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## Case of Indonesia: government bond issuer investor relations strategy

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### ABSTRACT

This study elaborates Indonesia's investor relations activities in building and maintaining positive perceptions of the Indonesian economy as a debt issuer in international financial markets. The study begins with several theories in investor relations, communication strategies, and investor relations current practices in Indonesia. By referring to various theories related to investor relations, an assessment is carried out that focuses on strengthening efforts in preparing the framework for the communication strategy of investor relations in the Republic of Indonesia. In addition, this study also aims to produce a communication strategy framework that can be applied in preparing sharper, focused, and goal-oriented work programs and communication strategies. This study resulted in a framework for strengthening investor relations strategies in Indonesia which have taken into account factors according to investor relations theory and the strategic environment that has become the concern of the international financial community.



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## Introduction

Efforts to build and maintain a positive perception of Indonesia, including a sovereign credit rating, are a must, considering that Indonesia is a developing country currently undertaking aggressive development, thus requiring additional external financing. Such need also increases with the current account deficit amid the government's efforts to encourage foreign investment (Borensztein, Cowan, & Valenzuela, 2021).

In their decision to invest, global investors are faced with the varying choice of countries and investment outlets. Indonesia's investments must be relatively more attractive compared to other countries so that foreign investors are willing to enter and invest in the country. Meanwhile, global investors also require investment outlets for capital productivity, especially with excess global liquidity after the 2008 crisis (Bank for International Settlements, 2013).

Generally, foreign investors in Indonesia invest in direct investment, portfolio investment, and loans. Specifically, the flow of foreign capital to the country is dominated by portfolio investment, including government bonds, which are short-term and relatively more volatile, as well as sudden and large inflows and outflows (herding behavior) (Elrod & Fortenberry, 2018). Therefore, it is necessary to understand the behavior and character of government bond investors, including their reactions to various events or news and their need for information in making investment decisions. By getting to know investors better, targeted communication

strategies can also be implemented so that they are more efficient in maintaining investor confidence (Kassie, Jaleta, Shiferaw, Mmbando, & Mekuria, 2013).

The importance of maintaining a positive investor perception has also become a particular concern for Bank Indonesia (BI), the central bank mandated as the coordinator for the implementation of the Dedicated Team Investor Relations Unit - Republic of Indonesia (IRU-RI) (Bank Indonesia, 2013). IRU-RI or National IRU is a joint initiative between agencies to increase the sovereign credit rating of RI and improve the country risk classification provided by countries/international creditor institutions to reduce insurance premiums that Indonesia must bear (Almeida, Cunha, Ferreira, & Restrepo, 2017).

In order to carry out and achieve the best accomplishment in these two tasks, efforts are made to communicate Indonesia's economic policies and respond to market or investor concerns, particularly international financial market investors. The short-term objective of the IRU establishment is to provide the information required by investors, especially those who invest in securities in the capital market and international rating agencies, through one channel, in a transparent, accurate, and timely manner. Meanwhile, the long-term goal is to build trust and positive perception and expand the investor base, which in the end, should reduce the cost of borrowing for the Republic of Indonesia.

### **Communication Strategy**

This section will review the theory of asymmetric information, which explains the importance of an effective communication process to avoid inaccurate perceptions of the economy of the debt securities issuing country, specifically investors and rating agencies. This theory is relevant for formulating a framework and communication strategy for an investor relations (IR) unit. This unit can help eliminate the asymmetric information gap by providing information to investors and other stakeholders.

Following that, several theories of communication strategy will be discussed along with their implementations by corporations and governments. Understanding the theoretical and empirical aspects should assist in formulating a more comprehensive, targeted, and measurable communication strategy based on developing theories and applications. Then, this section will address the key elements that an IR unit should demonstrate, according to the Institute of International Finance (IIF).

### **Asymmetric Information Theory**

The concept of asymmetric information was developed by George Akerlof, Joseph Stiglitz, and Michael Spence in the 1960s. In his book "The Market for Lemons", Akerlof shows that asymmetric information leads to immoral economic decisions and damages the market. In principle, this theory shows that differences in the information held by two parties can result in less precise decisions (second best), inefficient, or less profitable for one party (who has less information). Asymmetric information can lead to adverse selection, moral hazard, and even market failure in extreme cases.

A typical example of asymmetric information is credit transactions between banks and debtors. In this case, the banks have less information regarding the debtors' ability and willingness (goodwill) to repay the loan. On the other hand, debtors are more aware of the potential returns and risks associated with bank-financed projects. To offset the risk of default, banks impose high-interest rates (Hanif, 2021).

Despite knowing that one would not be able to repay the credit, the debtor can still apply and state that he will repay it. When the bank approves the application, the debtor tends to spend the credit to the fullest extent possible, even exceeding his ability to repay (moral hazard). Even worse, high-interest rates make it feasible to finance high-risk (high returns) debtors or investments with bank loans. Meanwhile, good projects with low risk are not eligible for bank credit (adverse selection). This condition makes the economy inefficient and at risk of a crisis.

The above scenarios will not occur if the bank thoroughly knows its customers' characters and capacities. Banks will charge low-interest rates for low-risk debtors and, conversely, higher interest rates for high-risk debtors. Under these conditions, the credit market becomes efficient, and credit risk can be appropriately managed.

Regarding the government, asymmetric information can be a source of government credibility problems. In general, economic actors, including investors are lack of complete information about the government's good intentions and seriousness in maintaining economic stability or overcoming various economic issues, such as suppressing inflation, improving infrastructure and the business climate, upholding the rule of law, eradicating corruption, reducing fiscal deficits, and so on. If these issues are not addressed appropriately, the economy could fall into a crisis. Investors with a (negative) perception will not invest their funds in government bonds or other investment outlets in the country unless they are compensated adequately in the form of high yields.

Even if the returns are high, investors will always be cautious of any negative news or information. They will rapidly respond to unfavorable news by withdrawing their funds from the country.

This asymmetric information theory is the basis for developing the IR communication framework and strategy. On many occasions, investors often demand higher yields for government bonds, especially when they lack sufficient or complete information to estimate the default risk they face. Under these conditions, an IR unit can help eliminate the asymmetric information gap by providing various types of information required by investors, especially insightful information but not available to the public. With complete information, investors are likely to assess default risk more precisely, allowing them to demand a more equitable yield in the future.

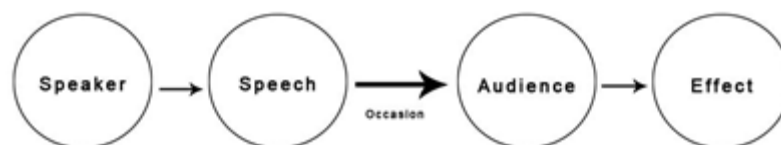
The role of the IR unit does not stop after the government issues bonds. Government bond investment is included in the investment portfolio, which allows investors to come and go at any time. Investors can suddenly and simultaneously terminate their investment in government bonds if negative sentiment develops about the Indonesian economy. This might increase yields, making refinancing maturing government bonds more costly. The IR unit's purpose is to sustain investor confidence by counteracting various negative sentiments that develop in the market so that they are willing to maintain, if not increase, their investment in government bonds.

Essentially, rating agencies also help reduce asymmetric information between investors interested in buying government bonds and the issuing country by providing investment feasibility ratings and other information. In this regard, the delivery of accurate information following the needs of the authorities of the debt securities issuing country to the rating agency are crucial to ensure that the rating agency can better reduce the information gap between investors and the issuing countries.

### Communication Strategy Theory

A communication strategy is systematic planning for regulating information traffic, communication, communication media development, and perceptions by an organization and its relation to other organizations or stakeholders. Communication strategy is often known as integrated (marketing) communication or corporate communication in the business world. The use of communication strategy, which is a vital element for an organization to achieve organizational goals, is not limited to corporations alone but is also widely used by government agencies.

The communication model developed by Aristotle in 300 BC puts the role of the audience in the flow of communication and focuses more on public communication than interpersonal. The five basic elements in this model consist of: (i) speaker or communicator; (ii) speech; (iii) occasion; (iv) audience; and (v) effect (Fig. 1).

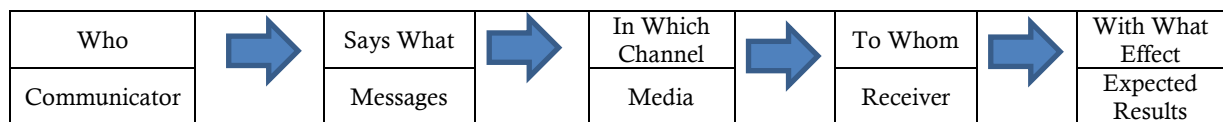


**Figure 1.** Aristotle's Model of Communication

Based on the diagram, speakers are encouraged to deliver messages that have been tailored to the occasion, audience, and intended effect. They play a crucial role, considering that the message conveyed must influence the audience in the desired direction. Aristotle focused communication on rhetorical communication or what is better known today as public communication (public speaking) or speech, because at that time the art of speech, especially persuasion, was an important skill needed in legal fields such as courts, and rhetorical theory was centered on thinking about rhetoric. (persuasive). The focus of this model is on the ability to speak or speech which is usually centered on the persuasion ability of a speaker which can be seen from the content of the speech, the composition of the speech and the way it is delivered.

Harold Dwight Lasswell (1948) described communication as a process to answer the questions (1) who; (2) says what; (3) in which channel; (4) to whom; and (5) with what effect (Figure 2). Fundamentally, Lasswell's communication theory is comparable to Aristotle's. However, Lasswell emphasized the relevance of media (channels) in the communication process. In summary, Lasswell's theory of communication strategy can be described in the following diagram (Figure 2).

Lasswell's communication theory is widely utilized due to its many advantages, including its ease of application, applicability to every type of communication, and the measurable communication effect. However, this model solely considers a linear (one-way) communication model and ignores feedback and noise in the process.



**Figure 2.** Lasswell's Communication Strategy Model

In addition to the two communication theories mentioned above, there are several studies related to communication strategies and their implementation at the government and corporate levels. The findings of the research by Falkheimer & Heide (2018) define corporate communication strategy as a functional strategy that serves as the framework for planning corporate communication activities. The communication strategy is considered as the result of the top management strategic thinking process by considering the concerns of the company's main stakeholders. Therefore, the communication strategy is seen as highly relevant in the formulation of the company's management strategy. Steyn further defined communication strategy as a blueprint for providing information regarding specific issues to stakeholders. The communication strategy must have several components, including communication objectives, stakeholders' identification, key messages', appropriate methods and modes of communication, and mechanisms for obtaining feedback from related strategies.

Although formal written documents are unnecessary, they are essential to cover a larger target audience and have a high level of sensitivity for the wider community to convey key messages to stakeholders more effectively. Contingency theory states that communication strategy is related to the condition of the communication channel utilized to influence the intended outcome. In this case, when the adopted strategy is in line with channel conditions, the result is better than when it is contrary (Hansen, 2012). Furthermore, Well et al. (1992) in Hartley et al. (2022) stated that another critical aspect of conveying information to the public is the significance of clear and relevant presentations, considering that unclear, vague, and unfocused information, in general, might lead to audience confusion.

In their study on central bank communication strategies, Kline (2011) found no consensus on one single preferred communication strategy among central banks, resulting in various communication tactics. Ideally, communication can influence shareholder expectations through a message, directing market expectations and lowering financial market uncertainty and volatility.

As stated by Singh (2020) effective communication requires the consideration of the feedback element. Regarding the functions and duties of the central bank, feedback can be obtained through consumer and business expectations surveys, inflation expectations surveys, monitoring of media reports, listening to various stakeholders, and views of private analysts and economists. Singh further stated that in order to increase feedback, the central bank could, among other things, make efforts to notify the public of the meeting schedule of the board of governors or monetary authorities.

Hoffmann and Fieseler (2012) have identified that the quality of the Investor Relations Department, namely staff, instruments, and activities, is a critical non-financial factor that affects the decisions of the financial community and their perception of a company. Meanwhile, Chandler (2014) underlines the importance of communication skills for IR practitioners to increase corporate values. It is in line with the findings of Barlik, Hope, Olędzki, & Wojcik (2019), which found that IR and public relations are two interdependent things. Gackowski (2017) on the other hand, states more explicitly that IR is a component of the public relations function.

Based on the results of several studies and empirical analysis discussed above, it can be concluded that the communication strategy has a significant role in determining the effectiveness of government institutions, central banks, and the private sector in achieving their goals. For this reason, developing a communication strategy is a critical process that must involve several fundamental elements to ensure that the message reaches the targeted audience. Furthermore, the feedback obtained is expected to become constructive input, both for the next communication strategy and policymaking in a broader scope.

### **Key Elements of the Investor Relations Unit**

To ensure the success of IR activities, IIF has provided guidance on the key elements that government IR units in various countries should possess. These eight key elements are:

#### ***Formal investor relations unit***

This IR unit acts as a focal point for authorities in communicating with market players or investors. This unit has a function analogous to a one-stop service for authorities to supply information and data that investors require and allow investors to contact authorities and provide input or feedback to various policies. Given its

strategic role, this unit requires careful management, even if the authority under which it operates is not the main unit (it can be under the central bank, the Ministry of Finance, or an independent work unit). In Indonesia, the IR unit is housed at BI, also serves as the coordinator of the IR units at the Ministry of Finance and other agencies. In other countries, the existence of an IR unit varies; for example, in the Philippines, the unit is under the central bank, while Brazil has IR units both at the central bank and the ministry of finance with relatively equal positions.

#### ***Website***

IR activities require a functional, user-friendly website updated regularly and timely. A website is essential to efficiently and effectively convey information to investors, solicit suggestions and inputs, and answer queries. The website may also be used to conduct surveys, such as self-assessment. To be effective, the information on the website must be well-organized, straightforward, and user-friendly. An IR website should ideally include economic and policy data, presentation materials or audio/video streaming from remote conferences, two-way links with other related agency websites, investor registration facilities, and contact information for IR staff.

#### ***Dissemination of Macroeconomic Data and Policies***

One of the primary responsibilities of the IR work unit is to coordinate, collect, and disseminate relevant data and information to market players, whether through a website or email. Several principles must be followed to achieve efficacy, including timely and regular dissemination of macroeconomic data and policy information, specific and coherent resources to prevent information asymmetry, and user-friendly data formats.

#### ***Other Important Data***

Three other types of data that play a critical role in developing an assessment of a country's economy are government operations, government debt, and foreign debt.

#### ***Investor Contact List***

The IR unit should also maintain a database of investors, analysts, rating agencies, and financial market players who have continuously monitored the country's economic development. This database must be updated regularly to acquire an overview of the latest investor profiles and evaluate investor behavior, especially when dealing with scenarios that affect financial market conditions.

#### ***Feedback and Communication Lines***

Feedback mechanisms are critical in strengthening two-way communication between investors and policymakers. This communication channel must be established formally by responding to investors' interests, receiving feedback, and relaying the information to policymakers hoping that the resulting policies would likewise accommodate the interests of market players.

#### ***Adequate Response Amid Uncertainty***

Debt bond issuing countries must be acutely aware of the risk of investor trust eroding in crisis conditions and proactively interact with market participants. Negative market sentiment can arise due to a combination of domestic and external factors. In this context, personnel involved in IR activities must provide a comprehensive explanation of the situation and understand the authorities' policy response. If necessary, decision-making authorities might be involved to increase the frequency of communication with investors. Under these conditions, appropriate dialogue media is required, such as through investor updates at the center of international financial markets by top officials from relevant agencies.

#### ***Routine Self-assessment***

The IR unit should conduct regular assessments to ensure that policymakers and investors receive the best service possible. These services must be scalable in terms of timeliness, accuracy, and dissemination of information to all targeted investor groups. The IR unit must also process feedback effectively and communicate with investors using optimal technology. Such feedback can be carried out by the IR unit itself or a third party.

#### ***Current Practices of Investor Relations by IRU of the Republic of Indonesia***

Bank Indonesia took the lead in establishing the IRU in 2002 by launching the Investor Information and Inquiries (IIE) website as a means of communicating with international financial market players, as well as providing data and information on economic conditions, finance, banking, government policies and the latest strategic issues. In 2005, the IIE website was developed into a website for the Investor Relations Unit of the Republic of Indonesia, and with government support, BI formed the IRU.

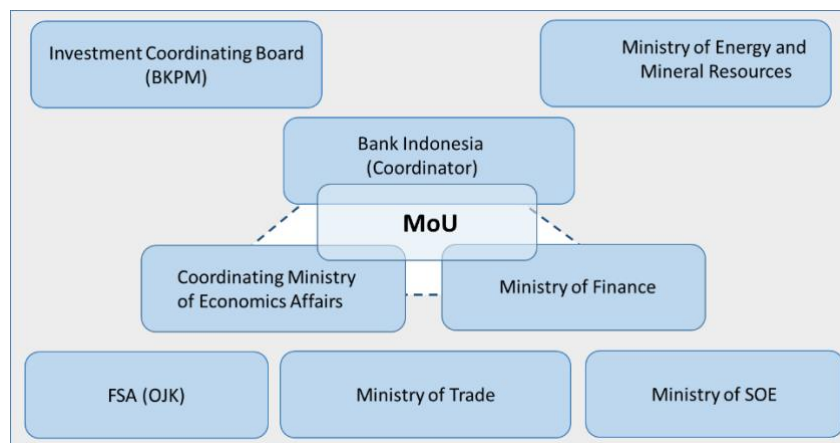
In February 2007, BI, the Coordinating Ministry for the Economy, and the Ministry of Finance signed an MoU that strengthened the IRU function regarding "Efforts to Improve Indonesia's Sovereign Rating and Country Risk Classification" as a form of official support for IRU-RI. As stated in the MoU, the Secretariat

and the IRU are based at BI and are entrusted with coordinating actions relating to rating and IR with other agencies.

The agreement states that the purpose of IRU is to: increase the sovereign rating of the Republic of Indonesia; improve the country risk classification awarded by the country/international creditor institution, thereby reducing the insurance premium that Indonesia must bear; improve the perception of foreign parties (rating agencies, investors, creditor countries, and international creditor institutions) on the overall condition of Indonesia; and increase domestic awareness of the importance of sovereign rating.

IRU-RI's membership consists of a Steering Team (comprising the Coordinating Minister for Economic Affairs, the Governor of Bank Indonesia, and the Minister of Finance) and an Implementation Team (comprised of the Deputy VI for Economic Cooperation and International Financing - Coordinating Ministry for Economic Affairs, the Deputy Governor of Bank Indonesia for Monetary Policy, and the Head of the Policy Agency Fiscal - Ministry of Finance). Meanwhile, the joint Secretariat and IRU-RI coordinator are based at BI (Figure 3).

In order to improve coordination and assist the implementation of IRU responsibilities, IRU membership has been expanded to include Dedicated Teams in several relevant Ministries/Institutions, including the Ministry of Energy and Mineral Resources, Ministry of SOEs, Ministry of Trade, Ministry of Investment (BKPM), and Financial Services Authority (OJK).



**Figure 3.** IRU Institutional Arrangement

IRU's main activities so far consist of three main groups: (1) improvement and strengthening of the sovereign rating, which include annual assessments, aggressive communication to rating agencies on various occasions, such as IMF/WB side meetings, and increasing rating awareness to other stakeholders; (2) policy and information dissemination, which includes investor meetings, investor conference calls, and management of the IRU website; and (3) Government Global Bond Issuance: IRU assists the government with the preparation of offering memorandums, proofreading, roadshows, and the settlement of proceeds from the issuance.

Regarding the best practices from IIF, IRU's investor relations processes have essentially fulfilled the elements set out by IIF. The IRU already has an institutional basis, as stated in the MoU between the Coordinating Ministry for Economic Affairs, the Ministry of Finance, and BI. Since 2002, the IRU has maintained a website and regularly disseminates data and economic policies, including government debt and foreign debt, through various media, particularly the IRU website. Currently, the IRU website maintains a list of thousands of investors who regularly receive updates on the latest economic policy information. IRU also regularly conducts website user satisfaction surveys to determine the satisfaction level with website usage and obtain feedback.

IRU's compliance with IIF's best practices is also confirmed through the performance assessment of IRU activities by IIF, which routinely assesses IR activities in various countries, particularly emerging market countries. Despite the high degree of compliance with IIF best practices, the challenges faced by IRU-RI in the future will continue to increase, necessitating several intensifications in several IR elements.

#### **Investor Relations Communication Strategy Framework**

The IRU communication strategy was developed using Lasswell's (1948) and Falkheimer & Heide (2018) approach by compiling elements of a communication strategy, which included: determining communication objectives; elaborating communication materials, including determination of key messages; identifying



communicators and stakeholders (who and to whom) as well as determining the appropriate communication media; the expected impact (in what effect/effect analysis); and the mechanism for obtaining feedback.

### IRU Communication Goal Setting

Determination of communication objectives must be set from the beginning and formulated by taking into account: domestic and global environmental conditions expected to influence the perceptions of IRU stakeholders; risk factors that are likely to be faced in the future; and various supporting related studies, especially the research on rating methodology to determine the main factors in obtaining Indonesia's rating.

### Elaboration of Communication Materials including Determination of Key Messages

The scope of the communication material must be prepared based on a list of raised concerns from rating agencies, investors, opinion-makers, and relevant authorities. These concerns consist of current issues, issues that arise in numerous communication opportunities with rating agencies (recurring issues), and specific issues arising from each rating agency. In-depth elaboration of these various concerns is crucial, considering that if these concerns are not addressed and responded to effectively, they can evolve into negative perceptions, leading to negative rating action.

Conveying concerns must be done by emphasizing the strengths of each arising issue (strong point) and elaborating on the concerns they convey. Regarding the aforementioned concerns, elaboration must be emphasized so that positive points from the development of these concerns are prioritized while ensuring negative points are adequately addressed by the relevant authorities ("promoting strong points and elaborating existing concerns" strategy).

Meanwhile, the key messages of each concern will serve as the basis for elaborating concerns to manage the stakeholder's perception as intended by the communicator. Key messages are necessary to avoid widening the discussion outside the problem context while making it easier for communicators to deliver communication materials. The preparation of the key messages should consider the fundamental concerns in question, which will help to provide a deeper understanding of the arising issues. The elaboration of these concerns and key messages will then be compiled into a list of Possible Intervention Points (PIP) or Questions and Answers (Q&A), serving as guidelines for all IRU Communicators in communicating with their stakeholders, supported by a "Presentation Book" that describes Indonesia's economic fundamentals along with the latest economic facts and figures (Figure 4).

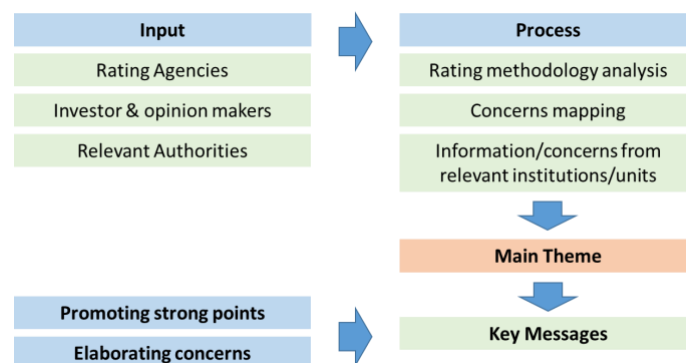


Figure 4. Mapping of Key Messages

### Identification of the Appropriate Communicators, Stakeholders, and Communication Media

In addition to the availability of effective policies and comprehensive communication resources, communication strategies must be complemented with a process of identifying communicators, stakeholders (target audience), and relevant communication platforms. An aggressive and proactive communication strategy coupled with the delivery of policy background necessitates increased active communication through the intensity of dialogue and meetings with stakeholders (rating agencies, investors, and opinion-makers).

Aside from reducing the information gap, given the high judgment factor in determining the final rating score, increased active and aggressive communication must be balanced with an increase in the rating agency's understanding of the dynamics and uniqueness of the Indonesian economy, starting at the rating analyst level to the top management of each rating agency.

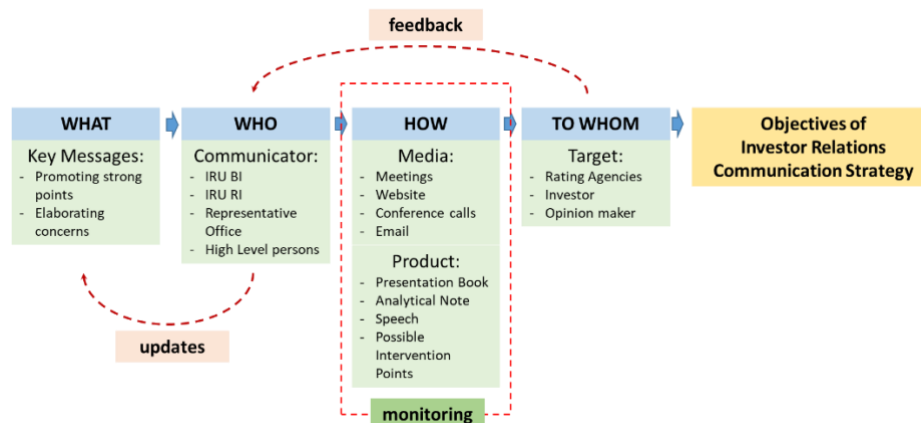
The selection of communicators must be carried out appropriately by considering the strategic value of concerns, the stakeholders to be met, and the communication media available. The four primary IRU communicators are IRU BI, National IRU, High Level (top) Management, and Overseas Representative Offices, with three main groups of stakeholders, namely rating agencies, investors, and opinion-makers. Given

the need for extensive communication with stakeholders from the analyst level to top management, persons serving as IRU communicators must comprise various levels, from economic analysts to members of the Board of Governors or heads of relevant agencies. In this regard, the analyst-level communication process should technically elaborate on various BI policies and concerns raised by stakeholders. Meanwhile, high-level meetings between members of the Board of Governors and leaders of rating agencies are required as a medium of exchanging views to understand the future vision of BI and the rating agency.

Meanwhile, rating agencies, financial market investors, and opinion-makers are among the stakeholders. The communication process can be carried out through various media/communication channels, including annual rating agency assessments, high-level meetings, rating analyst visits, investor summits, roadshows, IRU websites, conference calls, and investor briefings. It can be done through regular or occasional channels and can be one-on-one, group meetings, or globally through internet facilities.

### Identification of the Mechanism for Receiving Feedback

As described in the literature review section, effective communication must include elements of feedback to measure the effectiveness of IR in achieving the desired goals. The feedback mechanism can be derived from a variety of sources, including stakeholder input and views from analysts and economists. Concerning the IRU communication strategy, feedback on BI's IR communication process can be obtained from different reports prepared by communicators after the engagement with stakeholders, satisfaction polls on the IRU website, and feedback received directly from stakeholders. The feedback is likely to become constructive input in developing future communication strategies and policymaking in a broader scope. The IR communication strategy is briefly outlined in Figure 5.



**Figure 5.** Investor Relations Communication Strategy

### Investor Relations Communication Strategy

Through environmental scanning of the domestic and global economies and investor concerns, the focus areas are identified and immediately responded to and then managed to prevent the development of negative perceptions among stakeholders. Although the relevant authorities' policy response has improved fundamental aspects of the economy, it is insufficient to prevent deteriorating perceptions, including negative rating actions, unless it is accompanied by the management of information and communication traffic affecting stakeholder expectations. Therefore, the communication conducted by IRU-RI focuses on (1) supporting Indonesia's efforts to prevent rating downgrades and (2) elevating market confidence.

### Developing Communication Resources including the Identification of Key Messages

A well-thought-out IR communication strategy is absolutely necessary, considering the high rating downgrade risk factors amid the COVID-19 pandemic, the risk of eroding investor confidence in the Indonesian economy, and future risk factors along with the global economy's slow recovery and the follow-up of US monetary policy normalization.

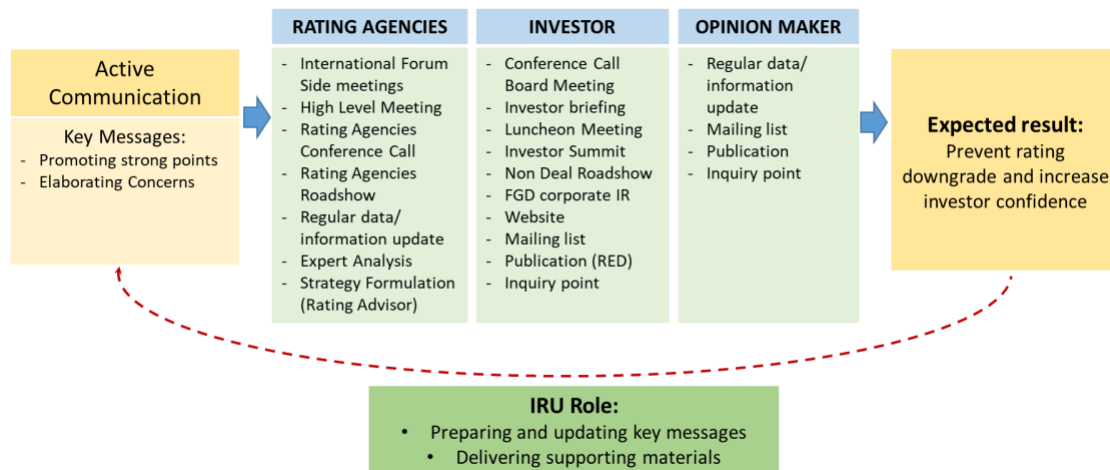
It is necessary to strengthen the analysis to support the preparation of communication materials with stakeholders. The three forms of strengthening analysis are: 1) **Credit analysis**. Formal engagement with rating agencies will be carried out to obtain their restricted data and analysis to support the implementation of this credit analysis. The availability of data and information from rating agencies is intended to support the credit analysis process, which will be carried out periodically by utilizing the latest methodology of each rating agency; 2) **Peer analysis**. After determining Indonesia's strengths and weaknesses relative to its peer rating, a compelling argument that demonstrates Indonesia's strengths compared to its peers may be developed; 3) **Topical Analysis**. This analysis is carried out by deepening a specific topic that has become a burning issue



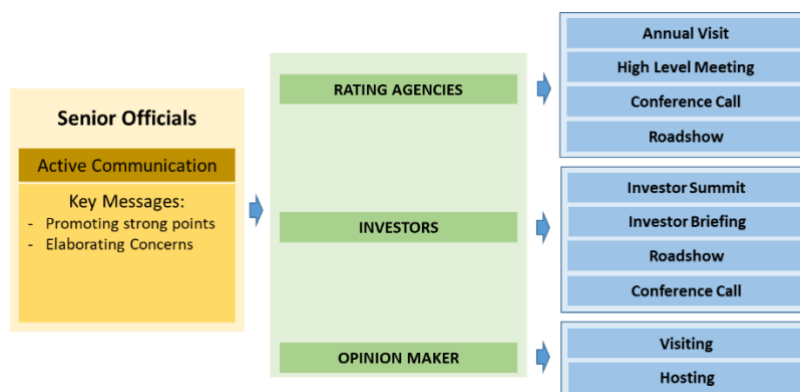
among stakeholders in the form of an analytical note to be sent to stakeholders or published on the IRU website. Among the topics based on current stakeholder concerns are financial market deepening, the increase in Indonesia's private foreign debt, and various macro prudential policies pursued by BI.

#### Identification of Appropriate Communicators, Stakeholders, and Communication Media

Because the high judgment factor in determining the final rating score must be balanced with increasing the rating agency's understanding of the dynamics and uniqueness of the Indonesian economy, from the rating analyst level to the top management of each rating agency, increased active communication is necessary. In this regard, IRU communicators are expected to comprise the analyst level up to top management or the head of the relevant agency/ministry. Meanwhile, the IRU is a vital component of the IR communication strategy, as it is responsible for generating and updating key messages and routinely distributing various communication materials to all communicators (Figure 6).



**Figure 6.** The Role of IRU in IR Communication Strategy



**Figure 7.** The Role of Senior Officials in IR Communication Strategy

Meanwhile, IRU stakeholders are primarily concerned with rating agencies, investors, and opinion-makers, although focusing on the first two. The communication process can be carried out through almost all media/communication channels, especially annual assessments by rating agencies, high-level meetings, investor summits, roadshows, conference calls, and investor briefings. It can be done through regular or occasional channels, including one-on-one, group meetings, or globally over internet facilities (worldwide publication) (Figure 7).

Increased collaboration with stakeholders and the National IRU in the Dedicated Team Meeting (DTM) forum and intensifying the IR function of overseas representative offices complement increased active communication. Strengthening coordination and more intensive communication with stakeholders, especially rating agencies, is pursued by preparing for a more focused assessment by compiling a map of concerns and argumentative material, fulfilling the rating agencies' needs of data and information during the assessment process in an accurate and timely manner, and providing more elaborated and sharp responses to rating reports. Additionally, pre-assessment meetings with expert respondents were also planned before the rating visit as a "conditioning process" for the readiness of the expert respondents to elucidate concerns and align Indonesia's perception and stance in dealing with rating agencies. Outside of the annual assessment cycle,

improved communication with rating agencies is carried out by utilizing side meeting fora, especially for high-level meetings attended by the Board of Governor member and heads of rating agencies.

The pre-assessment meeting can take two forms: (1) a National IRU DTM forum; (2) a pre-assessment courtesy meeting with expert respondents, including leaders of government agencies or state institutions and independent analysts who will receive the rating agency. The National IRU DTM is a coordination forum for all IRU components, internal and external to BI. Information updates, discussions of the latest concerns, distribution of material contributions, the preparation of “the right person” who will receive the rating agency in each institution, and visit schedules are discussed in this meeting. Meanwhile, the pre-assessment courtesy meeting is more of a “conditioning” session for the expert respondents’ readiness on the anticipated concerns and the alignment of perceptions and stance of RI in facing the rating agency.

Improving coordination with relevant agencies within the National IRU Dedicated Team framework is a critical aspect of the evaluation process. It ensures the availability of more comprehensive materials and adequate technical preparation during the assessment process in various agencies. Coordination within the National IRU Framework is also required to organize numerous cross-agency concerns, such as issues related to the development of the Indonesian financial market. Therefore, a collaboration between BI, OJK, and the Ministry of Finance is necessary. Another aspect, as mentioned above, is the availability of “the right person” who will receive the rating agency during the visit. This step aims to obtain comprehensive explanations from the most competent and authorized party and ensure consistency of answers.

During post-assessment, maintaining active communication with stakeholders is necessary, either by utilizing side meetings in international fora and other occasions or through other means. Outside of the annual assessment cycle, increased engagement with stakeholders may be achieved by holding side meetings, not limited to the IMF/WB annual meeting forum, but also in various other international cooperation fora (G20, ADB, ASEAN). This side meeting forum aims to facilitate the delivery of the most recent Indonesian policies or clarify the latest stakeholder concerns. The utilization of side meetings is also relatively beneficial in terms of “timing”, considering that on this occasion, numerous parties at the top management level can meet at the same place and at relatively the same time. Meanwhile, active communication with rating analysts and rating advisors are also conducted through media conference calls.

In addition to the three main IRU stakeholders (rating agencies, investors, and opinion-makers/international institutions), it is also necessary to raise rating awareness of relevant agencies at the regional level. This is essential, especially when the rating agency is required to conduct field visits in various regions in Indonesia as part of the assessment process to examine the progress of the economic development process. The availability of accurate and timely data and information is critical in the IR process, including the preparation of related resources. Therefore, regular updating of data and information, especially on Recent Economic Development (RED) materials, a list of stakeholder concerns, and key messages, are required to anticipate various concerns and questions from IRU stakeholders regarding Indonesian economic data and policies.

Meanwhile, to manage investors’ positive perceptions of the Indonesian economy, a list of IRU investor profiles should be developed to facilitate the process of building good relations and coordination. In this context, the primary investors of IRU are grouped into two categories: (1) the primary investors holding the RI Global Bonds; (2) those who hold the RI government bonds (SUN). The scope of this primary investor database ranges from company profiles, contact persons, investment profiles (especially in Indonesia) to maps of their concerns and feedback.

The investor database is updated in two approaches: (1) through information obtained from fiscal agents during the issuance of foreign currency SUNs on international financial markets, and (2) through information from BI Overseas Representative Offices when performing the IR function with significant investors. However, resources from fiscal agents are relatively limited because there is no contract requiring them to disclose more comprehensive information. Therefore, in the future, fiscal agents that manage the issuance of foreign currency SUN may be requested to report to BI on their administrative activities and investor details holding Indonesian foreign currency SUN.

Meanwhile, the IRU website also needs to be managed effectively, considering that it is one of the primary platforms for disseminating information about the latest developments and Indonesian economic policies. Additionally, the IRU website mailing list now has over 2,000 investor contacts. Thanks to regular updates, these investors will have easier access to the latest information on the Indonesian economy and economic policies.

The IRU website's essential role as the forerunner in delivering the latest information must be addressed by continually upgrading the site to respond to user needs, is user-friendly, and easily accessible. Furthermore, the website should become more interactive in the future to respond to all incoming inquiries more quickly but still accurately. The need for accurate and timely data and information must be followed up by improving the working mechanism between the IRU and the work unit that produces the data and other related work units and other information providers, especially from rating agencies and other international institutions.

In addition to the IRU website, the IR strategy includes implementing conference calls between Indonesian policymakers and global stakeholders. Stakeholders from Asia, Europe, and America have participated in quarterly conference calls since 2006. In this regard, it is necessary to continue to improve the implementation of conference calls, both from the technical side and the assurance of the speaker availability from both BI and the Government, as well as related materials that must be prepared for the call.

#### Identifying the Mechanism for Receiving Feedback

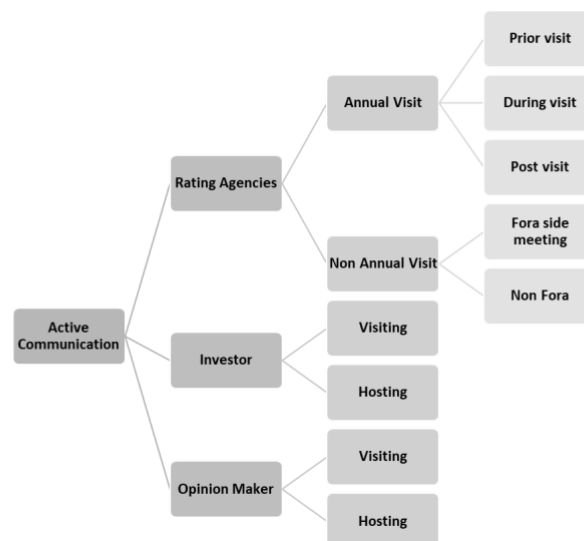
To determine the extent of IR's success on the desired goals, effective communication must include the element of feedback. In terms of the IRU communication strategy, feedback on BI's IR communication process is expected to be obtained from; (i) Reports of meetings with IRU stakeholders conducted by BI Representative Offices, (ii) Reports prepared by IRU-DInt after conducting investor briefings, (iii) Reports on the conference call, (iv) IRU Website User Satisfaction Survey, and (v) The results of IIF's annual assessment of the activities of official IR units in various countries.

#### Strengthening the Investor Relations Function of Central Bank's Overseas Representative Offices (ORO)

Strengthening the IR function of ORO is necessary considering that its strategic position in the middle of an international financial center must be maximized by attempting to maintain and improve good relations with rating agencies, investors, and opinion-makers in the working area of ORO.

To support the IR implementation by ORO, IRU will regularly provide material updates, including RED, Board of Governors Meeting Materials, and PIP elaborating investor concerns and rating agencies related to strategic issues. This PIP is for internal purposes only, is confidential, and has been prepared as a guide and medium to share the perspectives of all IRU internal communicators.

The following chart illustrates the involvement and support that ORO can provide in achieving IRU's objectives.



**Figure 8.** ORO's Involvement and Support in the IRU Work Process

In detail, the forms of activities and support of the ORO include the following:

#### Active communication with rating agencies in each work area in coordination with the Head Office

ORO is expected to strengthen communication with rating agencies, which is currently well established. This communication focuses on providing the latest information, clarifying issues, and capturing current concerns. Most communication occurs with rating agency personnel based in the ORO working area (Table 1).

**Table 1.** Communication with Rating Agencies by ORO Working Area

<b>Representative Office</b>	<b>Rating Agency</b>
<b>Singapore</b>	<i>Country analysts</i> Standard & Poor's and Moody's
<b>Tokyo</b>	Senior-level and country analyst Japan Credit Rating Agency Ltd. (JCR) and Rating and Investment Incorporation Inc. (R&I)
<b>London</b>	Senior-level Fitch Rating
<b>New York</b>	Senior-level Standard & Poor's and Moody's

Additionally, ORO may assist during prior assessment meetings (annual visits) by rating agencies and post-assessments concerning the annual assessment cycle. During the prior assessment, ORO can assist in the conditioning and mapping of initial concerns, while in the post-assessment, it can help convey the latest developments in the Indonesian economy or other matters that need to be clarified to the rating agency.

#### **Active communication with financial market investors**

In this regard, the Head Office has compiled a list of key investors as targets for ORO communication activities, along with supporting materials submitted periodically. The focus of the communication will be on the following topics: (i) dissemination of the latest economic developments, (ii) policies and other important information, and (iii) mapping on concerns and feedback from market participants, analysts, and investors.

**Table 2.** Communication with Financial Market Investors by ORO's Working Area

<b>Representative Office</b>	<b>Stakeholder Financial Market Investors</b>
<b>Singapore</b>	focus on market participants and investors with short-term characteristics that influence the formation of domestic financial market sentiment
<b>Tokyo</b>	focus on Japanese investors, especially those who do not have sufficient information about Indonesia
<b>London</b>	focus on investors with long-term characteristics
<b>New York</b>	focus on investors with long-term characteristics

#### **Active engagement with opinion-makers and international institutions**

ORO is expected to take a more intensive approach to international institutions and opinion-makers to improve perceptions on Indonesia in the form of meetings and information feeding, especially those from RED. These meetings can also serve to gather information on their matters of concern. The international institutions and agencies include: (i) International institutions such as the IMF, World Bank, Institute of International Finance (IIF), OECD, WTO, JBIC, JICA, ASEAN, SEACEN, and ADB, (ii) Local economic authorities, including monetary and government authorities in ASEAN countries, (iii) Think tanks, both independent and affiliated with universities (academics), such as the Brookings Institution, Heritage Foundation, Oxford Analytica, and HEC Eurasia, as well as investment institutions, (iv) Embassy of the Republic of Indonesia and other countries within the working area of KPw and representative offices of central banks of other countries within the working area of ORO.

Communication with perception-forming institutions is aimed at improving perceptions from a qualitative perspective, such as the low ease of doing business index (World Bank), the corruption perception index (Transparency International), and the global competitiveness index (World Economic Forum)..

## **Conclusions**

Based on the results of the research that has been done, it can be concluded that a planned, more focused, and goal-oriented IR communication strategy is required amidst the potential risk of rating downgrades and weakening investor confidence in the Indonesian economy. Moreover, a comprehensive and integrated communication plan must be foreseen with the high-risk factors ahead, in line with global uncertainty in numerous sectors and economic pressures. Communicators, Targeted Stakeholders, and Communication Media, Active communication by all communicators, especially at the top management level (Minister/Board of Governor Level), utilizes multiple communication media. Increasing active communication at the Minister/Board of Governor level is critical, considering that the leader of the rating agency determines the final score of a country's sovereign credit rating. Overseas Representative Office communicators also engage in active communication, taking advantage of Overseas Representative Office's strategic position in the heart of an international financial center. Stakeholders focus specifically on rating agencies by compiling argumentative materials, fulfilling the rating agency's needs of data and information accurately and timely, and providing more elaborated and sharp responses to rating reports in preparation for more focused rating agency assessments. Additionally, a pre-assessment meeting with expert respondents was also designed before

the rating visit as a form of “conditioning process” for the experts’ readiness to elaborate on their concerns and align Indonesia’s perception and position in dealing with rating agencies. To improve communication with rating agencies, side meeting fora, especially for high-level meetings attended by the Minister/Board of Governor and rating agency executives. Given the risk of a decline in Indonesia’s sovereign credit rating, the communication process is carried out through various media/communication channels, including during the annual assessment, high-level meetings, rating analyst visits, investor summits, roadshows, the IRU website, corporate or banking IR coordination forums, conference calls, and investor briefings.

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