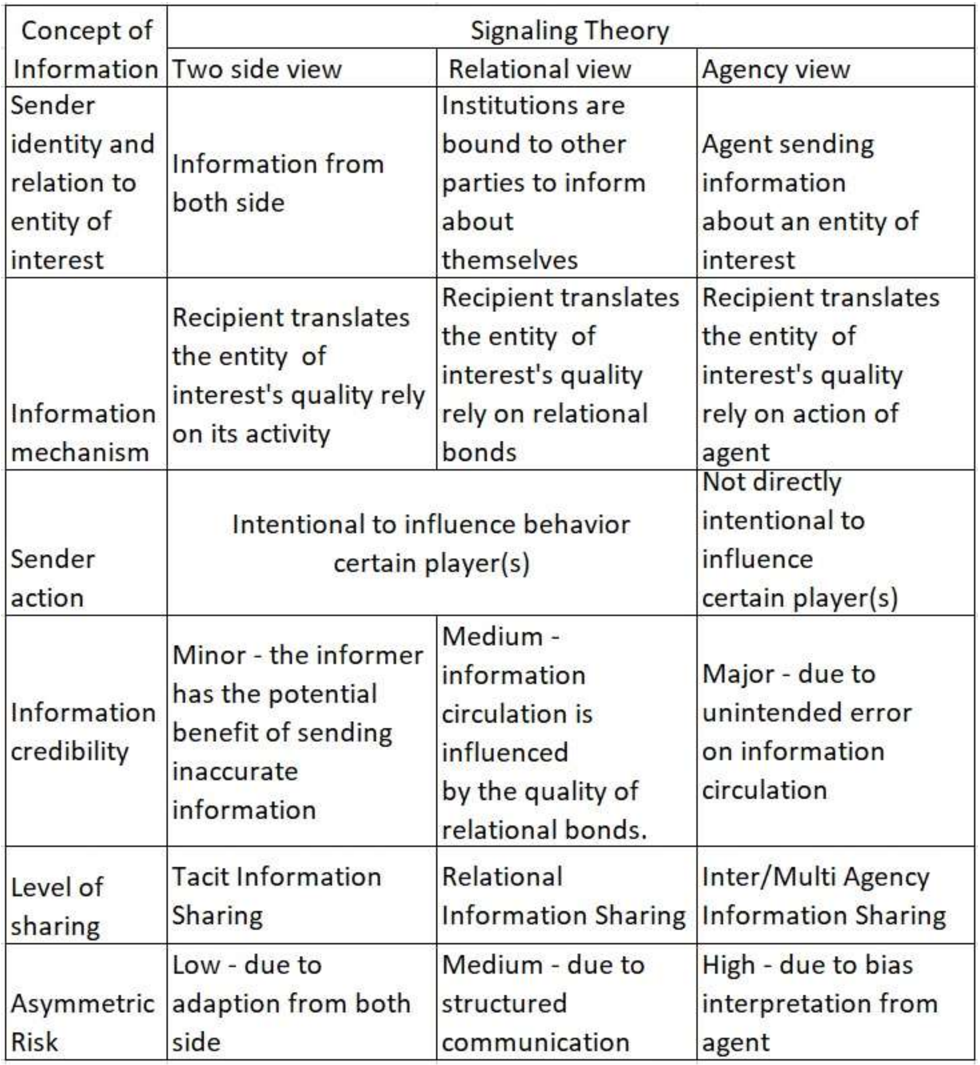
Mode of Information Sharing	Description	Information object	Inspired Theory
Private information	Information asymmetry exist between those who hold that private information and those who could potentially make better decisions if they had it. (Connelly, Certo, Ireland, & Reutzel, 2011: 42)	Proprietary, specialized assets (Ecker, van Triest, & Williams, 2013,) source of acquisition gains (Capron & Shen, 2007) and competitive advantage (Makadok, 2011)	Competitive advantage (Michael J. Porter, 1980) and Resource-based theory (Jay Barney, 1991)
Different information	Information asymmetry as a condition wherein "different people know different things in the market (Stiglitz, 2002: 469).	Disparate and unbalanced stores of market knowledge. (Semadeni and Anderson, 2010: 1175). Values, priorities, and goals for decision making (Hambrick and Mason, 1984: 390)	Market Efficiency (William H. Beaver, 1981)
Hidden information leads to pre- or postcontractual opportunism	Asymmetric information related to bounded rationality between principal and agent which potential to cause opportunistic bias, and result in adverse selection problems (Eisenhardt, 1989).	Characteristics of applicable asset quality and performance (Vanhaverbeke et al., 2002: 717)	Agency theory (Jensen, M. C., & Meckling, W. H., 1976)
Information asymmetry as the lack of perfect information.	Incomplete and asymmetric information distributed among the parties to a transaction affects the behavior of sellers and buyers. (Connelly et al., 2011)	Fund fraud and contractual disputes, and inefficient financing (Luo & Chung, 2005: 411)	Signaling theory (Spence, 1973)
Information impactedness	Information asymmetry as sources of transaction costs due to the failure of the inter organizational framework. (Oliver E. Williamson, 2008)	Merge or acquisition (Balakrishnan and Koza, 1993), Inter organizational Governance (Hennart, 1993)	Transaction costs economics (Williamson, 1975: 40)

In the explanation of signaling theory, it is stated that an action taken by institutional management that gives investors clues about how management views the company's prospects. This theory provides an explanation of the reasons why institutions have the urge to convey or provide information related to institutional financial statements to external parties. The encouragement to submit or provide information related to financial statements to external parties is based on the existence of information asymmetries between institutional management and external parties. (Bergh et al., 2014).

Information asymmetry plays an urge position in institutional' governance for decisions making, Governance implementation relies on asymmetric information. Companies must optimally carry out governance according to a proper mechanism. Policy maker or decision makerhave rights and control to enforce guidance norm or rules on the implementation of governance mechanism in institution. (J. Cai et al. 2015)

A study on signaling effect of Sovereign Wealth Fund, overcoming information asymmetry, and resulting the information mechanisms can explore how to convey information on the implementation of their SWF investments abroad in order to maintain their investment. (Vasudeva et al., 2018). Their study confirms the existence of asymmetric information pressure affecting SWF investment performance, but the explanation does not provide the level of information sharing and potential risk asymmetry, which is very much needed to identify new hypotheses.

Table 2. Concept of Information based on signaling theory (modified from Vasudeva et al., 2018).



Concept of	Signaling Theory		
Information	Two side view	Relational view	Agency view
Sender identity and relation to entity of interest	Information from both side	Institutions are bound to other parties to inform about themselves	Agent sending information about an entity of interest
Information mechanism	Recipient translates the entity of interest's quality rely on its activity	Recipient translates the entity of interest's quality rely on relational bonds	Recipient translates the entity of interest's quality rely on action of agent
Sender action	Intentional to influence behavior certain player(s)		Not directly intentional to influence certain player(s)
Information credibility	Minor - the informer has the potential benefit of sending inaccurate information	Medium - information circulation is influenced by the quality of relational bonds.	Major - due to unintended error on information circulation
Level of sharing	Tacit Information Sharing	Relational Information Sharing	Inter/Multi Agency Information Sharing
Asymmetric Risk	Low - due to adaption from both side	Medium - due to structured communication	High - due to bias interpretation from agent

In the explanation of the table above it is shown that there is an identification of levels of information sharing and potential asymmetric risks, which can be useful in identifying new hypotheses, and becoming the basis for information delivery mechanisms on an investment.

Williamson (1996) explains the phenomenon of information complexity that can interfere with organizations in achieving institutional performance. This phenomenon is influenced by the existence of bounded rationality and opportunism. In responding to this phenomenon, Williamson offers a governance mechanism that can get rid of rationality and opportunism to achieve institutional performance. Williamson (1986) argues that asymmetric information exchange in supply chain implementation between suppliers and producers arises from the existence of network complexity that occurs in environmental uncertainty. In terms of better informed recipients will tend to behave opportunistically and irrationally (Pavlou, Liang, &Xue, 2007). Information asymmetry can also affect the behavior of investment transactions in the exchange and placement of funds to the detriment of certain parties who do not have better information.

Governance mechanisms are linked to the asymmetry of informationbecause it involves many stakeholders in its creation, planning, monitoring, and implementation.Policy maker and investment entities may face situations in which they have different layers of information on issues such as demand, costs, and revenues. Governments need information from regulated investment institutions to optimize policy, and policy makers need to create rules and incentive mechanisms to improve institution performance. To maximize public welfare and optimize investment policy outcomes, affordable and competitive market conditions are required, where policymakers are unlikely to obtain all the information needed for optimal policy (Shapiro, C. and Willig, R.D., 1990). Government provides more information to the state owned enterprises than private, so contracting should not be a problem when the state ownerships and regulates both (Grossman, S.J. and Hart, O.D.,1986).

However, state ownership is associated with insufficient incentives to collect and utilize this information to maximize welfare. In other words, there leans to be a trade-off between state ownership, which reduces information asymmetries and

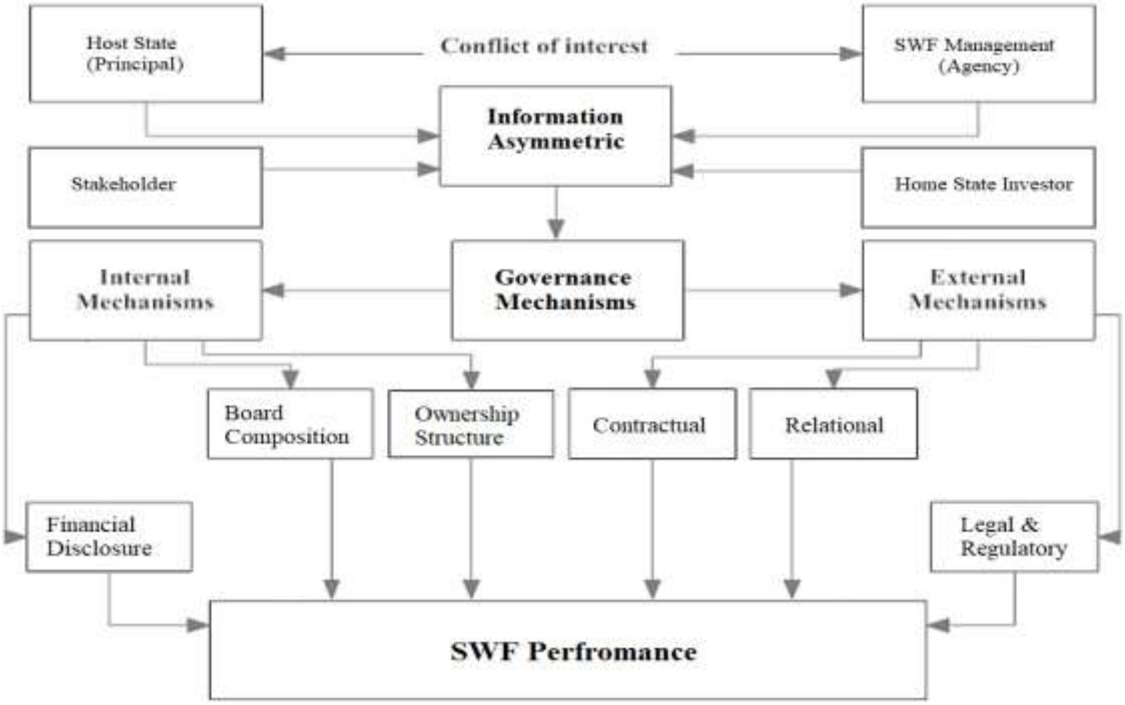


Fig. (2). Caption: Governance Mechanisms of Sovereign Wealth Funds. (authorown idea).

also reduces transaction costs, state control and incentives for private sector transactions in the market to maximize social welfare (Hayek, F.A., 1945).This leads to issues of 'credibility' and 'commitment' to maintain information sharing. In particular, credibility on the part of investors, which is oriented towards the policy of desired outcomes by the institution, and government commitment to the rules for investment policy, which leads to the provision of rules after concessions, where the policymaker does not act opportunistically to reduce the prices and profits of regulated investment institutions. The credibility of the policymaker will increase if the policymaker can face high costs if it deviates from its commitments (Sappington, D.E. and Stiglitz, J.E. (1987).

4. INVESTMENT INSTITUTION AND GOVERNANCE MECHANISMS.

In large investments, there is often asymmetric information caused by the number of actors involved in the relationship between transacting parties (De Meza, 1987). The actors involved can be management, share holders, stakeholders, and investors. Each actor has intentions and interests that are not all expressed openly, in the hope that one party gets benefits and the other party gets losses. This has been in line with the disclosure of new institutional economics which explains the conflict of interest between shareholders (principal) and management (agency) which is often reviewed in agency theory. And there is a potential for asymmetric information that causes agency costs to be high, even the value of investment to swell, and this has been revealed in transaction cost economics theory.

In the foreign direct investment, it is the level of involvement control in the allotment of capital and in the controlling of the institution's activities that is important for the implementation of investments. Since investors have target on their investment return and payback capital, they tend to try to find institution partner with prospects, while an investment capital as a specific legal entity that involves in investment activities, in which governance mechanisms that take into account the quality of investors can be applied. The nature of governance mechanisms to mitigate the negative effects of linkage and maximize the positive effects for the various participants, taking into account the characteristics of investment funds (Metsger, A.A., 2017).

Based on other studies, it has been found that good mutual fund governance mechanisms result in less risk aversion, and that funds managed with efficient mechanisms make a significant contribution (Patel, S., & Sarkissian, S., 2017). In this context, the role of decision makers in managing funds is to identify and implement effective strategies included in governance mechanisms, for the success of investment institutions. In order to utilize investment capital effectively, a strategy for placing investment capital is required which is carried out by formulating and implementing strategies for governance mechanisms, and it is important to know the legal regime (based on national and international law) and the governing law of the institution in where the institution operates. Therefore, the operating model of a globally recognized institutional investment fund is organized as shown in Fig. (**2**), taking into account the governance mechanisms of sovereign wealth funds investor in which the information asymmetric are elaborated.

Fig. (**2**) alt text: Sovereign Wealth Performance which can be realized by implementing a governance mechanisms that is influenced by information asymmetry.

As shown in Fig. (**2**), described the root of the information problem is the existence of asymmetric information, which includes a lack of transparency on the part of the SWF, with inadequate and unreliable information. Asymmetric problems are also caused by the inability to obtain information, the inability to obtain information certainty or the accuracy of information, or the lack of incentives to obtain information. The information referred to is related to investment motives, the interests of the parties, and information that only one party has that harms the other party regarding SWF cannot fully understand because the information provided is inadequate. Thus, efforts are needed to reduce losses due to information asymmetry, so that the home state or host state gets SWF investment performance according to the expectations of the country. Complete information is needed to reduce the danger or risk of investment loss. Investment losses can be measured from the investment rate of return, strategic position and national interest related to national sovereignty and security. (Anthony Wong, 2009).

The host state will strive for its investment to increase the full benefits of development, which may not necessarily be what the home state wants. and vice versa, the home state wishes to control its investment with the greatest benefit to the extent that it has the potential to reduce the host state's sovereignty. For this reason, information can be out of sync or inaccurate, because there are efforts to obtain different benefits from each party. The host state gets incentives to be able to manage information, with credible disclosure with governance mechanisms, both internal and external in order to achieve the desired SWF performance. Thus, governance mechanisms are key in reducing information asymmetry and getting SWF performance as expected jointly between state parties investing in SWF (Ronald J. et at., 2008).

The quality of sovereign wealth fund governance mechanisms, which consists of internal mechanisms and external mechanisms, which internal mechanisms consist of board composition, ownership structure and financial disclosure. Internal mechanisms used for corporate governance evaluation, which reveals the existence of ownership structure, which are; institutional ownership, state ownership, insider ownership, ownership concentration. While board composition consists of board independence, board size, CEO duality, foreign directors, female/male director.(The Laura Ballester, 2020).

Financial disclosure is also used as a reference for internal mechanisms in accordance with the recommendations of the Santiago Principle. The Santiago Principles which is summarized in 24 general principles and practices agreed upon by the members of the International Forum of Sovereign Wealth Funds (IFSWF).The agreement includes good governance, transparency, accountability, and prudent investment practices to realize the successful implementation of sovereign wealth funds to prevent fraud and information asymmetry in the implementation of governance mechanisms

For external mechanisms, contractual governance and relational governance are revealed. Where contractual governance is an effort by the governance mechanism to make the contract a guideline in carrying out investments according to the agreement of both parties. This contractual effort to maintain the integrity of the commitment between the parties in investing in order to avoid disputes. The need to strengthen investment collaboration to minimize mistrust in the delivery of asset and fund information. Strengthening such collaboration can be done by moderating relational governance in order to obtain better collaborative investment performance. (Sewandono et al., 2023). Bigdeli, A. Z et al., (2013) also emphasizes the goals/objectives of a collaboration network (investment) underlie the success of the collaboration. The important thing of relational effort is that trust becomes a consideration for mutual openness, which of course is supported by both parties intention. If one of these factors, whether intentionally or unintentionally, is not disclosed in full, resulting in the partner not receiving the real information, it will be fatal to an investment decision. This is often a factor in the emergence of asymmetric information.

The implementation of governance mechanisms can be carried out by prioritizing the rule of investment in order to realize investment collaboration between institutions that strengthen each other, and are mutually beneficial. In this case, alignment of collaboration can be achieved by arranging the coherence of agreements between the host / home state and investment fund management institutions. Coherence arrangements on investment information sharing can strengthen investment collaboration with effective structuring of investment management and strengthening investment collaboration between host/home state and investment fund management, with commitments can be built within an established legal framework and effective fund management.

Because investment has a natural tendency to maximize returns on investment, with some conveniences in the form of macro economic policies (taxes, subsidies, incentives) as well as investment policy(investment procedure, investment statement and investment contract) that are more sensitive and flexible in nature to increase sovereign wealth fund investment that contributes to the national economy. In addition, government support is also needed in the form of support from financial regulators, to facilitate profitable investment placements for investors and the state. Based on the results of an empirical study on investment in sovereign wealth funds globally, it shows that effective investment collaboration, between state investors (home & host) and investment fund management accompanied by an appropriate investment placement strategy will facilitate investment flows from institutional investors and direct more governance mechanism effectiveness (Damianova, et al., 2018).

Refer to SWF global experience, the implementation of governance mechanisms on investment fund management institutions, also control of compliance with policy is conduct by the national supervisory authority. In some jurisdictions, the role of state policymaker is limited to securities and banking law matters, because the rules of governance mechanisms use for major source of investment policy control. (Annual report of SWF 2022).

In governing information mechanisms regarding SWF, information about SWF must consist of SWF investment procedure specifications as part of information sharing, must expose the specified function of the government's necessities and inclinations and the institution's sole capacities, expertise, and features. The tasks and obligations of sovereign wealth funds are explicitly implied to define a total of features: the fund's capability to return revealing to diverse asset classifications or risk aspects, its investment interval, object returns, and risk constraints. Furthermore, the investment scheme includes operation and accomplishment determinations about active versus passive fund management and inner versus outer. For public exposure aims or clearness of inner decision-making processes, SWF investment procedures and schemes should preferably be combined in an Investment Rule Declaration and regulated as an array of rules. The management of SWFs frequently requires synchronization between diverse elements of government and the public sector, involving government departments (finance, natural resources, and investment), central banks, independent investment authorizations, legislatures, and public auditors. The three main aspects of the SWF institutional structure governance are:

• Governance rules and savings and expenditure judgments: the movement of funds into and away from the SWF can be flexible or restricted orientation. The institutional aspect of this policy relates to who takes on these, conveying below the discretionary agreement, below a rules-considered system, that has the influence to arrange and possibly alter the procedures.

• Pose in the public area and operational autonomy: who is trustworthy for the routine operations and accomplishment of the SWFs policies? The general arrangement is the operational elements of the liquidity to be with the central bank, ministry of finance, or special investment authority. Commonly, these judgments are taken regarded on the fund's investment scheme and the interests and sensitivities surrounding possible political obstruction. To the level in which SWFs of the savings and investment revenue varieties have a long-run investment range and are estimated to maximize investment profits, the institutional scheme is characterized by substantial and stable operational autonomy.

• Internal governance: SWF collaborates internal governance configures– the regulations and processes which define the authorities and duties of various parties within the organization are very substantial. An organization's accomplishment in carrying out its estimated functions hinges on clearness around the controls and duties of the supervisory versus director board, the part and configuration of the investment board, and obvious reporting that aligns with the organization. The specific significance is strengthening duties and regulations for diverse aspects of the investment procedure or rule of thumb.

Investment information as a part of investment governance mechanisms always considers prudence as represent of prudential authority obligation. Prudent, as per the principle of prudence governance, is not a new term but contains a new conception of responding more firmly, in detail, and effectively to the various risks inherent in an investment. The precautionary principle arises due to several investment problems that impact investors' losses and worsen institutional performance and stability, resulting in disruption to a country's economy (Schanzenbach & Sitkoff, 2007). The prudential authority shall consider prudence in investment governance mechanisms, which holds an obligation with elements of ethics, behaviors, precautionary principles, policy standards, and decision-making procedures. Thus, risk management techniques such a way that they can avoid the slightest consequences that can harm or harm stakeholders, especially investors and the state as owners of investment assets. The precautionary principle contains risk control through the consistent application of investment policy and has an internal supervision system that can optimally carry out its duties.

The precautionary principle suggests that prudence needs to be exercised by the state in its policymaking. It is these activities that have the possibility of causing severe and irreversible repercussions that, in this principle, should be prevented. In this case, there needs to be more investment certainty to be used to delay efforts to prevent investment losses and investment fraud. Prudential Authority must take wise decisions in the form of good governance to increase the efficiency and effectiveness of external and internal controls used in investment control by increasing collaboration between institutional relationships and even integrating them.

From some of the explanations above, the author can offer a concept for an investment information management mechanism, which must apply the precautionary principle that can be used by investment management institutions. Likewise with the Sovereign Wealth Fund originating from the state so that the SWF Institution can carry out the arrangement of investment mechanisms so that they can produce investment collaboration with good performance. Investment financial institutions are careful in applying transparency of information on the flow of Sovereign Wealth investment funds. In prioritizing the precautionary principle, the application of the precautionary principle in exercising the binding power of an SWF investment agreement is vital in implementing the investment governance mechanism. In this case, the construction of "Prudential Authority" is very relevant in mitigating the problems of organizing state wealth funds as revealed in previous literature. the investment governance mechanism always pays attention to prudence, both in information on receiving funds, depositing funds, and in placing funds.

Implementation of prudential authority by SWFs as investment vehicles can differ among nations. We offer an elaborate development strategy for INA that encourages social or economic goals. These nonbusiness approaches harmonize the business approaches of the state-belonged objects and their exploration for economic yields. The prudential authority tactics develop with alters in the political system, system, or leadership. For instance, the government utilized its SWF to endorse the deal of gasoline and enhance financial yields rather than extend social and ethical standards to other nations. However, they can be utilized intensively, hinging on the traits and manners of regimes. The development strategy is the utilization of prudential authority in host nations to enable the home nation’s improvement. It is expected to be utilized by interventionist nations with democratic governments and mainly via state-belonged companies. The trials and stabilities of the democratic authority constrain the utilization of state-possessed companies to exercise political impact overseas if these outcomes result in misconduct of finances. Policymakers can steer state-possessed companies or finances to capitalize on foreign projects, which enable entry to required technologies or demands.

The Prudential Authority is also expected to provide resolution of agency issues that rely on the asymmetry of information that occurs in principals and agents, to provide guidance on the actions of expected agents and to establish governance mechanisms to monitor and measure performance that is in an ideal, contractual basis. (Bolton and Dewatripont, 2005). In the implementation of investments in SWF institutions, the asset management relationship delegated to the most common contracts is manifested in the "Investment Policy Statement". This form of contract becomes contractual governance and can be used in a variety of investment relationships to bind their clients to a policy consistent with time where there is an established expectation of transparency and accountability.(Malan Rietveld, 2012).

The establishment of the "Investment Policy Statement" (as part of information sharing) on the sovereign wealth fund is a manifestation of the laws governing and enforcing investment laws. In the regulation of the policy statement, it is explained about important elements important elements that form the basis of reaching an agreement between the principal and the agent. A more in-depth element of the Investment Policy Statement can be implemented through a more collaborative and systematic interaction between principals and agents (through the representatives of both principals and agents, that called “Investment Committee Board”). Good governance demands that operational implementation and financial performance can be achieved in accordance with the principal's expectations. The following is an explanation of the elements of element that are the content of each Investment Policy Statement on sovereign wealth funds:

a) Objectives and Functions: requires clarity around whether the fund works for savings or a stabilization fund; both fiscal and monetary, future funds or funds from investment income.

b) Investment process governance: how an investment policy statement can explain the responsibilities of all policies, the distribution of power, the operationalization of fund and the supervision of institutions involved in the management of sovereign wealth funds.

c) Purpose of return on investment, risk tolerance and investment insight: the fundamental expectation of any investor, is the statement of the owner's expectations (principal) about the investment strategy related to the return of funds, which must be mutually agreed between the principal (the principal can also act as an investor) and the agent. The joint statement includes investment risk tolerance and investment placement of funds (investment insights). These elements are often overlooked from the sovereign wealth fund governance framework, so often being a loophole in asymmetric information results in incomplete contracts that provide unilateral benefits for real information holders.

d) Long-term asset allocation: asset allocation is the basis for fund management authority in decision making by considering a longer period of time to benefit from the management of the Sovereign Wealth Fund. Inclusion of asset allocation in the Investment Policy Statement as an effort to optimize benefits with a more effectively mitigated risk distribution. The principal (capital owner) can determine the asset allocation or portfolio preference so as to provide room for optimization for the capital owner to get maximum investment benefits.

e) Portfolio reference or investment benchmark: In making investments, a reference or benchmark in the form of an investment portfolio is needed, so that it can be used as a Limitation in measuring and monitoring agent performance. Agents cannot be blamed in managing funds if they are not equipped with references and or investment benchmarks.

f) Balancing rules: statements regarding portfolio rebalancing that are carried outperiodically become an important part of long-term portfolio management. This can be done through a rules-based approach. Often principal or owner of a sovereign wealth fund gives emphasis on investment targets to the managing agent, which is not realized without clear rules. For this reason, balancing rules are needed, which are stated in the investment policy statement and must be inline to the rules in the form of regulations that can be agreed between principals, agents and related stakeholders. Balancing rules are the embodiment of clear and directed policy.

Given the importance of maintaining the harmony of the principal-agent relationship, between the owner and manager of the Sovereign Wealth Fund, the Investment Policy Statement becomes a form of mutual agreement, which functions as a contract between the principal and the agent. The form of the agreement is the embodiment of the governance mechanism, which emphasizes more contractual governance by providing as much space as possible for relational harmony between parties related to the governance of sovereign wealth funds.

5. RECOMMENDATION FOR INDONESIA SOVEREIGN WEALTH FUNDS

The debate on the theme of governance mechanisms which related to asymmetric information concerns also happens in Indonesia, with the issue of lack of information related to investment placement and lack of coordination between INA and other stakeholders such as Central Bank Indonesia, Financial Service Authority, and State Owned Enterprises. Host state also still confused regarding what kind of governance mechanisms model and will be most effective for operationalization of SWF and institutional governance. Even though policymaker have been created to make policy the INA institution as the SWF operator, until now these policy have not produced good results for the INA institution, with profitability that has not been seen financially, this is evidenced by the absence of home state investors who have entered investing in INA. This debate arises because many academics and observers have different opinions about the most appropriate approach to establishing SWF in Indonesia. All of these problem findings stem from a debate in governance arrangements that are not aligned regulatorily, between SWF investment objectives from the government as the principal, INA investment institution as the agency and SWF investment performance targets. In terms of the rules for governance, there is also no compatibility, between SWF international governance (GAPP recommendation) and INA institutional governance.

Government of Indonesia through the Law No. 11/2020 regulates SWF operations through INA institutions with its investment rules, which has not yet fully considered the existence of the Santiago Principles as rules that have been agreed upon with prominent SWF owners as the generally accepted principles and practices (GAPP).The Santiago Principles also explain transparency in disclosing investment information and how to align with local regulations related to governance mechanisms carried out by SWF investment institutions.

This research expected to solved several concerns related to the governance mechanisms for operationalization of Indonesia's "SWF", especially to resolve the aspect of asymmetric information problem. First, Investment institutions have two points of view, namely having advantages in controlling information related to investment portfolios and choosing investment partners. On the other hand, there is a crucial weakness with the potential to lose the span of control in managing information sharing. As far as the author's knowledge; The ability to manage investment information can only be done by institutions at the global fund management level who already understand how to control information asymmetry. The governance mechanism is urgently needed considering that there is a very large investment turnover with the realization of measurable investment implementation.

For this reason, it is necessary to understand information regarding the investment process, which starts from the formulation stage of the *Investment Policy Statement*, which is the stage where investment objectives, risk tolerance, expectations of *return* and risk of investment assets and asset allocation policies are set, will be productive if carried out with a measurable implementation process. Risk-oriented organizational infrastructure and *culture* need to be the number one priority for INA management; not merely pursuing "*returns"*.

Secondly, although the government has asserted that this institution will prioritize external funds in the form of equity, the character of quasi-governmental organizations remains undeniable. What are the risks? Sovereign risk: Indonesia's investment rating. Not all projects, let alone infrastructure, produce identified and earmarked returns. The mechanism for determining the information of priority projects must be transparent and through careful calculations from decision makers on both sides of investors, especially avoiding intervention and vested interest of certain parties. For this reason, INA needs to conduct public exposes for several projects that have very large value. Communicating to the public the commercial value of a project should be a tradition for INA.

So far, previous projects are under the management of the state budget so that their fiscal risks have been assessed and managed properly by state owned enterprises. What about when they are managed by the INA. Of course it is too naïve to think it is a business risk that is fully borne by INA and its investor partners. Home state investors want to partner with INA because they know "there's" a government behind it; If there is a "miscalculation" it certainly "can" be different from pure private investment. This discrepancy in the clause has been implied in government regulation number 74/2020; regarding INA insolvency. Of course, rating agencies understand this mechanism and will include it in the calculation of *Indonesia's sovereign risk rating*. This risk information needs to be understood by the INA's board of management.

Third, transparency, accountability and *governance* in INA still need to be strengthened. Transparency and accountability of INA are regulated as follows (a) audited financial statements of public accountants registered with the state auditor or Financial Services Authority (OJK) and announced to the public (article 52) and (b) responsibilities to the President (article 54). The issue of transparency, accountability and *governance* in the INA is due to its very complex business model and globally exposed. The information value of conventional financial statements (balance sheet, profit and loss and cash flow) produced is still difficult to digest (*opaque*); Bernardo Bortolotti, et al., (2015).There is always the asymmetric potential for information in financial statements that can lead to fraud. Furthermore, considering that INA is an institution with a special mission; So management guidance is given to the Minister of Finance (Article 73). Given the potential linkage of INA with the domestic financial system is also quite large; then it is hoped that the Minister of Finance can make further technical arrangements regarding guidance that includes Financial Services Authority (OJK) and Central Bank Indonesia (BI), as illustrated below;

Fig. (**3**). alt text: implementation of governance mechanisms for sovereign wealth funds in Indonesia, involving Indonesia investment authority institutions, State-owned enterprises. Financial Services Authority and the Indonesian central bank.

Fourth, Inter-institutional relations must be arranged in such a way as stated in Fig. (**3**), both relational and contractual relations, where INA as the only one institution taking care of SWF investment (mentioned as prudential authority) shall coordinate with the Central Bank of Indonesia (BI) and the Financial Services Authority (OJK). The Central Bank of Indonesia (BI) must be involved (policy) as macro-prudential transaction control and monitoring in order to direct investment transactions in line with capital inflow policy in Indonesia, both for exchange rate regulation, trade counter-trade and economic stabilization. Meanwhile, the Financial Services Authority (OJK) must also be involved (policy) as control and monitoring of transactions on a prudential basis in order to direct investment transactions in line with investment service policies in Indonesia, be it placement of funds, tax arrangements or investment capital savings and loans rules. The host state must control governance mechanisms of investment information, in the form of investment policy statement and also to guarantee policies and regulations acceptable, so that contractual and relational relationships can be well controlled.

Finally, execution capability and management integrity depend on the service level for controlling information about the allocation of investment funds. Management must demonstrate the ability to manage information with integrity prioritizing prudence in the allocation of investments that have a high investment risk. Risk statement: risk appetite and

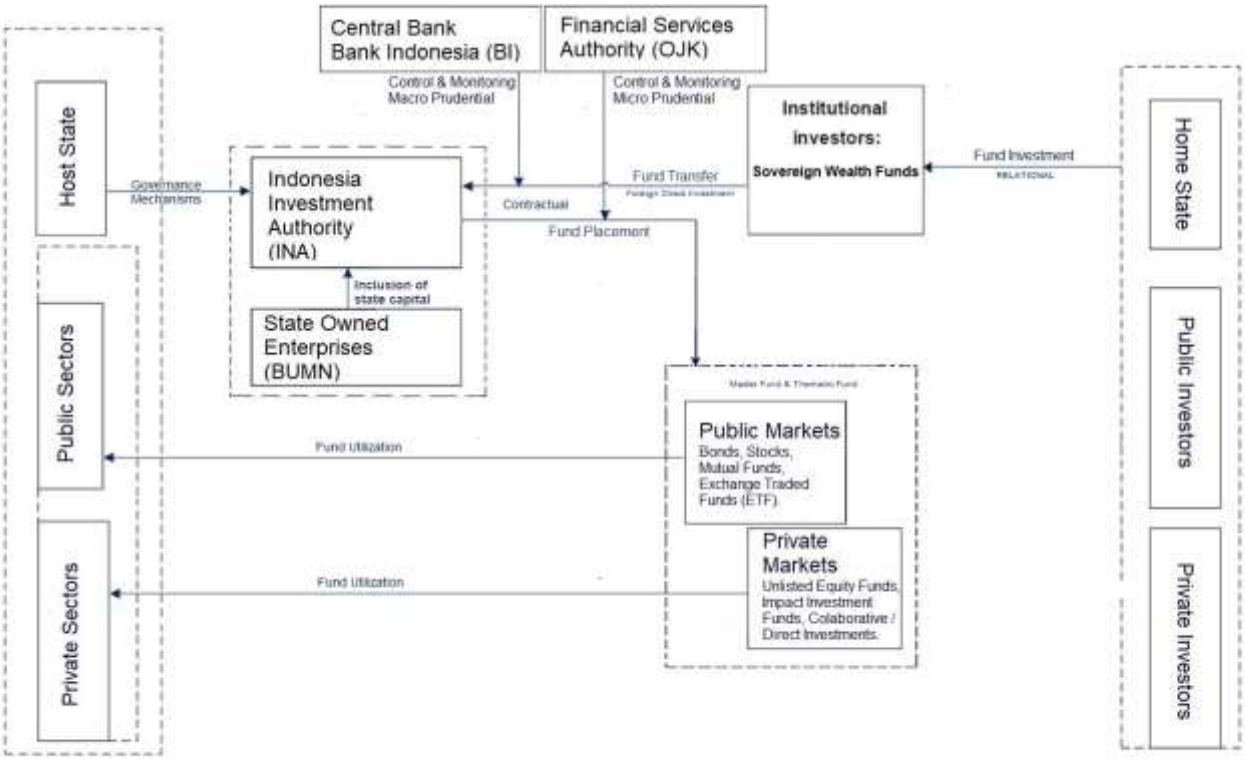

Central Bank
Bank Indonesia (BI)
Financial Services
Authority (OJK)
Control & Monitoring
Macro Prudential
Control & Monitoring
Micro Prudential
Institutional
investors:
Sovereign Wealth Funds
Fund Investment
RELATIONAL
Home State
Host State
Governance
Mechanisms
Indonesia
Investment
Authority
(INA)
Fund Transfer
Foreign Direct Investment
Contractual
Fund Placement
Inclusion of
state capital
State Owned
Enterprises
(BUMN)
Public Sectors
Private Sectors
Master Fund & Thematic Fund
Public Markets
Bonds, Stocks,
Mutual Funds,
Exchange Traded
Funds (ETF)
Private
Markets
Unlisted Equity Funds,
Impact Investment
Funds, Colaborative /
Direct Investments.
Fund Utilization
Fund Utilization
Public Investors
Private Investors

Fig. (3). Caption: Governance mechanisms of INA and Inter-institutional relation.

risk tolerance are some of the things that need to be done by the selected management; to maintain INA's business direction as well as the development of relevant risk management tools: enterprise risk management (Lam, 2017). Updating the risk statement is carried out in a measurable manner by referring to the competency development and organizational maturity. Thus, it is hoped that the objective of establishing an INA (article 5) is to increase and optimize the value of investments that are managed in the long term to support economic development.

CONCLUSION

We emphasize the importance of sharing information on investments where the authorities can carry out investments based on mutual sharing of information. Implementation of information sharing must prioritize the principle of transparency and the principle of prudence. This analysis explains how governance mechanisms should be able to facilitate investment information and reduce information asymmetry problems that can interfere with the performance of investment collaboration. With an explanation of Signaling theory which is influenced by transaction cost economics and agency theory, it clarifies that there is a difference between the two side view, the relational view and the agency view. The significant difference is in the level of sharing and asymmetric risk of information, which can be taken into consideration in future research hypotheses.

After studying the theoretical forming of information sharing in institution, with using signaling theory forming, authors recommend mechanism of information sharing' as a concept idea of governance in the implementation of reducing the asymmetry information. From the elaboration of previous literature theories and approaches related to information asymmetric risk, and its relationship with investment, we raise the need for an information sharing governance mechanism that can be used in the management of investments, funds and assets. With information governance mechanisms, it can be prevented from asymmetric information in investment governance, and can be used for sovereign wealth funds.

We underline the prudent prudential authority's advice as a realization of investment governance mechanisms, and as ideas that can be implemented at the Indonesian Investment Authority (INA), and make investment policy statements as an embodiment of governance mechanisms to improve information sharing necessary for sovereign wealth fund performance.

The most fundamental thing from some of the governance mechanism problem findings is the existence of information asymmetry, reflected on several factor influencing inter-organizational investment information sharing and integration, i.e; environmental layer, investment layer, organizational layer, perceived layer and investment decision layer.

Where information asymmetry happen with reasons about investment motives, investment return thresholds, and investment allocations is a big problem for SWF's governance, which causes high economic transaction costs, investment losses, even worse is the emergence of fraud. Stakeholder's actors who are often involved in information asymmetry in SWF investments are Government Officials as the proxy of the SWF Owner (as the principal), SWF Institution Officials as the authority of the SWF Operator (as the agent), SOE'S Officials as the beneficiaries of the investment, and SWF Investor Officials as the investment provider.

This article has answered how the existence of SWF in Indonesia should be able to set up governance mechanisms, and shall stated in investment policy that are packaged to fulfill SWF governance properly. As practically, the implication of discussing this governance mechanism is that INA is expected to enforce the existence of prudential authority in order to control principal and agency problems. Prudential Authority is expected to be able to fill the gaps caused by asymmetric information, by providing a solution in the form of an Investment Policy Statement.

The statement is a form of agreement between the principal and the agency which contains clarity and accuracy: objectives and functions, Investment process governance, purpose of return on investment, risk tolerance and investment insight, long-term asset allocation, portfolio reference or investment benchmark, and balancing rules. The Investment Policy Statement is urgently needed as part of the governance mechanism, especially the implementation of contractual governance and relational governance to control external governance. Thus INA will be able to manage SWF funds in line with the Santiago Principles and legal substance related to law enforcement in the operationalization of sovereign wealth funds in Indonesia.

The limitations in this article are about how Indonesian Investment Authority (INA) can measure the level of sharing and risk of asymmetric information, since INA stated as new institution and difficult to implement the measurement of information sharing. Future research is expected to be able to measure the of level of information sharing and asymmetric risk based on information of investment, as well as information asymmetric risk that can be quantified into agency costs. Future research is expected to reveal these costs and provide the right policy approach to the implementation of governance mechanisms and how the elaboration of investment statement.

Our conceptual context can aid policymakers well recognize the function of prudence authority in SWF investment. The host nation can consider the approach of prudential authority backside the investment and manage the information sharing regarding investment collaboration. Finally, the policymaker and the SWF investor together utilizing prudence authority to govern the investment information that can be arranged to get outstanding transparency principles, which may achieve good investment improvement, and good performance of sovereign wealth fund.

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