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Centralised Capital, Insulated Elites: State Capitalism, Governance Deficits, and Fiscal Risk in Indonesia's Danantara Sovereign Wealth Fund

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Abstract: *This article examines how regulatory capture and oligarchic hegemony can turn centralised state capital into a source of insulated elite power and sovereign fiscal risk, using Indonesia's Daya Anagata Nusantara Investment Management Agency (Danantara) as a critical case. Drawing on a qualitative literature-based design, the study triangulates statutory texts (Law 1/2025, Government Regulation 10/2025, Law 16/2025), rating-agency commentary, audit arrangements, and peer-reviewed scholarship on state capitalism, sovereign wealth fund (SWF) governance, and fiscal risk. Document coding and a comparative reading against the Santiago Principles reveal three governance deficits: concentrated presidential discretion over appointments and mandate, a hybrid legal identity that blurs public and corporate accountability, and thin ex-ante disclosure on risk limits and policy lending. The analysis traces how these deficits transmit into contingent liabilities through quasi-fiscal lending, implicit sovereign support embedded in rating alignment, and opaque capital injections. The authors argue that Danantara's credit standing currently rests more on the sovereign's balance sheet than on a demonstrated governance record. The article contributes a risk-transmission model that extends state-capitalism theory toward SWFs in hybrid, oligarchy-shaped democracies, and it proposes a four-tier reform scheme covering statutory anchoring, institutional design, disclosure, and civic oversight. Findings are interpretive rather than causal, and they depend on documentary evidence available up to late 2026.*

Keywords: *sovereign wealth fund; state capitalism; regulatory capture; oligarchic hegemony; fiscal risk; Danantara; Indonesia; governance deficit.*

1. INTRODUCTION

Over the past two decades, governments in emerging economies have rediscovered the state as an investor, a banker, and an industrial strategist. Bremmer (2009) described this turn as the coming of age of state capitalism, a system in which the state acts as the dominant economic actor and uses markets mainly to extract political gains. Musacchio and Lazzarini (2014) later showed that the reality is more textured: states now behave as majority owners, minority shareholders, and lenders, often through listed or holding-company structures that look commercial but remain politically steered. Wright et al. (2021) added that varieties of state capitalism differ across institutional contexts, and that the same instrument can serve developmental or predatory ends depending on who controls it. This revival follows a long privatisation wave that, according to Megginson and Netter (2001), had assumed state ownership would steadily recede. Against this background, sovereign wealth funds have become the most visible vehicle of the new state-led finance, and Megginson and Fotak (2015) documented the rapid growth of what they call the fiduciary state. Babic et al. (2020) observed that such funds and holding vehicles now channel a growing share of cross-border state capital while remaining anchored in domestic political authority. The practical importance of this development is large, because the consolidation of public assets into one investor changes who allocates capital, who monitors the allocation, and who bears losses when allocation fails. The authors argue that the global debate has therefore moved from whether states should own capital to how that ownership can be disciplined once it is concentrated in a single institution, and that this shift is especially urgent in political systems where checks and balances are still being consolidated. For emerging economies in particular, Gelb et al. (2014) noted that funds are increasingly asked to serve development goals, so the question is not only how much capital is pooled but also for what purposes and under which rules. The same concern runs through debates on state-owned enterprise reform, where the central tension lies between commercial discipline and political direction (Bruton et al., 2015).

Indonesia entered this debate sharply in 2025. Law 1 of 2025, the third amendment to the State-Owned Enterprises (SOE) Law, together with Government Regulation 10 of 2025, created the Daya Anagata Nusantara Investment Management Agency, known as Danantara, and

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placed it at the centre of the SOE system (Republic of Indonesia, 2025a, 2025b). The agency was launched on 24 February 2025 after the House of Representatives had passed the amendment earlier that month, and it was initially tied to dividends from seven major SOEs, namely Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, PLN, Pertamina, Telkom Indonesia, and MIND ID (Investortrust, 2025a; Petromindo, 2025). Government statements have projected assets under management at roughly US$900 billion, which would place the agency among the largest state investors globally if realised (Petromindo, 2025). The legal text assigns to Danantara the presidential functions of managing SOEs, authorises the agency to consolidate state and SOE assets, and protects its unpledged assets from seizure (Republic of Indonesia, 2025a). Early in the following October, Law 16 of 2025 further reorganised the system by converting the SOE ministry into a regulatory agency and giving Danantara operational control over the shares held by the state (Republic of Indonesia, 2025c). In the authors' reading, these steps are not a marginal reform but a constitutional-scale reallocation of economic authority, because they reshape who decides, who is accountable, and who bears losses. The speed of the reform, completed within roughly eight months, also leaves little time for the slow accumulation of precedent that normally accompanies institutions of this size. Hill and Negara (2019) situate the reform within a broader Indonesian policy agenda that prizes downstreaming, infrastructure delivery, and state-led industrial upgrading, which helps explain why the project enjoyed strong executive backing. At the same time, the size of the vehicle means that its mandate interacts with fiscal policy and banking-sector stability, so the institutional change reaches well beyond the SOE sector itself.

The Indonesian case is analytically valuable because Danantara arrives in a political economy that scholars have long described as shaped by oligarchic interests. Robison and Hadiz (2004) argued that the collapse of the New Order did not dissolve predatory networks of power but reorganised them within a market-oriented, electoral setting. Winters (2011) characterised the Indonesian configuration as an electoral and ruling oligarchy in which concentrated material power shapes public policy and protects wealth. Hadiz and Robison (2013) maintained that this reorganisation continued after democratisation, with oligarchs adapting to electoral competition rather than disappearing. More recent work links these structural features to democratic backsliding and executive aggrandisement under successive

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governments (Power, 2018; Aspinall & Mietzner, 2019; Warburton & Aspinall, 2019). Tapsell (2017) added that the ownership of Indonesian media by politically active business owners lets such interests influence public debate about economic policy. When a new, very large pool of public capital is created inside such an environment, the question of capture becomes a first-order concern rather than a footnote. The authors do not suggest that capture is inevitable; the argument is that the probability of capture depends on institutional design, and that design choices made at the founding of an institution are unusually hard to correct later. Because Danantara controls dividends from the largest banks, energy firms, and mining companies, even modest governance weaknesses can have macroeconomic consequences, which is why the topic deserves scrutiny now rather than after losses become visible. Rosser (2002) had earlier shown that economic reform in Indonesia is filtered through competing interests, and the present study follows that line by asking who gains from the architecture of a very large public investor. Such an inquiry does not presume bad faith on the part of officials; it examines incentives, access, and the capacity of outsiders to verify what insiders do.

Theories of regulatory capture provide the vocabulary for that concern. Stigler (1971) proposed that regulation is acquired by the regulated and designed for their benefit, and Dal Bó (2006) reviewed the mechanisms through which private interests can bend public decisions, from lobbying to the revolving door. Carpenter and Moss (2014) extended the discussion to capture without direct bribery, where norms, information asymmetries, and dependence erode the independence of oversight bodies. Applied to state-owned capital, capture can work in the opposite direction as well: the principal who should supervise the investor is also the political patron of the investor's board, so oversight and ownership collapse into one chain of command. Pargendler (2012) and Milhaupt and Pargendler (2017) have shown that this duality, where the state is both owner and regulator, produces persistent governance problems in state-owned and listed state-owned firms. Evidence from Indonesia indicates that political connections have measurable economic value and consequences for transparency (Fisman, 2001; Leuz & Oberholzer-Gee, 2006), and Faccio (2006) showed that connected firms are a widespread phenomenon across countries. If those findings extend to a sovereign investor, then the board appointment process becomes the

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most sensitive node in the system. The authors therefore treat Danantara as a test of whether centralisation can coexist with arm's-length discipline, and they ask which features of the legal design either help or hinder that coexistence. This framing also explains why the study moves beyond a purely legal reading, since formal independence on paper does not guarantee independence in practice when appointment, funding, and reporting lines all converge on the executive. Inoue et al. (2013) found that state equity stakes can improve or damage firm performance depending on governance conditions, which supports the view that the effect of state capital is contingent on design, and Shleifer and Vishny (1994) offered a classic account of how political control can divert firms from efficiency toward politicians' objectives.

A second stream of scholarship concerns the governance of sovereign wealth funds. The Santiago Principles, issued by the International Working Group of Sovereign Wealth Funds (2008), set out generally accepted principles on legal framework, objectives, governance, and risk management. Truman (2010) and Bagnall and Truman (2013) operationalised these ideas through a scoreboard that links transparency and accountability to structure, governance, and behaviour. Gelb et al. (2014) showed that SWFs increasingly carry development mandates alongside financial ones, which complicates the measurement of performance and the allocation of risk. Alsweilem et al. (2015) compared sovereign investor models and concluded that clarity of mandate and separation from day-to-day politics are the most reliable predictors of institutional credibility. Clark et al. (2013) argued that legitimacy is not a by-product of size but a produced condition, built through rules that bind the sovereign itself. Backer (2010) added that even the most respected funds exercise public power through private investment, which means that their accountability should be understood in public-law terms rather than in purely commercial ones. Taken together, the literature suggests a consistent hypothesis: funds with explicit mandates, rule-based links to the budget, and routine public reporting tend to convert size into credibility, while funds without these features convert size into suspicion. For Danantara, the issue is whether its design binds the sovereign or simply extends the sovereign's reach, and this article treats that question as empirical and open, not as settled by either enthusiasm or alarm. Kotter and Lel (2011) and Bortolotti et al. (2015) connected fund transparency and governance traits to market reactions and valuation, which indicates

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that disclosure has measurable economic value and is not merely a matter of good manners.

A third stream addresses fiscal risk and contingent liabilities. Brixi and Schick (2002) introduced the idea that governments carry hidden obligations, explicit and implicit, that do not appear in conventional deficit figures but can materialise during stress. Polackova (1998) offered the original matrix of direct and contingent, explicit and implicit liabilities, and Cebotari (2008) and Bova et al. (2016) documented that realised contingent liabilities have been a major driver of debt surges in emerging markets. Kornai (1986) and Kornai et al. (2003) supplied the corresponding behavioural concept, the soft budget constraint, whereby an organisation expects rescue and therefore takes on more risk than it otherwise would. Mackenzie and Stella (1996) classified quasi-fiscal operations of public financial institutions, which remain a common channel through which policy costs are shifted off the budget. The International Monetary Fund (2016) has since recommended that fiscal-risk reporting cover public corporations and quasi-fiscal activity as a matter of routine practice. Taken together, this literature predicts that a very large state investor with policy objectives and implicit guarantees can become a conduit for fiscal risk even when its formal balance sheet looks separate from the state's. The prediction is conditional rather than deterministic: whether hidden risk becomes realised loss depends on investment discipline, on the quality of audit, and on how transparent the arrangements are to legislators and markets. That conditionality is what makes it worthwhile to examine Danantara's architecture before outcome data become available. Lin and Tan (1999) further argued that policy burdens imposed on enterprises erode accountability and make soft budgets more likely, a mechanism directly relevant when a fund is asked to finance national priorities alongside commercial returns. Because the relevant liabilities are often implicit, evidence for them tends to appear first in credit assessments and legal text and only later in realised losses.

Research directly on Danantara is still emerging, and most of it is legal-doctrinal. Early studies in Indonesian law journals discuss the agency's hybrid public–corporate character, its position under the President, and the application of good corporate governance and the business judgment rule (Journal of Commerce Law, 2025; Suara Hukum, 2025). Legal commentary has mapped the separation of SOE assets from state finances, the limited-liability protections for directors,

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and the later reversal by Law 16 of 2025 of the clause that excluded SOE officers from the category of state administrators (Republic of Indonesia, 2025c; ABNR, 2025a, 2025b). Studies on corruption enforcement after the 2025 amendments identify a knowledge gap in distinguishing legitimate business risk from criminal abuse of authority (Rechtsidee, 2025). What remains underdeveloped, in the authors' view, is an integrated political-economy account that links the legal design to the oligarchic context, to comparative SWF evidence, and to measurable channels of sovereign fiscal exposure. The gap matters because early market signals suggest that investors treat Danantara as an extension of the sovereign: Fitch affirmed the main investment vehicle at BBB while pointing to virtually certain extraordinary government support (Fitch Ratings, 2026), and Moody's aligned its rating with the sovereign at Baa2 with a negative outlook (Moody's Ratings, 2026). Public commentary also reports that the agency describes itself as sui generis and that a 2026 regulation opens a route for budget-financed capital injections (Windonesia, 2026). If these reports are accurate, credit strength flows from the sovereign to the agency while accountability does not flow in the same direction, which is the empirical puzzle behind the study. The authors do not take these reports as final facts; they treat them as indicative evidence that must be checked against primary documents as these become public, and they say so openly where the evidence is secondary.

This article therefore asks three questions. RQ1: What governance deficits are embedded in Danantara's legal and institutional design when read against state-capitalism theory, regulatory-capture theory, and SWF governance standards? RQ2: Through which channels can these deficits convert into contingent fiscal liabilities for the Indonesian sovereign? RQ3: Which reforms are feasible, in what sequence, and with which actors, to reduce capture and fiscal risk without negating the developmental purpose of the agency? The study uses a qualitative literature-based design that combines document analysis, thematic coding, and comparative triangulation, and it integrates a digital public-sphere lens because the legitimacy of Danantara is contested in online communication as much as in statutes (Tapsell, 2017; Lim, 2017). The contribution is threefold. First, it offers a conceptual extension of state-capitalism theory to SWFs in hybrid regimes by adding self-binding capacity as a second axis next to concentration of capital. Second, it supplies a risk-transmission model whose propositions are specific enough to be tested in later quantitative work once portfolio and bond-

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market data accumulate. Third, it proposes a practical reform scheme with identifiable actors and instruments, which policymakers and civil-society organisations can adapt. The remainder of the article presents the method, the theoretical framework, the results, the discussion with practical recommendations, and the conclusion. Throughout, statements that go beyond the cited evidence are marked as the authors' own interpretation so that readers can separate documented fact from argument. The study is framed as theory-building case analysis, in line with Yin (2018), rather than as a hypothesis test, because the institution is too new to support statistical inference. This choice favours conceptual clarity and transparent reasoning over spurious precision.

2. METHOD

2.1. Worldview, approach, and perspective

The study adopts an interpretivist worldview with a critical-realist inflection. Following Guba and Lincoln (1994) and Crotty (1998), the authors treat institutions as socially constructed yet causally consequential, which allows legal texts and rating assessments to be read both as meaning-laden artefacts and as constraints on action. The approach is qualitative library research, a documentary design in which the empirical material is existing texts rather than interviews or surveys (Bowen, 2009; Snyder, 2019). The analytic perspective is political-economic and institutionalist: the authors read Danantara through historical and sociological institutionalism, which emphasise path dependence and the layering of new rules on old power structures (Hall & Taylor, 1996; Pierson, 2004; Mahoney & Thelen, 2010). This perspective is chosen because the research questions concern why institutional designs persist or erode, not merely whether they comply with a checklist.

2.2. Corpus construction and screening

The corpus has four strata. The first stratum comprises primary legal texts: Law 1/2025, Government Regulation 10/2025, Law 16/2025, the earlier SOE and state-finance statutes, and the relevant audit laws. The second stratum covers credit-rating and multilateral documents, including rating actions and IMF fiscal-risk guidance. The third stratum contains peer-reviewed literature indexed in Scopus, Web of Science, or SINTA 1–3, plus academic books and doctoral research.

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The fourth stratum contains reputable press reports and law-firm analyses used only to establish dated facts, never to support theoretical claims. Searches combined the terms sovereign wealth fund, state capitalism, regulatory capture, contingent liability, Danantara, and BUMN, in English and Indonesian, and prioritised outputs from the last five years while retaining foundational works. Anonymous blogs and open encyclopaedias were excluded. Consistent with PRISMA-style transparency (Page et al., 2021), the screening steps are shown in Figure 1; because this is a narrative synthesis and not a meta-analysis, the authors do not claim exhaustive retrieval.

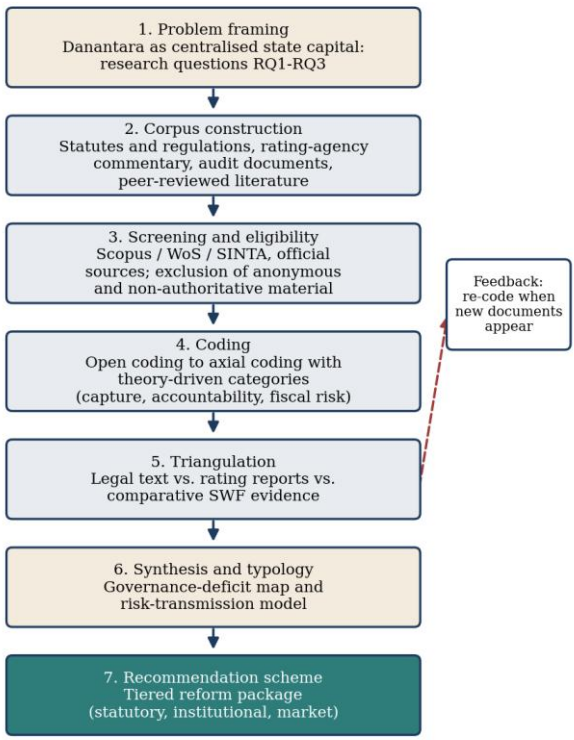


Figure 1. Analytic workflow from problem framing to the recommendation scheme (authors' construction).

Table 1 specifies the corpus strata, the types of source admitted, and the analytic role of each stratum, so that another researcher can

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replicate the selection logic. Inclusion required that a source be authoritative for the claim it supports, that it be dated, and that it be accessible in the public domain; exclusion removed anonymous, unverifiable, or purely promotional material.

Stratum	Admissible sources	Selection rule	Analytic role
S1 Legal texts	Statutes, government regulations, presidential decrees, audit laws	Official text or authoritative legal commentary	Provision-level coding of design (D1–D3)
S2 Market and multilateral	Rating-agency actions, IMF and World Bank papers, Santiago Principles	Issuer-independent or multilateral origin	Evidence on implicit support and fiscal-risk practice
S3 Scholarship	Scopus, WoS, SINTA 1–3 articles; academic books; doctoral work	Peer review or academic press; recent studies prioritised	Theory building and comparative benchmarks
S4 Press and commentary	Reputable news and law-firm analyses	Used only for dated facts	Chronology and context, never theory

Table 1. Corpus strata, admissible sources, and analytic role.

2.3. Analytic technique

Analysis proceeded through reflexive thematic analysis combined with qualitative content analysis. Braun and Clarke (2006) provided the phases of familiarisation, initial coding, theme development, and review, while Krippendorff (2019) and Mayring (2014) informed the use of a deductive category system with inductive refinement. Codes were organised under three theory-driven categories, namely capture and discretion, accountability and disclosure, and fiscal exposure. Legal provisions were additionally examined through a light critical-discourse reading to identify how the text positions the agency, its organs, and the public (Fairclough, 2013). Triangulation compared three evidence families: statutory design, market assessments, and comparative SWF practice (Denzin, 1978; Flick, 2018). The authors adopted this triangulation to compensate for the absence of primary interviews and to limit single-source bias.

2.4. Trustworthiness and justified departures

Trustworthiness follows the criteria of Lincoln and Guba (1985), Tracy (2010), and Nowell et al. (2017): credibility through triangulation,

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dependability through an explicit audit trail, and confirmability through separating quoted evidence from the authors' interpretation. Two departures from common practice require justification. First, the study does not estimate a statistical model, because Danantara is less than two years old and a time series of performance data does not yet exist; a qualitative design is therefore more defensible than a premature quantitative one. Second, the comparative benchmarks are used analytically, not as a matched sample, since Norway, Singapore, and Malaysia differ so strongly in legal origin and fiscal position that formal matching would imply false equivalence. The comparison follows the logic of a theory-building case study (Yin, 2018). All interpretive sentences are flagged in the text by authorial markers so that readers can distinguish evidence from argument.

2.5. Reflexivity and ethical considerations

Qualitative documentary research is not value-free, and the authors acknowledge that their interest in accountability and anti-capture reform frames the selection of theory and the reading of evidence. To limit confirmation bias, the authors searched deliberately for sources that defend the agency's design, including statements by agency officials that its oversight is layered and that directors are not immune from prosecution where conflicts of interest exist (Jakarta Globe, 2025). They also coded evidence that cuts against the capture thesis, such as the legislative reversal of the state-administrator clause, and report it in the results. The study involves no human participants and uses only publicly available documents, so it raises no confidentiality concerns; all quotations are short and attributed, and press items are used only for dated facts.

3. THEORETICAL FRAMEWORK

3.1. State capitalism and the hybrid organisation

State capitalism provides the first pillar. Musacchio et al. (2015) distinguished the state as majority owner, as minority investor, and as lender, and argued that each role creates different governance risks. Bruton et al. (2015) conceptualised state-owned enterprises as hybrid organisations that must satisfy both commercial and political logics. Alami and Dixon (2020) cautioned that state capitalism is not a single model and that analysis must attend to the specific institutional arrangements through which the state operates. Babic et al. (2020)

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showed that state-led foreign investment is expanding through funds and holdings that behave like private investors while remaining politically anchored. In the authors' reading, Danantara is a hybrid of hybrids: a holding vehicle, a sovereign investor, and a policy instrument, all under one board structure. This layering raises the question whether the commercial logic disciplines the political logic or the reverse.

3.2. Oligarchy, capture, and soft budgets

The second pillar joins political-economy accounts of oligarchy with capture theory. Robison and Hadiz (2004) and Winters (2011) explain why concentrated wealth can shape institutions, while Stigler (1971) and Dal Bó (2006) explain how. Evidence from Indonesia supports the relevance of political connections to corporate outcomes: Fisman (2001) found that firms with ties to the Suharto family lost value when the leader's health deteriorated, and Leuz and Oberholzer-Gee (2006) found that politically connected Indonesian firms were less likely to seek global financing, which they interpreted as a sign of weaker pressure for transparency. Faccio (2006) generalised the finding across countries. Kornai's (1986) soft budget constraint complements this by explaining why a connected state-owned investor may expect rescue. The authors combine these insights into a working proposition: capture is most likely where the investor is large, politically appointed, and implicitly guaranteed.

3.3. Accountability and SWF governance

The third pillar is accountability. Bovens (2007) defined accountability as a relationship in which an actor feels obliged to explain and justify conduct to a forum that can pose questions and pass judgement. O'Donnell (1998) emphasised horizontal accountability, in which state agencies check one another, and its frequent weakness in new democracies. Applied to SWFs, the Santiago Principles (International Working Group of Sovereign Wealth Funds, 2008) require a sound legal basis, a clear investment policy, and governance that separates the owner from the operational manager. Truman's scoreboard (Truman, 2010; Bagnall & Truman, 2013) shows that structure, governance, transparency, and behaviour are separate dimensions that must be assessed together. Backer (2010) argued that even the most respected funds exercise regulatory power through

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investment, so their accountability should be understood in public-law terms. Empirical studies add that governance traits matter for outcomes: Kotter and Lel (2011) found that market reactions to SWF stakes depend on fund transparency, Bortolotti et al. (2015) documented a valuation discount on SWF public-equity purchases and linked it to political and governance characteristics, and Bernstein et al. (2013) showed that political considerations can shape the investment strategies of funds. Al-Hassan et al. (2013) and Megginson et al. (2021) reached the complementary conclusion that clear mandates and arm's-length governance tend to accompany more disciplined investment. These sources frame accountability as a condition that must be designed, not presumed.

3.4. Fiscal risk and the digital public sphere

The fourth pillar is fiscal risk. Brixi and Schick (2002), Polackova (1998), and Cebotari (2008) offer the typology of contingent liabilities, while the International Monetary Fund (2016) advises that fiscal-risk reporting should cover public corporations and quasi-fiscal activity. Mackenzie and Stella (1996) classify quasi-fiscal operations as an expenditure that does not pass through the budget process. The fifth, cross-cutting element is the digital public sphere. Habermas (1996) argued that legitimacy depends on public deliberation, while Castells (2012) described how networked communication can mobilise outrage and hope outside institutional channels. Tapsell (2017) demonstrated that media concentration in Indonesia gives oligarchic owners significant agenda-setting power even in the digital age, and Lim (2017) showed how algorithmic enclaves shape political discourse. For Danantara, the digital sphere is both the arena in which legitimacy is contested and a place where the asymmetry of information between elites and citizens is reproduced. Figure 2 maps the relations among these pillars.

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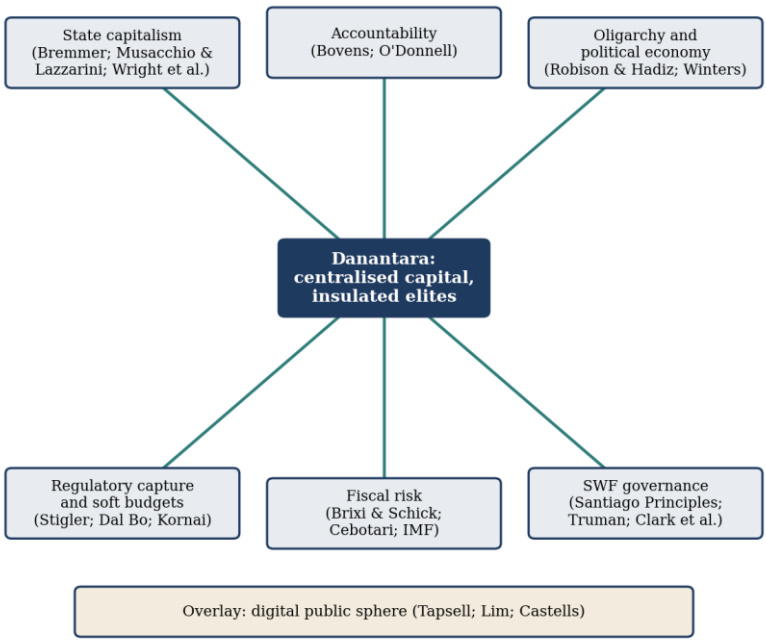


Figure 2. Mind map of the theoretical framework used to read Danantara as a social-digital phenomenon (authors' construction).

3.5. Developmental rationale and the Indonesian setting

Any critical reading of Danantara must also face its developmental rationale. The developmental-state literature argues that capable states can steer investment toward late industrialisation, as in Japan, South Korea, and Taiwan (Johnson, 1982; Amsden, 1989; Wade, 1990). Evans (1995) explained that success depended on embedded autonomy, meaning close ties to industry combined with insulation from capture. Mazzucato (2013) revived the case for the entrepreneurial state, and Wade (2018) and Haggard (2018) reassessed how far these models travel to contemporary settings. The authors read Danantara's declared purpose of financing downstreaming and strategic industries as belonging to this family of ideas. The difficulty is that embedded autonomy is a rare combination, and in settings where embeddedness is high and autonomy is low, the same state-led capital can drift toward the extractive pattern described by Acemoglu and Robinson (2012) and the limited-access order described by North et al. (2009).

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The Indonesian setting makes this risk concrete. Hill and Negara (2019) described an economy that has combined macroeconomic stability with persistent policy challenges in the Jokowi era, and Rosser (2002) showed that market reforms in earlier decades were shaped by the balance of political and economic interests. McLeod (2005) documented the struggle to regain effective government after the 1998 transition. On anti-corruption institutions, Butt (2011) and Schütte (2012) analysed how the Corruption Eradication Commission gained and later lost room for manoeuvre, and Butt and Lindsey (2018) provided the legal background for evaluating SOE liability regimes. Cross-country governance indicators remind readers that Indonesia's institutional quality is contested terrain (Kaufmann et al., 2011; Fukuyama, 2013). Studies of East Asian corporations add that concentrated ownership and tunnelling have been recurring governance hazards (Claessens et al., 2000; Johnson et al., 2000; Morck et al., 2005). Finally, the performance record of state firms is mixed: Shleifer and Vishny (1994) attributed inefficiency to political control over firms, Dewenter and Malatesta (2001) found lower profitability in state-owned firms, Lin and Tan (1999) tied soft budgets to policy burdens, and Inoue et al. (2013) found that state minority stakes can both help and hinder firms depending on governance conditions. These strands justify the study's attention to design details.

4. RESULTS

4.1. Summary of results

The documentary evidence supports a coherent but cautious picture. On RQ1, the analysis identifies three governance deficits that recur across the legal texts, the market assessments, and the academic commentary: concentrated discretion at the top of the institution, a hybrid legal identity that weakens the line of accountability, and limited ex-ante disclosure on risk limits and policy lending. On RQ2, these deficits connect to sovereign fiscal exposure through three channels, namely quasi-fiscal lending, implicit support priced into credit ratings, and opaque capital injections. On RQ3, the evidence suggests that reforms are most credible when they bind the sovereign through statute and reporting rather than relying on the goodwill of incumbent leaders. The authors stress that these results are interpretive associations grounded in documents, not estimated causal effects.

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A comparative reading sharpens the result. Relative to benchmark funds, Danantara scores strongly on legal formalisation, since it rests on a statute and a government regulation, and on audit coverage in principle, since the law assigns financial audit to the Supreme Audit Agency (BPK) (Republic of Indonesia, 2025a; Tempo, 2026). It scores weakly on rule-based constraints, such as an explicit withdrawal or leverage rule, and on public disclosure of portfolio-level risk. Where Norway's fund is anchored by a fiscal rule and public reporting, and where Singapore's Temasek is exposed to routine market scrutiny through its commercial posture, Danantara currently relies on the credibility of the sovereign (Alsweilem et al., 2015; Ramírez & Tan, 2004). The authors read this contrast as the central empirical finding: the institution's legitimacy is borrowed, not yet earned.

4.2. Documentary data and chronology

Table 2 consolidates the dated institutional facts used in the analysis. The sequence shows rapid institution-building within eight months, followed by market evaluation in 2026. The speed itself is analytically relevant, because Pierson (2004) and Mahoney and Thelen (2010) both note that fast, top-down layering of institutions leaves fewer opportunities for veto players to shape design.

Date	Event	Source
4 Feb 2025	House of Representatives passes the SOE Law amendment that creates the legal basis for Danantara.	Investortrust (2025a)
24 Feb 2025	Law 1/2025 and Government Regulation 10/2025 signed; Danantara launched; presidential decree on boards issued.	Petromindo (2025); Republic of Indonesia (2025a, 2025b)
Early Oct 2025	Law 16/2025 (fourth amendment) enacted; Ministry of SOEs converted into the SOE Regulatory Agency (BP BUMN); SOE officers again treated as state administrators.	ABNR (2025b); Bagus Enrico (2025)
2025	A capital injection of IDR 70 trillion funded by SOE dividends noted by Fitch.	Fitch Ratings (2026)
2026	Rating actions on Danantara Investment Management: Moody's Baa2 (negative outlook), S&P BBB (stable), Fitch BBB (negative outlook).	Moody's Ratings (2026); S&P Global Ratings (2026); Fitch Ratings (2026)

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Date	Event	Source
2026	BPK begins audit of the 2025 consolidated financial statements; press reports describe a regulation allowing budget-financed capital injections to entities under the investment arm.	Tempo (2026); Windonesia (2026)

Table 2. Chronology of key institutional and market events (compiled by the authors from official and press sources).

4.3. Textual analysis of legal provisions

Table 3 reports the result of the discourse-oriented reading of the statutory text. Three discursive moves stand out. First, the language of the statute repeatedly pairs the terms sound, accountable, and transparent with provisions that delegate substantive discretion to the executive, so the normative vocabulary is stronger than the operational detail. Second, the text constructs the agency as a legal entity with insulated assets, which makes it simultaneously a public instrument and a protected corporate shell. Third, the shift from Law 1/2025 to Law 16/2025 shows the legislator reversing one insulating clause after public criticism, which indicates that the design is revisable under pressure.

Provision (as reported)	Reading	Code
Art. 3E: presidential SOE-management duties delegated to the agency	Transfers a core executive function to a single institution without an independent mandate statement in the text.	D1 Concentrated discretion
Art. 3F(2): organs include supervisory, managing, and advisory boards	Board design is formally layered, yet appointment channels run through the President.	D1; D2 Hybrid identity
Art. 3J: assets from capital, growth, transfers, and grants; unpledged assets not subject to seizure	Normative promise of sound, accountable, and transparent governance paired with strong asset protection.	D2; D3 Thin disclosure
Art. 3K: financial management audited by BPK	Establishes external audit in principle; practical depth depends on scope and timing.	D3
Business-judgment and limited-liability clauses	Shield good-faith decisions from automatic state-loss findings, but depend on proof of no conflict of interest.	D1; D2

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Provision (as reported)	Reading	Code
Law 16/2025: SOE officers again state administrators; BP BUMN holds 1% Series A, agency holds Series B	Partial correction that restores anti-corruption jurisdiction while preserving the agency's operational control.	D2

Table 3. Textual analysis of selected provisions and associated governance codes.

These readings rest on the statutory provisions as reported in legal commentary and official summaries (ABNR, 2025a; Mondaq, 2025; Rechtsidee, 2025). In the authors' view, the most consequential gap is not the absence of oversight bodies but the absence of binding disclosure about what they review and publish.

The three deficits coded in Table 3 can be defined operationally. D1, concentrated discretion, refers to statutory arrangements in which appointment, mandate-setting, and the most consequential strategic choices converge on a single office, so that a change in the incumbent's preferences can redirect the institution without passing through a separate decision forum. D2, hybrid identity, refers to the dual status of an entity that is simultaneously a public instrument and a corporate shell, so that responsibility for losses can be argued in both directions and enforcement agencies face jurisdictional questions. D3, thin disclosure, refers to the absence of binding rules that oblige the institution to publish portfolio-level risk, leverage, related-party exposure, and the cost of policy-driven projects before outcomes occur. These definitions follow the logic of the Santiago Principles and the accountability framework of Bovens (2007), and they allow the evidence to be coded consistently across legal, market, and academic sources.

4.4. Comparative analysis against benchmark funds

Table 4 compares Danantara with benchmark SWF models along five dimensions drawn from the Santiago Principles. The comparison is qualitative and is intended to locate relative design gaps, not to rank funds.

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Dimension	Danantara	Norway (GPFG)	Temasek	Khazanah
Mandate clarity	Dual: financial return and national-development support	Primarily financial, long-term	Commercial, portfolio-based	Commercial plus national-development goals
Rule-based fiscal link	No published withdrawal or leverage rule identified	Rule-based withdrawal tied to expected return	Not a budget-financing fund	Linked to the Ministry of Finance
Public disclosure	Annual reporting to BPK; portfolio-level disclosure limited	Extensive public reporting	Regular annual review	Annual reporting
Political insulation	Presidential appointment channels	Parliamentary framework	Commercial arm's-length posture	Documented political-patronage ties
Cautionary record	Too early to assess	Few major scandals	Debated GLC performance	Patronage literature

Table 4. Qualitative comparison of governance dimensions (authors' synthesis).

The comparison draws on Alsweilem et al. (2015) for the sovereign-investor models, Ramírez and Tan (2004) on Singapore's government-linked companies, and Gomez et al. (2017) on Malaysia's Ministry of Finance Incorporated. The 1MDB episode, documented in Wright and Hope (2018), is a reminder that an investment vehicle created for development goals can become a channel for private extraction when board oversight is weak. The authors do not claim that Danantara is on that path; the point is that the design features that failed there, namely concentrated authority and thin external verification, are present in embryonic form and must be mitigated early.

4.5. Visual analysis: deficits, channels, and fiscal outcomes

Figure 3 presents the risk-transmission model that results from the coding. Read from left to right, the model shows how four governance deficits (presidential concentration, a sui generis claim with limited reporting, a business-judgment shield, and a dual mandate) feed four transmission channels (quasi-fiscal lending and bailouts, implicit guarantees embedded in ratings, opaque capital injections, and concentrated asset exposure) and produce four fiscal outcomes

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(sovereign contingent liabilities, higher risk premia, crowding-out of budget priorities, and elite rent capture).

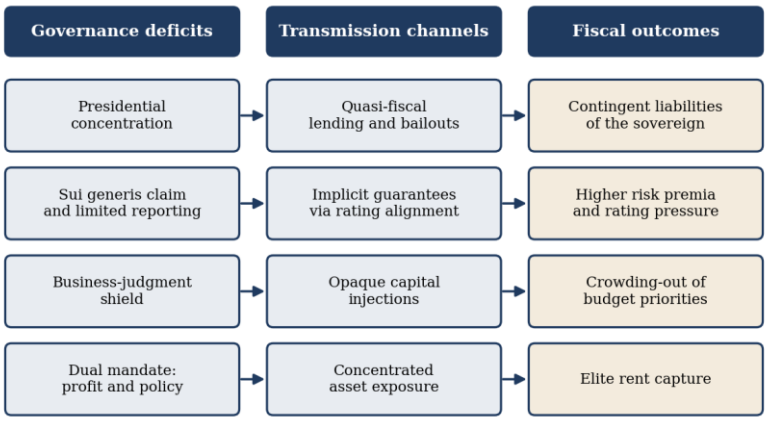


Figure 3. Risk-transmission model from governance deficits to fiscal outcomes (authors' construction).

Visual reading of the model reveals that the central column is where mitigation is most tractable. Deficits are embedded in law and politics and change slowly, while outcomes appear late and are hard to reverse. The channels, however, are observable administrative practices, so disclosure and budget rules can target them directly. The authors therefore argue that reform energy is best spent on the middle of the model.

The first channel, quasi-fiscal lending and bailouts, arises when the agency is asked to finance projects whose returns are social or political rather than commercial. Mackenzie and Stella (1996) classify such activity as quasi-fiscal because it produces the economic effect of spending or subsidy without passing through the budget. In the authors' reading, the dual mandate described in the legal text and in public statements creates exactly this possibility, since the agency is expected both to earn returns and to support national priorities such as downstreaming. The evidence for realised quasi-fiscal losses is still absent, which is why the study speaks of exposure and not of loss.

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The second channel, implicit guarantees embedded in ratings, is the most visible in the documentary record. Fitch Ratings (2026) states that extraordinary government support is virtually certain if needed and that a sovereign downgrade would likely lead to similar action on the agency's main vehicle, while Moody's Ratings (2026) aligned its rating with the sovereign's. Brixi and Schick (2002) would classify this as an implicit contingent liability: no statute obliges the government to pay, yet markets expect it to do so. The authors argue that this expectation reduces market discipline on the agency, because creditors price the sovereign and not the portfolio, which resonates with the soft-budget-constraint literature (Kornai et al., 2003).

The third channel, opaque capital injections, concerns the movement of public money into the agency or its subsidiaries. Fitch Ratings (2026) noted an injection of IDR 70 trillion in 2025 funded by SOE dividends, and commentary reports that a 2026 regulation allows entities under the agency's investment arm to receive injections from the state budget for development and public-service purposes (Windonesia, 2026). When dividends that would otherwise reach the budget are redirected to capital, the effect on the deficit is hidden unless the transaction is reported transparently. The authors therefore see fiscal-risk reporting, in line with International Monetary Fund (2016) guidance, as the most direct response, because it makes the transactions visible to parliament and to markets.

4.6. Associations between variables

Because the study is qualitative, associations are stated as propositions with direction, strength of evidence, and supporting sources, and they are summarised in Table 5. The strength column is a judgement of the authors based on the convergence of independent sources, not a statistic.

ID	Proposition (direction of association)	Evidence strength	Principal support
P1	Greater executive discretion over appointments and mandate is associated with higher exposure to capture.	Moderate	Stigler (1971); Dal Bó (2006); Robison & Hadiz (2004); Winters (2011)
P2	Hybrid legal identity is associated with weaker horizontal accountability and slower detection of losses.	Moderate	Bovens (2007); O'Donnell (1998); Bruton et al. (2015)

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ID	Proposition (direction of association)	Evidence strength	Principal support
P3	Thinner ex-ante disclosure is associated with larger perceived contingent liabilities and stronger reliance on sovereign ratings.	Moderate to strong	Brixi & Schick (2002); Truman (2010); Fitch Ratings (2026)
P4	A dual financial and policy mandate is associated with greater quasi-fiscal activity.	Moderate	Mackenzie & Stella (1996); Gelb et al. (2014)
P5	Implicit sovereign support is associated with soft budget behaviour and risk-taking.	Moderate	Kornai (1986); Kornai et al. (2003)
P6	Statutory fiscal rules and public reporting are associated with higher institutional credibility.	Moderate to strong	Alsweilem et al. (2015); Clark et al. (2013)

Table 5. Propositions on associations among governance deficits, channels, and fiscal risk.

The substantive meaning of these associations is more important than their labels. P3 and P6 are mirror images: where reporting and rules are thin, markets price the sovereign's guarantee, and where they are thick, markets can price the institution. The authors suggest that this mirror relation is the most policy-relevant finding, because it identifies disclosure and rules as the levers that decouple Danantara's credit from the sovereign's balance sheet over time.

4.7. Recommendation scheme

Figure 4 presents the recommendation scheme derived from the analysis. It is sequenced from statutory anchoring, which can be implemented through the budget process and an implementing regulation, to continuous civic and parliamentary oversight, which depends on political will and capacity. The scheme is elaborated in Section 5.

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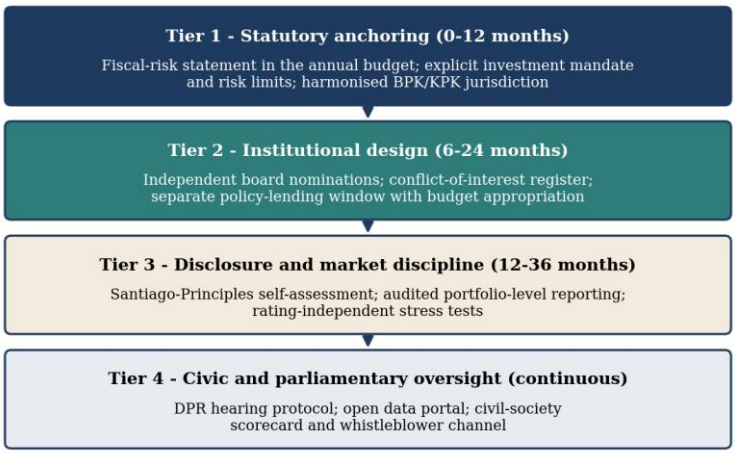


Figure 4. Four-tier recommendation scheme for reducing capture and fiscal risk (authors' construction).

4.8. Comparison with prior findings

The results align with, and extend, earlier work in three respects. First, they are consistent with Truman (2010) and Bagnall and Truman (2013) in showing that formal institutional structure can be strong while transparency and accountability behaviour lag behind, which implies that a high score on legal formalisation should not be read as evidence of effective governance. Second, they echo Kornai et al. (2003) and Lin and Tan (1999): the combination of policy burdens and implicit support is the textbook setting for soft budget behaviour, and Danantara currently combines both. Third, they differ from the more optimistic reading in parts of the developmental-state literature, where embedded autonomy is treated as an achievable feature of well-designed agencies (Evans, 1995). The Indonesian evidence suggests that autonomy cannot be assumed when appointment channels are centralised and oversight reporting is thin.

The comparison also exposes a difference in emphasis relative to the legal-doctrinal studies on Danantara. Those studies concentrate on whether the statute is valid and whether corporate-governance concepts such as the business judgment rule have been correctly

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imported (Journal of Commerce Law, 2025; Suara Hukum, 2025; Rechtsidee, 2025). The present analysis does not dispute that framing, but it shows that validity is a lower bar than credibility: a statute can be valid and still leave the sovereign exposed to risk that cannot be verified from outside. The authors consider this shift of the evaluative question, from legality to verifiability, the main analytic contribution of the results section.

5. DISCUSSION

5.1. What the findings say

The core finding is that Danantara's credibility is currently derived from the sovereign rather than generated by the institution. This is visible in how rating agencies have aligned their assessments with the sovereign rating and have indicated that a downgrade of Indonesia would likely pass through to the agency (Fitch Ratings, 2026; Moody's Ratings, 2026). In the authors' reading, this alignment is double-edged. It lowers the cost of borrowing in the short run, yet it formalises Danantara as a contingent liability of the state, so any loss at the agency becomes a sovereign problem. This reading is consistent with the broader literature on soft budget constraints, in which implicit guarantees weaken discipline (Kornai et al., 2003) and with the IMF's guidance that public corporations and quasi-fiscal activity belong in fiscal-risk statements (International Monetary Fund, 2016).

A second finding concerns the interaction between the legal reversal and the political context. The decision in Law 16/2025 to restore SOE officers' status as state administrators shows that public and institutional pressure can alter the design (ABNR, 2025b). The authors read this as evidence of institutional responsiveness, but also as a sign of fragility: reforms that arrive within months of the original statute can also be reversed within months. In an environment where oligarchic and executive power are intertwined (Aspinall & Mietzner, 2019; Power, 2018), durable protections need to be anchored in rules that are costly to change, such as fiscal-responsibility provisions and entrenched reporting duties.

A fair reading must also weigh the counter-argument. Supporters can plausibly claim that consolidation reduces duplication among SOEs, lets the state negotiate with larger scale, and allows long-horizon investment that fragmented ministries could not undertake, which

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resonates with the entrepreneurial-state argument of Mazzucato (2013) and with the developmental-state tradition (Evans, 1995; Wade, 2018). The authors accept that these benefits are possible. Their disagreement is about conditions, not about principle: the developmental-state literature itself stresses that success required insulation from capture as well as close ties to industry. Where insulation depends mainly on the goodwill of the incumbent, the scholarly record advises caution, and the same centralisation that could accelerate coordination could also accelerate misallocation.

5.2. Implications for theory

For state-capitalism theory, the case suggests adding an accountability dimension to existing typologies. Musacchio et al. (2015) classify state roles by ownership and finance, and Wright et al. (2021) emphasise institutional variety, but neither scheme directly measures whether the state binds itself. The authors propose that SWFs in hybrid regimes be classified along two axes: concentration of capital and self-binding capacity. Danantara combines very high concentration with, so far, limited self-binding, which places it in a high-risk quadrant. For regulatory-capture theory, the case indicates that capture may occur through ownership channels, in which the principal is also the patron, and not only through lobbying by private regulated parties (Carpenter & Moss, 2014). For SWF scholarship, it shows that mandate duality is a governance variable, not just a strategy choice (Gelb et al., 2014).

Table 7 summarises the typology implied by this argument. It arranges SWFs and state investors along two axes, concentration of capital and self-binding capacity, and it places Danantara in the quadrant that the literature associates with the highest governance risk. The placement is a judgement based on documentary evidence at the time of writing and can change as rules and disclosures evolve.

	High self-binding (rules, disclosure)	**Low self-binding (discretion, thin disclosure)**
High concentration	Rule-bound consolidators: credibility derives from fiscal rules and reporting (Alsweilem et al., 2015)	Exposed consolidators: Danantara at present; 1MDB as a cautionary case (Wright & Hope, 2018)
Low concentration	Dispersed and rule-bound: portfolio of separately governed holding companies with disclosure duties	Dispersed and weakly bound: fragmented SOEs with soft budgets (Kornai et al., 2003)

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Table 7. Typology of state investors by concentration and self-binding capacity (authors' proposal).

5.3. Practical recommendations

The recommendations below follow Figure 4 and are written so that each has an identifiable actor and a plausible instrument. The authors argue that they are mutually reinforcing and should be implemented as a package.

No.	Recommendation	Actor	Instrument
1	Publish an annual fiscal-risk statement that includes Danantara's guarantees, policy lending, and capital injections.	Ministry of Finance	Annex to the budget document; IMF fiscal-risk practice
2	Codify an investment mandate with explicit risk limits, leverage ceilings, and a separation between commercial and policy portfolios.	President; Danantara boards	Implementing regulation with limited discretion to amend
3	Fund policy-driven projects through budget appropriations, not through the commercial balance sheet.	Parliament; Ministry of Finance	Separate policy-lending window
4	Introduce independent board nomination with a conflict-of-interest register and cooling-off periods.	Parliament; BP BUMN	Statutory amendment; ethics code
5	Harmonise BPK and KPK jurisdiction and publish audit scope and timelines.	BPK; KPK	Audit protocol; public notice
6	Adopt a Santiago-Principles self-assessment and publish it.	Danantara	Annual disclosure
7	Conduct rating-independent stress tests of sovereign exposure.	Ministry of Finance; Bank Indonesia	Joint stress-test report
8	Establish an open-data portal, civil-society scorecard, and whistleblower channel.	Civil society; Parliament	Public portal; DPR hearing protocol

Table 6. Practical recommendations, responsible actors, and instruments.

These steps are consistent with the broader evidence that rule-based design underpins SWF credibility (Alsweilem et al., 2015; Clark et al., 2013). They also address the digital public-sphere dimension, because online scrutiny is more constructive when verifiable data exist (Castells, 2012; Tapsell, 2017). The authors caution that

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recommendation 4 is the politically hardest, since it directly reduces executive discretion, while recommendation 1 is the least costly and can be adopted within one budget cycle.

The recommendations also involve trade-offs that should be stated openly. Stronger disclosure can expose commercially sensitive negotiations, and ring-fencing policy projects in the budget may slow down strategic investments that the government regards as urgent. These costs are real but manageable: aggregated or time-lagged disclosure can protect commercial positions, and a transparent policy-lending window converts hidden subsidies into accountable ones. In the authors' judgement, the cost of delay is larger, since institutional habits formed in the first years of a very large fund tend to persist (Pierson, 2004). Reformers should also expect resistance from beneficiaries of discretion, which is why the scheme combines technical measures with civic and parliamentary oversight and does not rely on a single champion.

5.4. Implications for investors, rating agencies, and civil society

The findings carry different messages for different audiences. For bond investors and rating agencies, the analysis suggests that spread and outlook assessments should distinguish between the agency's dependence on sovereign support and its own demonstrated governance record, because the two can diverge sharply during stress. Fitch Ratings (2026) already links the agency's rating action to the sovereign's, and the authors argue that a visible build-up of disclosure and rules would give analysts a basis for a more differentiated view over time. For parliament, the implication is that the most effective oversight tools are procedural, such as reporting calendars and hearing protocols, and not episodic reactions to scandal. For civil society and the press, the lesson from Tapsell (2017) and Lim (2017) is that the quality of public debate depends on the availability of verifiable data, and that open data on mandates, boards, and capital movements can reduce the space for rumour and for elite narrative control. For the agency itself, publishing a self-assessment against the Santiago Principles would be a low-cost way to convert a credibility claim into a checkable record.

5.5. Limitations

Four methodological limitations qualify the findings. First, the corpus consists of documents, so the study cannot observe internal

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decision-making, and it may overstate the importance of formal rules relative to informal practice. Second, the agency is new, and the available evidence is mostly institutional design and early market assessments, which means that fiscal outcomes are inferred, not measured. Third, part of the factual base for 2026 comes from secondary reporting of rating actions and regulations, and the reader should verify these items against the primary documents as they become available. Fourth, the qualitative comparison with other SWFs relies on published characterisations and does not use a formally matched design. The authors mitigated these limits through triangulation and explicit audit trails, yet they do not claim generalisability beyond hybrid, oligarchy-shaped democracies with similar SOE structures.

5.6. Directions for future research

Future work can proceed in four directions. Quantitative studies can test P3 and P6 once several years of portfolio and bond-spread data exist, for example through event studies of rating and regulation announcements. Interview-based studies with board members, auditors, and legislators can reveal the informal channels that documents cannot capture. Comparative work can place Danantara alongside other politically centralised funds in Southeast Asia and Africa using a most-different-systems design. Finally, computational analysis of social-media discourse can test whether the legitimacy contest described in Section 3.4 follows the oligarchic media patterns reported by Tapsell (2017) and Lim (2017).

6. CONCLUSION

This article asked what governance deficits characterise Danantara, how they could transmit into sovereign fiscal risk, and which reforms are feasible. The answers are as follows. Three deficits, namely concentrated discretion, hybrid identity, and thin disclosure, recur across the evidence. Three channels, namely quasi-fiscal lending, implicit support in ratings, and opaque capital injections, connect them to contingent liabilities. A four-tier reform scheme, beginning with fiscal-risk reporting and statutory mandate rules, is the most plausible route to reduce both capture and exposure. The authors' overall judgement is that Danantara is not inherently destined for failure, but

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that its present design asks the public to trust the sovereign's intentions in place of verifiable rules.

Two findings were unexpected. First, the market alignment of Danantara's ratings with the sovereign, often read as a sign of strength, is in the authors' view better understood as evidence that the institution has not yet built a separate credit identity. Second, the swift reversal of the state-administrator clause in Law 16/2025 shows greater legislative responsiveness than the oligarchy literature would predict, although it may also reflect transient political calculation. The apparent discrepancy between strong legal formalisation and weak disclosure is explained by the difference between having institutions and binding them: the first can be legislated quickly, while the second needs time and political cost.

For further research and practice, the study offers a transferable risk-transmission model and a reform scheme that can be tested and adapted. Its implication for policymakers is that the most credible signal of independence is not a statement of intent but a rule that constrains the sovereign itself. Its implication for scholars is that SWFs in hybrid regimes should be analysed through both concentration and self-binding capacity. The authors hope the article is read, challenged, and cited because it frames a live policy question with evidence that others can verify and extend.

7. DECLARATIONS

Funding, conflicts of interest, data availability, and author contributions: [to be completed by the authors according to the target journal's policy].

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