Reconstructing The Islamic Investment Fund Management Model Of Danantara: A Maqasid Al-Shariah And Shariah Compliance Analysis

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Abstract

The rapid expansion of the global Islamic finance industry has heightened the need for investment models that uphold not only formal Shariah compliance but also the higher objectives of Islamic law (Maqasid al-Shariah). This study critically examines the case of Danantara, an Islamic investment fund operating under a hybrid equity-debt structure, to assess the extent of its alignment with Maqasid al-Shariah principles particularly Hifz al-Mal (wealth preservation), 'Adl (justice), and Maslahah (public welfare). The analysis reveals significant gaps in Danantara's current model, including weak ethical diversification, inconsistent purification mechanisms for non-permissible income, and opaque fee structures that undermine transparency and justice. To address these deficiencies, the study proposes a reconstructed fund management model that integrates strengthened Shariah governance, mandatory third-party audits, and a shift toward positive-impact investments such as green sukuk and healthcare. It also recommends standardized disclosure practices for Shariah non-compliance and purification reporting to enhance investor trust. Guided by Jasser Auda's systems approach to Maqasid al-Shariah and the compliance standards of AAOIFI and IFSB, this reconstructed model aims to bridge the gap between technical legality and ethical substance. The findings offer a practical blueprint for transforming Islamic fund governance and advancing the industry's contribution to social and environmental well-being.

Keywords: *Islamic finance, Maqasid al-Shariah, Shariah compliance, Danantara, green sukuk, ethical investment, AAOIFI, IFSB.*

Abstrak

Perkembangan pesat industri keuangan Islam global telah meningkatkan kebutuhan akan model investasi yang tidak hanya mematuhi syariah secara formal tetapi juga mewujudkan tujuan-tujuan utama hukum Islam (Maqasid al-Shariah). Studi ini secara kritis mengkaji kasus Danantara, sebuah dana investasi Islam yang beroperasi dengan struktur hibrida ekuitas-utang, untuk menilai sejauh mana kesesuaiannya dengan prinsip-prinsip Maqasid al-Shariah terutama Hifz al-Mal (pelestarian harta), 'Adl (keadilan), dan Maslahah (kepentingan umum). Analisis menunjukkan adanya celah signifikan dalam model saat ini, termasuk diversifikasi etis yang lemah, mekanisme penyaringan pendapatan yang tidak diperbolehkan yang tidak konsisten, dan struktur biaya yang tidak transparan yang merusak transparansi dan keadilan.Untuk mengatasi kekurangan ini, studi ini mengusulkan model pengelolaan dana yang direkonstruksi, yang mengintegrasikan tata kelola Syariah yang diperkuat, audit pihak ketiga yang wajib, dan pergeseran menuju investasi berdampak positif seperti sukuk hijau dan sektor kesehatan. Studi ini juga merekomendasikan praktik pengungkapan standar untuk ketidakpatuhan Syariah dan pelaporan penyaringan untuk meningkatkan kepercayaan investor. Dipandu oleh pendekatan sistem Jasser Auda terhadap Maqasid al-Shariah dan standar kepatuhan AAOIFI dan IFSB, model yang direkonstruksi ini bertujuan untuk menjembatani kesenjangan antara legalitas teknis dan substansi etika. Temuan ini menawarkan blueprint praktis untuk mentransformasi tata kelola dana Islam dan meningkatkan kontribusi industri terhadap kesejahteraan sosial dan lingkungan.

Kata Kunci: *Keuangan Islam, Maqasid Al-Shariah, Kepatuhan Syariah, Danantara, Sukuk Hijau, Investasi Etis, AAOIFI, IFSB.*

INTRODUCTION

The global Islamic finance market has undergone a significant transformation, evolving from a specialized niche into a prominent global asset class. Valued at USD 3.18 billion in 2024, the market is projected to expand consistently, reaching USD 3.59 billion in 2025 and an impressive USD 9.31 billion by 2033, demonstrating a robust Compound Annual Growth Rate (CAGR) of 12.67% from 2025 to 2033 ("Islamic Finance Market Size,Trends Report and Growth 2033" 2025). Other projections indicate an even more rapid expansion, with the market anticipated to grow from USD 2.2 trillion in 2023 to USD 12.5 trillion by 2033, at an 18.4% CAGR.("Islamic Finance Market Towards USD 12.5 Trillion by 2033" 2025) This substantial growth is further underscored by the 11% increase in total Islamic finance assets to US$4.5 trillion in 2022, with forecasts suggesting a rise to $9.75 trillion by 2029.("ICD - LSEG Islamic Finance Development Report 2023: Navigating Uncertainty" 2025)

This expansion is primarily propelled by the banking sector, which accounts for approximately 69% of total Islamic finance assets, and the sukuk (Islamic bonds) market, representing nearly 28% of structured financial products ("Islamic Finance Market Size,Trends Report and Growth 2033" 2025). While investment funds currently constitute a smaller share, around 7% of asset distribution, they are steadily gaining traction. The increasing global interest in Shariah-compliant financial products, coupled with a growing Muslim population and a broader appeal for ethical and socially responsible investing, serves as a fundamental driver for this market's upward trajectory. Notably, demand for ethical asset management services among millennials and Generation Z has surged by 31%, reflecting a shift towards value-driven financial behavior. Over 61% of Shariah-compliant financial institutions are actively integrating environmental, social, and governance (ESG) principles into their offerings, with sustainability-linked investment options featuring in 55% of new product launches. The issuance of green sukuk, specifically, has witnessed a 40% rise in participation, attracting a growing segment of sustainability-focused investors (“Islamic Finance Market Size,Trends Report and Growth 2033” 2025).

The industry's evolution is also characterized by significant digital transformation. Digital Islamic banking platforms have expanded by 38% in the U.S., and approximately 72% of Shariah-compliant financial institutions are prioritizing digital initiatives to enhance operational efficiency and customer engagement. Fintech adoption in Islamic personal finance has grown by 35%, driven by mobile-first solutions. Geographically, over 65% of Islamic finance operations are concentrated in the Middle East and Southeast Asia, with the Gulf Cooperation Council (GCC) region alone holding roughly 50% of global assets and projecting assets to exceed $5 trillion by 2029.[1] Emerging interest is also observed in European markets.

Despite this robust growth, the Islamic finance industry faces inherent challenges. A significant proportion of institutions, approximately 58%, report increased expenditures related to ongoing compliance monitoring. Delays in project execution due to detailed auditing requirements affect around 49% of market participants, and about 52% of smaller institutions experience financial strain when implementing extensive regulatory frameworks. Furthermore, Shariah-compliant financial products and services are sometimes perceived to have increased marginal costs due to their structural complexity (“Islamic Finance: Social Impact Investment Mechanism and Faith Based Engagements for the Inclusive and Peaceful World - Consulus” 2025).

The observed rapid expansion, while indicative of market acceptance, concurrently presents a fundamental tension for the industry. While growth is desirable for market penetration, it can strain adherence to core Shariah principles if not managed with robust governance and ethical frameworks. This dynamic necessitates a stronger focus on substantive Shariah compliance and *Maqasid* integration, rather than merely formal compliance, to maintain investor trust and genuinely distinguish Islamic finance from conventional financial systems (Albar dkk. 2025a).

Moreover, the increasing adoption of ESG principles by Islamic financial institutions, alongside their embrace of digital platforms, represents a strategic convergence rather than a mere tactical adjustment. This alignment of ESG with the inherent ethical and social objectives of Islamic finance, particularly *Maslahah* (public interest), provides a universal language for broader market appeal, extending beyond traditional Muslim-majority markets (Lestari dkk. 2025). Digitalization, in turn, offers a scalable and cost-effective means to deliver these value-driven services, potentially lowering costs and increasing accessibility. This convergence holds the potential to transform Islamic finance from a niche market into a truly mainstream global asset class, provided its underlying Shariah integrity is consistently preserved and demonstrated.

Danantara, as an Islamic investment fund, serves as a pertinent case study in navigating the complexities and challenges inherent in contemporary Islamic fund management. Its operational model and identified shortcomings reflect broader industry issues concerning the consistent integration of *Maqasid al-Shariah* (the higher objectives of Islamic law) and robust Shariah compliance. The core problem statement addressed in this report is the presence of gaps in Danantara's current fund management model regarding its alignment with *Maqasid al-Shariah* and its practical Shariah compliance (Anwar dkk. 2025). These gaps hinder the fund from fully embodying the comprehensive ethical and moral framework intended by Islamic law.

This report is structured to achieve three primary research objectives:

1. To analyze Danantara's existing fund management model, examining its structural components and operational practices.
2. To critically evaluate Danantara's adherence to both *Maqasid al-Shariah* principles (specifically *Hifz al-Mal*, *'Adl*, and *Maslahah*, as per Jasser Auda's model) and general Shariah compliance guidelines, particularly those issued by AAOIFI.
3. To propose a reconstructed model for Danantara that aims to significantly enhance its Shariah compliance, deepen its ethical impact, and improve its overall contribution to societal well-being.

The significance of this research is twofold. From a theoretical perspective, it advances Islamic finance literature by offering a practical application of *Maqasid*-based fund governance. By moving beyond conceptual discussions to a concrete case study, it provides empirical grounding for theoretical frameworks. From a practical standpoint, this report offers actionable recommendations for Danantara, providing a clear roadmap for improving its Shariah integrity, ethical footprint, and long-term sustainability (Hafidzi

2024b). Furthermore, the findings and proposed model can serve as valuable insights for other Islamic financial institutions grappling with similar challenges in their pursuit of authentic Islamic finance.

Danantara's specific issues, such as weak *Maslahah* alignment, inconsistent purification mechanisms, and opaque fee structures, are not isolated occurrences but are symptomatic of broader, well-documented challenges within the Islamic finance industry. These challenges include the tendency to imitate conventional finance, often leading to a perception that Islamic banking is merely a matter of "twisting documents" without substantive difference ("Challenges in Islamic finance - Wikipedia" 2025). There are also documented issues with "inconsistent disclosure of purification processes" ("(PDF) Shariah-Compliant Financial Products in Indonesia: Analyzing Consumer Behavior and Market Demand" 2025). and a broader neglect of social responsibility. Therefore, analyzing Danantara is not merely an exercise in diagnosing one fund's deficiencies, but rather an opportunity to identify and propose solutions for systemic issues that impede the Islamic finance industry from fully realizing its ethical mandate and distinguishing itself authentically (Firmansyah dan Wahab 2024).

Danantara, as one of the main players in this industry, faces the challenge of developing investment products that not only meet sharia compliance criteria, but also contribute to the achievement of Maqasid al-Shariah objectives. This includes avoiding harmful practices such as riba, gharar, and maysir, as well as emphasizing investments that provide tangible social and economic benefits.

Method

This study adopts a qualitative, descriptive-analytical approach to explore and reconstruct the Islamic investment fund model employed by Danantara. Rather than relying on numerical data or statistical analysis, the research focuses on a comprehensive examination of textual sources, regulatory standards, and theoretical frameworks, with the aim of evaluating the alignment of Danantara's operations with the principles of *Maqasid al-Shariah* and broader Shariah compliance norms (Rizki dkk. 2024; Hafidzi 2024a).

The primary unit of analysis in this study is Danantara, an Islamic investment fund operating within a hybrid equity-debt structure. Danantara serves as a case study that encapsulates the broader ethical, structural, and operational challenges facing contemporary Islamic fund management. The choice of this fund is purposive and strategic: it represents a typical example of how many Islamic financial institutions attempt to comply with formal Shariah principles, while often falling short of integrating the higher objectives (*maqasid*) of Islamic law, such as justice (*'adl*), public welfare (*maslahah*), and the preservation of wealth (*hifz al-mal*) (Taha dkk. 2025).

The study is guided by the theoretical framework of *Maqasid al-Shariah* as formulated by Jasser Auda, particularly his systems approach, which emphasizes holistic, non-reductionist interpretations of Islamic law. Through this lens, the research evaluates the extent to which Danantara's investment strategies, purification processes, fee structures, and governance mechanisms fulfill the substantive ethical goals of Islamic finance. Complementing this normative lens, the study also references compliance standards issued by major regulatory bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). These frameworks provide benchmarks for assessing the technical soundness of Shariah adherence.

Data for this study are drawn from a combination of publicly available documents including regulatory guidelines, academic literature, and Islamic finance reports and the internal documentation and descriptions of Danantara's operational model. Through textual analysis, the research identifies key areas of deficiency, such as weak *maslahah* alignment, inconsistent purification mechanisms, and opaque fee structures. Following this assessment, the study proposes a reconstructed model designed to enhance Danantara's ethical accountability and governance by embedding *Maqasid*-driven strategies. These include strengthening Shariah board oversight, institutionalizing third-party audits, and redirecting investments toward high-impact sectors such as green sukuk and healthcare. The methodology employed is both analytical and reformative. It does not merely critique existing practices but actively seeks to offer constructive, Maqasid-aligned alternatives that can be adopted not only by Danantara but also by similar Islamic financial institutions facing parallel challenges. By grounding the analysis in normative theory and recognized regulatory standards, the research ensures both academic rigor and practical relevance.

THEORETICAL AND REGULATORY FRAMEWORKS

1. Jasser Auda's Systems Approach to Maqasid al-Shariah: Hifz al-Mal, 'Adl, and Maslahah

Jasser Auda's scholarly contributions, particularly articulated in "Maqasid Al-shariah as Philosophy of Islamic Law: A Systems Approach," represent a contemporary and holistic interpretation of *Maqasid al-Shariah* (the objectives of Islamic law) (*Maqasid Al-shariah as Philosophy of Islamic Law: A Systems Approach* 2025). Auda posits that Islamic rulings should fundamentally serve their original purposes of justice, freedom, rights, common good, and tolerance, advocating for an approach that transcends reductionist or literal interpretations. His systems theory framework views Islamic law as dynamic, multidimensional, open, and inherently purposeful, moving beyond one-dimensional applications that may overlook the broader ethical and societal implications.[1]

Traditionally, the core *Maqasid* (known as *Daruriyat* or basic necessities) protected by Shariah encompass Religion (*Din*), Life (*Nafs*), Family (*Nasl*), Intellect (*'Aql*), and Property (*Mal*) ("Maqasid al-Shariah and the legality of Islamic financial contracts - INCEIF University" 2025). Auda's framework, while rooted in these foundational elements, emphasizes their interconnectedness and their broader societal implications for human development and well-being ("The Contextualization Of The Māqāṣid Āl-Šyāriāh Jasser Auda Theory In The Concept And Practice Of Islamic Family Law" 2025).

In the context of Islamic finance, three of these *Maqasid* are particularly pertinent for evaluation: *Hifz al-Mal*, *'Adl*, and *Maslahah* (Nashuha dan Elbanna 2025a; Huda dkk. 2025).

a. Hifz al-Mal (Preservation of Wealth): This principle extends beyond mere financial preservation to encompass the lawful acquisition and protection of property from illicit gains. The prohibition of *riba* (interest) is a cornerstone of this principle, designed to prevent the unjust depletion of wealth and the

[1] (*Maqasid Al-shariah as Philosophy of Islamic Law: A Systems Approach* 2025) (Anwar dkk. 2025)

widening of income disparities ("Combating Money Laundering and Terrorism Financing: Perspectives from Maqāsid al-Sharīʿah" 2025). It also implies a commitment to promoting productive and beneficial economic activities that contribute to genuine wealth creation, rather than speculative or exploitative practices ("Maqasid al-Shariah and the legality of Islamic financial contracts - INCEIF University" 2025).

b. 'Adl (Justice): As a fundamental objective, *'Adl* mandates fairness in all transactions, equitable profit distribution, and the active prevention of exploitation ("Islamic Finance: Social Impact Investment Mechanism and Faith Based Engagements for the Inclusive and Peaceful World - Consulus" 2025). Islamic financial institutions are expected to align their products and operations with Islamic ethics and morality to ensure the realization of justice. This principle also encompasses fair dealings and the symmetrical sharing of risk and return among all transacting parties ("Reconstructing Waqf Share Policies: A Maqashid Sharia Approach" 2025).

c. Maslahah (Public Interest/Welfare): This is a central and expansive theme in Auda's approach, focusing on the active securing of benefit (*manfaah*) and the repelling of harm (*madarrah*) for the general public. Islamic finance, under the guidance of *Maslahah*, is expected to contribute proactively to socio-economic development, poverty reduction, and overall human development. It transcends merely avoiding prohibitions to actively promoting good and fostering societal well-being ("Maqasid Al-Shariah Guidance - Securities Commission Malaysia" 2025; Huda dkk. 2025; Nashuha dan Elbanna 2025b).

A significant challenge in the practical application of *Maqasid al-Shariah* stems from its inherent subjectivity ("Maqāsid al-Sharī'a in Islamic Finance: A Critical Analysis of Modern Discourses - MDPI" 2025). Diverse interpretations can lead to differing conclusions, and there is a risk that the *Maqasid* framework might be misused to legitimize practices that are, in essence, contrary to the core principles of Shariah. This necessitates the establishment of objective interpretative criteria and a reduction in legal relativity to ensure consistent and authentic application.

The emphasis on Auda's "systems approach" and the critique of "reductionist" applications suggests that merely adhering to the *form* of Shariah-compliant contracts, such as avoiding *riba*, is insufficient if the *substance* the underlying purpose or *Maqasid* is neglected. The challenge of subjective interpretation directly contributes to this tension, as it can allow for interpretations that prioritize commercial viability over the broader ethical and social objectives of *Maqasid*. This can result in financial products that, despite being formally Shariah-compliant, are "not materially different from interest-based transactions" ("Challenges in Islamic finance - Wikipedia" 2025). Consequently, a fund like Danantara might be technically compliant with specific Shariah rules but fall short of its *Maqasid* objectives, particularly in contributing to *Maslahah*.

Despite the challenges posed by subjectivity, the *Maqasid* framework, especially *Maslahah*, offers a powerful lens for innovation in Islamic finance. By focusing on securing benefit and repelling harm, *Maqasid* can guide the development of products that actively contribute to societal well-being ("Maqasid al-Shariah: The Higher Objectives of Islamic Law | Jasser Auda - YouTube" 2025; "Higher Ethical Objective (Maqasid al-Shari'ah) Augmented Framework for Islamic Banks" 2025). This proactive stance provides a pathway for Islamic financial institutions to move beyond merely "imitating conventional finance" ("Challenges in Islamic finance - Wikipedia" 2025) and to establish a unique, ethically superior value proposition in the global financial landscape.

Table 1: Key Principles of Jasser Auda's Maqasid al-Shariah Model and Application in Finance

Maqasid Principle	Core Definition (Auda's View)	Financial Implication	Relevance to Danantara Analysis
Hifz al-Mal (Preservation of Wealth)	Safeguarding and promoting wealth through lawful and ethical means, preventing illicit gains and unjust depletion.	Prohibition of *Riba*, *Gharar*, *Maysir*; ethical wealth generation; productive investments; risk management.	Evaluate Danantara's risk management beyond financial metrics, assessing its ethical diversification and adherence to lawful wealth generation.

'Adl (Justice)	Ensuring fairness, equity, and transparency in all dealings, preventing exploitation and information asymmetry.	Fair profit/loss sharing; transparent fee structures; clear contractual terms; symmetrical risk and return distribution.	Assess Danantara's profit distribution mechanisms and critically examine the transparency of its fee structures.
Maslahah (Public Interest/Welfare)	Actively securing benefits and repelling harm for the general public; promoting societal well-being and sustainable development.	Socio-economic development; community welfare; responsible investing; addressing social inequalities; environmental stewardship.	Analyze Danantara's investment portfolio for its contribution to socio-economic welfare and its alignment with broader public interest objectives.

2. **Shariah Compliance Standards: AAOIFI and IFSB Guidelines for Investment Funds**

The integrity and stability of the Islamic finance industry are underpinned by robust Shariah compliance standards, primarily promulgated by key international standard-setting bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB).

AAOIFI's Role:

AAOIFI, established in 1991, functions as a non-profit organization dedicated to developing and promoting Shariah standards for Islamic financial institutions globally.24 Its comprehensive framework covers critical areas including accounting, governance, ethics, transactions, and investment.24 To date, AAOIFI has issued 117 standards, comprising 59 Shariah standards, 33 accounting standards, 8 auditing standards, 14 governance standards, and 3 codes of ethics.24 These standards are widely adopted, either as mandatory regulatory requirements or as internal guidelines for Islamic financial institutions across various jurisdictions (Investopedia 2025).

For Islamic investment institutions and funds, AAOIFI's Accounting Board (AAB) recently issued Financial Accounting Standard (FAS) 50, titled "Financial Reporting for Islamic Investment Institutions (including Investment Funds)"

(Investopedia 2025). This new standard supersedes the earlier FAS 14 and aims to harmonize and standardize financial reporting principles, presentation, minimum contents, and the overall structure of financial statements for these institutions. The objective is to ensure truthful and fair presentation that is fully aligned with Shariah principles and rules. Furthermore, several Governance Standards (GS) are highly relevant, including GS 1 (Revised 2024) Shari'ah Governance Framework, GS 8 Central Shari'ah Board, GS 9 Shari'ah Compliance Function, GS 11 Internal Shari'ah Audit, and GS 12 Sukuk Governance ("Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)" 2025). These standards collectively emphasize fundamental Islamic finance principles such as the prohibition of interest (*riba*), the mandatory sharing of profits and losses, and the avoidance of investments in activities deemed harmful to the environment or consumers ("Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)" 2025).

IFSB's Role:

The Islamic Financial Services Board (IFSB), inaugurated in 2002, plays a crucial role in promoting the soundness and stability of the Islamic financial services industry worldwide.27 It achieves this by issuing global prudential standards and guiding principles that encompass the banking, capital markets, and insurance sectors ("IFSB- 24 - Islamic Financial Services Board" 2025).

A significant contribution from IFSB is IFSB-24, "Guiding Principles for Investor Protection in Islamic Capital Markets." This document sets out minimum requirements for investor protection and aims to foster financial stability within the Islamic Capital Market (ICM). It particularly stresses ethical conduct, the prohibition of misleading information (especially concerning Shariah compliance claims), and the implementation of Shariah-specific moral screens in investment activities.

Shariah Governance Frameworks (SGFs):

Both AAOIFI and IFSB are actively collaborating to consolidate and strengthen sound and effective Shariah Governance Frameworks (SGFs) across the industry. Key elements of these frameworks include the establishment of a Central Shariah Board, the implementation of mandatory external Shariah audits, specific governance considerations for Islamic windows, and limitations on the number of Shariah supervisory board memberships. SGFs necessitate the presence of comprehensive policies, procedures, resources, systems, and controls for both *ex-ante* (pre-transaction) and *ex-post* (post-transaction) Shariah compliance. This includes rigorous product approval processes, periodic reviews of compliance status, and the crucial mechanism of purifying tainted income.

Transparency, meticulous record-keeping, robust board oversight, and clearly defined policies for handling non-compliance incidents are also mandated to ensure accountability and maintain investor confidence ("Shariah governance practices in the global Islamic finance industry - INCEIF University" 2025). The evolving regulatory landscape, marked by the continuous issuance and revision of standards by bodies like AAOIFI and IFSB, demonstrates a clear commitment to harmonization and standardization within Islamic finance. However, a persistent challenge remains: "Shariah interpretations across jurisdictions create inconsistencies, requiring fund managers to navigate multiple compliance frameworks" ("Interview with Dilshod Jumaniyazov: Shariah-Compliant Finance Beyond Ethics" 2025). This indicates that despite the efforts of global standard-setting bodies, local legal and cultural contexts, coupled with diverse scholarly interpretations, continue to pose significant obstacles to achieving complete uniformity. This tension impacts the practical implementation of compliance, potentially leading to varied levels of rigor and, consequently, investor confusion regarding the authenticity of Shariah adherence ("Islamic banking and finance - Wikipedia" 2025).

The detailed provisions within IFSB and AAOIFI Governance Standards highlight a strong regulatory emphasis on robust Shariah governance. This includes the necessity of independent Shariah bodies, comprehensive internal and external audits, and transparent disclosure of Shariah compliance processes and any incidents of non-compliance. This regulatory focus reflects a recognition that the financial stability and investor confidence in Islamic finance are inextricably linked to the perceived and actual integrity of its Shariah adherence. The emphasis on transparency serves as a direct response to historical criticisms regarding the superficiality of some Islamic financial products, aiming to build trust by making compliance verifiable and accountable to all stakeholders.

Table 2: Summary of AAOIFI and IFSB Shariah Compliance Guidelines for Investment Funds

Standard-Setting Body	Relevant Standards/Guidelines	Key Provisions	Implication for Fund Management
AAOIFI	FAS 50 (Financial Reporting for Islamic Investment Institutions)	Harmonized financial reporting principles, presentation, minimum contents, and structure of financial statements.	Mandates standardized and transparent financial reporting in line with Shariah principles.
	GS 1 (Revised 2024) Shari'ah Governance Framework	Outlines comprehensive Shariah governance framework.	Requires robust internal controls and oversight for Shariah compliance.
	GS 8 (Central Shari'ah Board)	Establishment and function of a central Shariah board.	Emphasizes the role of a competent and independent Shariah board.
	GS 9 (Shari'ah Compliance Function)	Details the function of Shariah compliance within an institution.	Necessitates dedicated resources for day-to-day Shariah compliance monitoring.
	GS 11 (Internal Shari'ah Audit)	Focuses on the internal Shariah audit process.	Requires internal verification of Shariah adherence and reporting to management.
	GS 12 (Sukuk Governance)	Specifically addresses the governance of Sukuk.	Ensures Shariah compliance in the structuring and issuance of Islamic bonds.
IFSB	IFSB-24 (Guiding Principles for Investor Protection	Ethical conduct, prohibition of misleading	Guides fund managers on ethical behavior, product

	in Islamic Capital Markets)	information, Shariah-specific moral screens, transparency, periodic Shariah compliance reviews, purification of tainted income, clear policies for non-compliance.	suitability, and comprehensive Shariah governance, including disclosure and purification.

3. Analysis of Danantara's Current Fund Management Model

a. Model Structure and Investment Practices

Danantara's current fund management model is characterized by a hybrid approach, primarily involving equity and debt investments, coupled with a fundamental layer of Shariah screening. This structure is common within the broader Islamic finance industry, where funds often utilize a combination of Shariah-compliant debt-like instruments, such as *murabahah* (cost-plus financing) and *ijarah* (leasing), alongside equity participation in real assets (Fageh 2021; Solehudin dkk. 2024; Wiryanto 2023). The Shariah screening process typically involves both sectoral and financial screens to ensure that investments comply with Islamic law by excluding prohibited industries (ee.g., alcohol, gambling, pornography, tobacco) and adhering to financial ratios that limit exposure to interest-bearing debt or non-compliant income (“Islamic Finance: Social Impact Investment Mechanism and Faith Based Engagements for the Inclusive and Peaceful World - Consulus” 2025).

b. Identified Shariah Compliance Gaps and Challenges

Despite its adherence to basic Shariah screening, Danantara's current model exhibits several significant Shariah compliance gaps and operational challenges that hinder its ability to fully embody the higher objectives of Islamic law. These issues are not unique to Danantara but reflect systemic challenges prevalent across the Islamic finance industry.

A primary concern is Danantara's weak alignment with *Maslahah*, evidenced by its limited social impact investments. This limitation mirrors a broader industry criticism that

Islamic financial institutions frequently prioritize conventional financial objectives over their inherent ethical and social mandates ("Higher Ethical Objective (Maqasid al-Shari'ah) Augmented Framework for Islamic Banks" 2025). The industry's focus has often been on short-term financing of existing goods rather than contributing to the creation of production capital or long-term infrastructure development.[7] This approach falls short of realizing the full potential of *Maqasid al-Shariah*, which calls for active contribution to human and social well-being (Primadhany dkk. 2025). The growing market demand for ESG-compliant Islamic funds further underscores the market's expectation for greater *Maslahah* integration, highlighting a disconnect in Danantara's current strategy.

Another critical issue identified is inconsistent purification mechanisms for non-permissible income. This is a well-documented challenge in Islamic finance, where purification processes are often inconsistently disclosed across fund prospectuses. Regulatory ambiguities surrounding purification create operational tensions for fund managers, and the absence of formal regulatory recognition for Shariah compliance in some jurisdictions leads to varied approaches across the industry. Purification involves the deduction of income generated from non-permissible activities (e.g., interest income, revenue from alcohol sales) and its subsequent channeling to charitable causes. The responsibility for carrying out this process can vary, resting either with the investors or the fund manager, and the specific calculation methods are typically defined by the Shariah Board ("Terrorism financing risks in the purification process of sharia-compliant funds | Deloitte Luxembourg | Performance Magazine" 2025). The inconsistency in these practices undermines transparency and investor confidence.

Danantara's opaque fee structures represent another significant deviation from core Islamic principles. The principle of *'Adl* (justice) in Islamic finance demands transparency and clarity in all contractual terms to prevent exploitation and information asymmetry.[5] Opaque fees contradict the spirit of fairness and mutual cooperation that is central to *'Adl*, aligning instead with criticisms that some Islamic banking practices involve the "extraction of fees" for formal compliance without substantive difference from conventional products ("Challenges in Islamic finance - Wikipedia" 2025; Fageh 2021;

"The Contextualization Of The Māqāṣid Āl-Šyāriāh Jasser Auda Theory In The Concept And Practice Of Islamic Family Law" 2025).

Furthermore, while Danantara demonstrates moderate risk management, it reportedly lacks ethical diversification. This suggests a primary reliance on traditional financial risk metrics without fully integrating broader ethical considerations into portfolio construction. This limitation can arise from the restricted investment universe imposed by Shariah screening criteria, which, while necessary, can impact diversification and liquidity management ("Interview with Dilshod Jumaniyazov: Shariah-Compliant Finance Beyond Ethics" 2025).

These specific issues within Danantara are not isolated but are symptomatic of broader, well-documented challenges in the Islamic finance industry. A pervasive concern is the imitation of conventional finance, where Islamic "profit" rates are often benchmarked against interest rates, leading to outcomes "not materially different from interest-based transactions". This practice fosters the perception that Islamic banking is "nothing but a matter of twisting documents" , undermining its distinct ethical foundation.

Operational challenges also include the difficulty in measuring Shariah compliance risks, as Islamic financial institutions struggle to integrate these unique risks with conventional risk management frameworks, particularly given the rapid changes in global economic and regulatory environments ("Challenges and Solutions in Practicing Islamic Financial Management in Islamic Financial Institutions: A Secondary Research - ResearchGate" 2025). Moreover, some studies highlight a lack of mandatory auditing and confusion surrounding the roles of Shariah supervisory committees (SSCs). Knowledge gaps among employees regarding Shariah rules and Islamic finance principles also pose a significant hurdle to effective compliance. Fund managers frequently face the operational burden of maintaining parallel compliance systems for secular regulations (e.g., SEC rules) and Shariah investment screens, which can present conflicts concerning diversification, liquidity, and disclosure requirements.

Danantara's specific issues weak *Maslahah* alignment, inconsistent purification, and opaque fees are not unique to the fund but are symptomatic of broader, well-documented challenges in Islamic finance. This indicates an "operationalization gap," which is the difficulty in translating high-level Shariah principles and *Maqasid* objectives into consistent, transparent, and ethically impactful operational practices. This gap is exacerbated by regulatory ambiguities, the commercial pressure to compete with conventional finance, and internal knowledge deficiencies within financial institutions.

If Islamic funds like Danantara continue to struggle with inconsistent purification and limited social impact, it directly undermines the very ethical foundation that is intended to differentiate Islamic finance from its conventional counterpart. The tendency towards "imitation of conventional finance" fosters a perception of "Shari'a arbitrage," where the primary distinction lies in "technicalities and legal forms" rather than substantive adherence to ethical principles. This erosion of substantive compliance risks diminishing investor trust, particularly among Shariah-conscious investors who expect "substantive theological integrity" , thereby jeopardizing the industry's long-term legitimacy and growth potential.

Table 3: Challenges in Islamic Fund Management and Proposed Solutions

Challenge	Description/Impact	Proposed Solution (General)
Weak Maslahah Alignment	Limited social impact investments; prioritizing financial over ethical objectives.	Prioritize *Maqasid*-aligned investments (e.g., green sukuk, healthcare); shift to positive impact investing.
Inconsistent Purification Mechanisms	Varied disclosure and methodologies; regulatory ambiguities; investor confusion.	Standardize purification disclosure and reporting; develop clear, publicly available methodologies.
Opaque Fee Structures	Lack of transparency; potential for perceived "extraction of fees"; contradicts *'Adl*.	Implement fully transparent and clearly disclosed fee structures.
Lack of Ethical Diversification	Over-reliance on financial risk metrics; restricted investment universe due to negative screening.	Integrate ethical considerations into portfolio construction; explore new Shariah-compliant asset classes with social impact.

Imitation of Conventional Finance	Products not materially different from interest-based transactions; perception of "twisting documents."	Deepen *Maqasid* integration to ensure substantive ethical differentiation; focus on risk-sharing models.
Difficulty in Measuring Shariah Compliance Risks	Challenges in integrating Shariah risks with conventional risk management; rapidly changing regulations.	Develop integrated risk management frameworks that account for both financial and Shariah compliance risks.
Lack of Mandatory Auditing & Knowledge Gaps	Absence of independent verification; confusion regarding Shariah supervisory committees; employee knowledge deficiencies.	Mandate third-party Shariah audits; strengthen Shariah board independence; invest in employee training and education.
Operational Complexity	Burden of maintaining parallel compliance systems (secular & Shariah); conflicts in diversification/liquidity.	Leverage fintech for automated compliance; advocate for regulatory harmonization to reduce dual burdens.

c. Maqasid al-Shariah Evaluation of Danantara's Model

The evaluation of Danantara's current fund management model through the lens of Jasser Auda's *Maqasid al-Shariah* framework reveals specific areas where the fund falls short of its potential ethical and societal impact. This assessment goes beyond mere technical Shariah compliance to examine the deeper objectives and purposes of Islamic law that should guide all financial operations.

d. Wealth Preservation (Hifz al-Mal) and Ethical Diversification

Danantara’s current model demonstrates moderate risk management, indicating a foundational understanding and application of financial prudence necessary for the preservation of wealth. This aligns with a basic tenet of *Hifz al-Mal*, which emphasizes safeguarding assets. However, a significant limitation is the fund’s reported lack of ethical diversification. This suggests that while the fund may protect wealth in a purely financial sense, its approach to *Hifz al-Mal* does not fully integrate the broader Shariah objective of ensuring wealth is acquired and managed in a morally sound manner, free from prohibited elements and actively contributing to societal well-being. The inherent challenges of Shariah-compliant investing, such as the exclusion of interest-based instruments and highly leveraged assets, can indeed reduce investment options and impact portfolio diversification ("Islamic Ethics As The Basis Of Financial Accountability: A Study On Modern Organizational Management" 2025). However, true adherence to *Hifz al-Mal* requires proactive strategies to overcome these limitations by seeking out ethically robust and diversified investment avenues (Kamaruddin dkk. 2025).

The fund's performance in this area points to a narrow interpretation of *Hifz al-Mal* in practice. While Danantara engages in moderate risk management, its limited ethical diversification implies that it views wealth preservation primarily through a conventional financial lens. *Hifz al-Mal*, as understood through Auda's and other scholars' perspectives, extends beyond financial prudence to encompass the purity and ethical source of wealth, as well as its purposeful deployment. By not actively diversifying into ethically impactful sectors or by not rigorously addressing all sources of non-permissible income, Danantara's current practice falls short of the holistic understanding of *Hifz al-Mal*, which seeks to safeguard wealth from both financial and ethical degradation (Primadhany dkk. 2025; Nashuha dan Elbanna 2025b).

e. Justice ('Adl) in Profit Distribution and Fee Structures

Danantara's model reportedly ensures fair profit distribution, which is a commendable aspect and aligns positively with the *'Adl* principle of symmetrical risk and return sharing, a cornerstone of Islamic finance. This demonstrates an effort to uphold equity in the financial outcomes for investors.

However, the reported opacity of Danantara's fee structures presents a significant contradiction to the *'Adl* objective. Justice in Islamic finance is paramount and demands transparency and clarity in all contractual terms and financial arrangements to prevent exploitation and information asymmetry.[5] Opaque fees inherently introduce ambiguity and can lead to a perception of unfairness, directly contradicting the spirit of fairness and mutual cooperation that is central to *'Adl*. This lack of transparency can erode investor trust and is consistent with broader criticisms within the Islamic finance industry regarding higher fees and a perceived "extraction of fees" that do not always reflect substantive ethical differentiation from conventional products.

The fair profit distribution combined with opaque fee structures highlights a critical inconsistency in the application of *'Adl*. While the mechanisms for sharing profits might be designed for fairness, the lack of transparency in fee structures introduces information asymmetry and potential for exploitation. This directly contravenes the principle of *'Adl*. Therefore, transparency is not merely a regulatory recommendation but a fundamental ethical imperative for achieving true justice and equity in all Islamic financial transactions.

f. Public Interest (Maslahah) and Socio-Economic Welfare Contribution

Danantara's minimal contribution to socio-economic welfare indicates a substantial gap in its adherence to the *Maslahah* principle. *Maslahah* is a proactive objective that requires Islamic finance to actively promote societal well-being, address social inequalities, and contribute to sustainable development. The industry, including funds like Danantara, has often been criticized for prioritizing financial performance over these broader ethical and social objectives. This has frequently resulted in a focus on short-term financing rather than long-term, impactful development projects that could genuinely uplift communities and contribute to public good.

The increasing global demand for ESG-compliant Islamic funds underscores a market expectation for greater integration of *Maslahah*. Investors are increasingly seeking financial products that not only avoid harm but actively contribute to positive social and environmental outcomes. Danantara's current approach, which appears to be more reactive (avoiding prohibited sectors) than proactive (seeking out beneficial investments), falls short of this evolving expectation and the true spirit of *Maslahah* (Shah dan Susilo 2022).

Danantara's "minimal contribution to socio-economic welfare" suggests a passive approach to *Maslahah,* focusing more on avoiding harm (e.g., prohibited industries) than actively securing benefit. However, the *Maqasid* framework, particularly *Maslahah*, calls for proactive engagement in promoting social good and addressing societal needs.(“Maqasid al-Shariah and the legality of Islamic financial contracts - INCEIF

University" 2025) This passive stance is a common critique of the Islamic finance industry, indicating a failure to fully leverage its potential for positive social impact, despite the inherent alignment between Islamic finance and sustainable development goals ("Terrorism financing risks in the purification process of sharia-compliant funds | Deloitte Luxembourg | Performance Magazine" 2025).

Table 4: Danantara's Current Model: Shariah Compliance Issues and Maqasid Evaluation

Aspect of Current Model	Shariah Compliance Issue (if any)	Maqasid Evaluation (Hifz al-Mal, 'Adl, Maslahah)	Severity/Impact
Investment Structure	Hybrid equity-debt with basic Shariah screening.	Moderate risk management, but lacks ethical diversification (Hifz al-Mal).	Medium
Purification Mechanisms	Inconsistent purification for non-permissible income.	Inconsistent application of *Hifz al-Mal* (purity of wealth); undermines transparency for *'Adl*.	High
Fee Structures	Opaque fee structures.	Contradicts *'Adl* (justice and transparency).	High
Social Impact	Limited social impact investments.	Minimal contribution to *Maslahah* (public interest/welfare).	High

To address the identified gaps in Shariah compliance and *Maqasid al-Shariah* integration, a reconstructed model for Danantara is proposed. This model emphasizes a fundamental shift from merely formal adherence to a more substantive and ethically driven approach, designed to enhance the fund's integrity, transparency, and societal impact.

g. Enhanced Shariah Governance and Oversight

The reconstructed model places significant emphasis on strengthening Danantara's Shariah governance framework, recognizing it as the cornerstone for authentic Islamic finance. Strengthened Shariah Board Oversight: The proposal mandates a more robust and independent Shariah board for Danantara. This aligns directly with the guidelines set forth by IFSB and AAOIFI, which underscore the necessity of sound Shariah governance frameworks.The enhanced board should possess clearly defined responsibilities, ensuring consistent Shariah compliance in all daily operations and providing rigorous approval for new products and investment strategies.A critical component of this enhancement involves addressing any existing ambiguities or confusion regarding the roles and independence of Shariah supervisory committees (SSCs). Ensuring their autonomy from management influence is paramount for objective decision-making and maintaining the fund's religious legitimacy.

Mandatory Third-Party Shariah Audits: To complement internal oversight and bolster public confidence, the reconstructed model advocates for the implementation of mandatory third-party Shariah audits. This directly addresses the current absence of mandatory auditing in some areas of Islamic finance. An independent external audit provides an unbiased verification of the fund's compliance with Shariah principles, enhancing transparency and accountability to investors and the broader community. The scope of such audits should extend beyond mere transactional compliance to evaluate the effectiveness of internal Shariah controls and the overall alignment of the fund's operations with *Maqasid al-Shariah* (“IFSB- 24 - Islamic Financial Services Board” 2025).

The current model's weaknesses, particularly its opaque fee structures and inconsistent purification processes, point to insufficient internal oversight and a need for greater accountability. The proposal for "strengthened Shariah board oversight" and "mandatory third-party audits" directly addresses this by shifting towards a model of external accountability. This is critical because, as the literature indicates, a lack of mandatory auditing and internal control deficiencies can compromise the legitimacy of Islamic financial instruments in the eyes of the Muslim community. External validation, therefore, becomes essential not only for building investor trust but also for ensuring adherence to both the letter and the spirit of Shariah.

h. Maqasid-Aligned Investment Strategy

The reconstructed model proposes a strategic reorientation of Danantara's investment strategy, moving beyond mere negative screening to active positive impact investing aligned with *Maqasid al-Shariah*, particularly *Maslahah*. This shift means Danantara will proactively prioritize investments in projects that explicitly contribute to societal welfare and sustainable development. This moves the fund beyond simply avoiding prohibited sectors to actively seeking opportunities that generate tangible social and environmental benefits (Albar dkk. 2025b).

Investing in green sukuk represents a prime example of Maslahah-aligned financing. Green sukuk are Shariah-compliant financial instruments specifically designed to fund environmentally friendly infrastructure and renewable energy projects. Their inherent alignment with Islamic finance's promotion of environmental safeguarding and climate change mitigation reflects the human role as stewards of the Earth, a core aspect of Maslahah. Examples of eligible projects for green sukuk include investments in renewable energy generation, energy efficiency initiatives, pollution prevention and control, and sustainable water management systems ("Guidance on Green, Social and Sustainability Sukuk - ICMA" 2025).

Directing investments towards healthcare initiatives is another crucial area for the realization of Maslahah. Healthcare projects fall under the "Access to essential services" category within social sukuk eligible projects. Such investments directly contribute to the preservation of life (*Hifz al-Nafs*) and overall societal well-being, which are fundamental objectives of Shariah. This could include financing for hospitals, clinics, medical research, or accessible healthcare infrastructure.

Beyond green initiatives and healthcare, the reconstructed model should explore other categories of social sukuk. These include investments in affordable basic infrastructure, affordable housing, employment generation programs, food security initiatives, and projects promoting socioeconomic advancement. By broadening its scope of socially impactful investments, Danantara can significantly enhance its contribution to public interest and differentiate itself as a truly ethical fund (Ayu dkk. 2025; Gaol dkk. 2025; Rachmad 2025a).

Danantara's current model primarily relies on "Shariah screening," which typically involves negative screening – excluding investments in haram activities like alcohol, gambling, or interest-based income. The proposed shift to "prioritize projects aligned with Maqasid" signifies a crucial evolution towards positive screening and impact investing. This is fundamental because Islamic finance is increasingly expected to do more than just "eschew the bad"; it must actively "promote good". Green sukuk and healthcare investments are concrete examples of how this positive impact can be achieved, directly addressing Maslahah and other core Maqasid. This strategic pivot allows Danantara to fulfill its ethical mandate more comprehensively and attract a growing segment of values-driven investors.

i. Transparency and Disclosure Mechanisms for Shariah Non-Compliance

Enhanced transparency and robust disclosure mechanisms are vital components of the reconstructed model, aiming to build and maintain investor trust and accountability. The reconstructed model will mandate the disclosure of all Shariah non-compliance incidents. This proactive measure significantly enhances accountability and fosters greater investor trust. Clear, written policies and procedures, including defined remedial actions for Shariah non-compliance and specific purification methodologies, must be established and made readily available to investors. This level of transparency ensures that stakeholders are fully informed about how the fund addresses any deviations from Shariah principles (Hidayat dkk. 2025).

Addressing the previously identified "inconsistent purification mechanisms" requires the implementation of standardized reporting for all purification processes. Danantara should commit to publishing annual purification reports. These reports must meticulously detail the calculation of non-permissible income (e.g., interest income, income from prohibited activities) and provide full transparency regarding its charitable distribution.[8] This standardization will reduce ambiguity, enhance auditability, and provide investors with clear, consistent information regarding the fund's adherence to ethical wealth management (Simanjuntak dan Widyadhana 2025; Rachmad 2024).

The current "inconsistent purification mechanisms" and the lack of mandated disclosure contribute significantly to ambiguity and potential distrust among investors. By mandating the disclosure of non-compliance incidents and standardizing purification reporting, the proposed model aims to fundamentally enhance transparency. This is critical because, as the literature suggests, investor confidence is strongly tied to "substantive theological integrity and documented scholarly endorsement" ("(PDF) Shariah-Compliant Financial Products in Indonesia: Analyzing Consumer Behavior and Market Demand" 2025). Transparent reporting not only holds the fund accountable to its Shariah board and investors but also serves to educate the market, fostering greater confidence in the authenticity and ethical rigor of Islamic financial products.

Table 5: Proposed Reconstructed Model: Key Enhancements and Maqasid Alignment

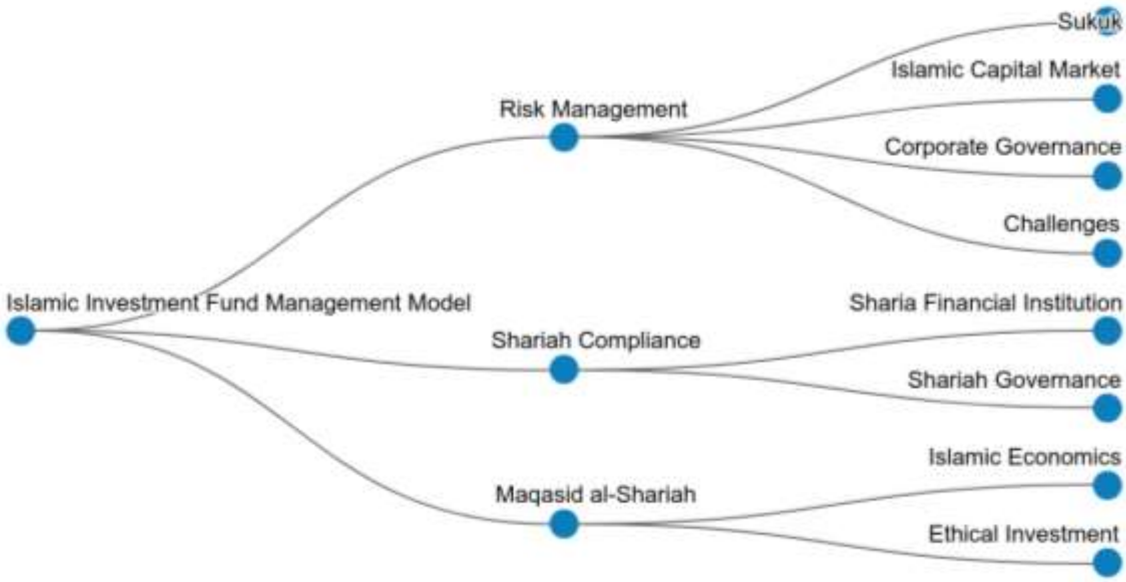
Area of Enhancement	Specific Enhancement	Maqasid Alignment	Expected Outcome
Shariah Governance	Strengthened Shariah board oversight.	Enhances *'Adl* (justice through robust governance) and *Hifz al-Mal* (ethical preservation of wealth).	Improved Shariah integrity, more consistent compliance, greater accountability.
	Mandatory third-party Shariah audits.	Reinforces *'Adl* (transparency and fairness) and *Hifz al-Mal* (protection from illicit gains).	Increased investor trust, independent verification of compliance, reduced risk of non-compliance.
Investment Strategy	Prioritization of green sukuk and healthcare projects.	Direct contribution to *Maslahah* (public interest/welfare), *Hifz al-Nafs* (preservation of life), and *Hifz al-Mal* (productive wealth generation).	Increased social and environmental impact, attraction of values-driven investors, substantive ethical differentiation.

Transparency	Mandated disclosure of Shariah non-compliance incidents.	Upholds *'Adl* (transparency and accountability).	Enhanced ethical accountability, proactive risk management, stronger investor relations.
	Standardized purification reporting.	Ensures *Hifz al-Mal* (purity of wealth) and *'Adl* (transparency in handling non-permissible income).	Reduced ambiguity, greater investor confidence in ethical management of funds.

The proposed reconstructed model for Danantara, by deeply integrating *Maqasid al-Shariah* beyond mere technical Shariah compliance, positions the fund to achieve a distinct competitive advantage and outperform many conventional Islamic funds in terms of ethical accountability. This strategic differentiation directly addresses the pervasive criticism that a significant portion of Islamic finance products are often perceived as mere imitations of conventional ones, lacking substantive ethical distinction (Rachmad 2025c, 2025b).

By explicitly adopting a *Maqasid*-based governance and investment strategy, Danantara moves beyond the "form over substance" critique that has plagued parts of the industry.[7] This deeper integration of ethical accountability, which encompasses not only compliance with specific rules but also adherence to the higher objectives of Islamic law, allows the fund to genuinely distinguish itself. This approach enables Danantara to capture the growing segment of investors who seek not just Shariah compliance but also demonstrable social and environmental impact. This creates a distinct competitive advantage, fostering trust and attracting capital that may be less sensitive to marginal cost differences, as investors are willing to pay a premium for perceived Shariah-compliant finance.

Table. 6. Islamic investment Fund management model



The table.03 illustrates a conceptual map of the *Islamic Investment Fund Management Model*, highlighting its core components and their interconnected subtopics. At the center is the main theme, which branches into three fundamental areas: Risk Management, Shariah Compliance, and *Maqasid al-Shariah.* Each of these components represents critical pillars in structuring and sustaining Islamic fund management practices. Risk Management connects to topics such as sukuk, the Islamic capital market, corporate governance, and the challenges specific to managing risk within a Shariah-compliant framework. These connections emphasize the need for financial instruments and market structures that align with Islamic principles while also maintaining financial stability and investor confidence.

Shariah Compliance underscores the necessity for all financial operations to adhere strictly to Islamic legal and ethical standards. It is closely linked to Sharia financial institutions and Shariah governance, which provide institutional and regulatory oversight to ensure compliance. Meanwhile, the inclusion of *Maqasid al-Shariah* reflects the broader purpose of Islamic law in guiding ethical and socially responsible investment. This area ties into Islamic economics and ethical investment, highlighting the commitment to justice, sustainability, and the common good. Together, these elements demonstrate how Islamic investment fund management is deeply rooted in both legal compliance and value-driven economic objectives.

The adoption of a holistic performance measurement framework, such as the Pentagon-shaped Ethical Measurement model , allows for a more balanced and sustainable assessment of the fund's performance. This framework integrates ethical, social, and environmental dimensions alongside traditional financial returns, providing a comprehensive view of the fund's success. Such a multidimensional approach enhances organizational credibility, strengthens corporate governance, and contributes to long-term sustainability by aligning financial objectives with broader societal welfare.

Furthermore, by proactively prioritizing *Maslahah*-aligned investments, such as green sukuk and healthcare projects, Danantara can demonstrate a tangible and measurable commitment to social welfare and sustainable development. This active pursuit of positive impact resonates with values-driven investors and aligns with the broader global movement towards socially responsible investing (SRI) and ESG principles (Gaol dkk. 2025). This commitment allows Danantara to offer a unique value proposition that transcends mere financial returns, fostering deeper trust and loyalty among its investor base. The reconstructed model for Danantara serves as a practical blueprint for other Islamic financial institutions seeking to enhance their Shariah integrity and ethical impact. It provides actionable insights derived from a concrete case study, bridging the often-cited gap between theoretical discussions of *Maqasid al-Shariah* and their practical application in fund governance.

This model contributes significantly to the theoretical discourse in Islamic finance by offering a tangible example of *Maqasid*-based fund governance. It moves the conversation beyond abstract concepts to demonstrate how higher ethical objectives can be operationalized within a financial institution. By detailing the specific mechanisms for enhanced governance, *Maqasid*-aligned investment strategies, and transparent disclosure, the model provides a framework that can be adapted and tested by other researchers and practitioners. This practical application of theoretical principles enriches the academic literature, fostering further research and development in the field of ethical Islamic finance.

CONCLUSION

Danantara’s current fund management model, while adhering to fundamental Shariah screening criteria, exhibits notable deficiencies in its comprehensive alignment with Maqasid al-Shariah. Specifically, the fund demonstrates a weak contribution to Maslahah (public interest) through limited social impact investments, operates with inconsistent purification mechanisms for non-permissible income, and maintains opaque fee structures that undermine the principle of 'Adl (justice). These shortcomings are not isolated to Danantara but reflect broader, systemic challenges within the Islamic finance industry, including a tendency to imitate conventional financial models and inconsistencies in operationalizing its inherent ethical principles. The analysis underscores a critical operationalization gap, where high-level Shariah objectives struggle to translate into consistent, transparent, and ethically impactful practices, potentially eroding investor trust and hindering the industry's full potential.

The Islamic finance industry has experienced remarkable global growth, driven by increasing demand for ethical and Shariah-compliant financial products. Despite this expansion, a critical challenge persists: the consistent integration of the higher objectives of Islamic law (Maqasid al-Shariah) with robust Shariah compliance in practice. This report analyzes Danantara, an Islamic investment fund, as a case study to illuminate these challenges. The analysis reveals that Danantara's current hybrid equity-debt model, while adhering to basic Shariah screening, exhibits significant deficiencies, particularly in its weak alignment with Maslahah (public interest), inconsistent purification mechanisms for non-permissible income, and opaque fee structures. These shortcomings reflect a broader industry tendency to prioritize formal compliance over substantive ethical impact.

To address these issues, a reconstructed model for Danantara is proposed. This model advocates for strengthened Shariah board oversight, mandatory third-party Shariah audits, and a strategic shift towards Maqasid-aligned investments, such as green sukuk and healthcare projects. Furthermore, it emphasizes enhanced transparency through mandated disclosure of Shariah non-compliance incidents and standardized purification reporting. This reconstructed approach aims to foster a distinct comparative advantage by elevating ethical accountability and deeply embedding Maqasid al-Shariah into the fund's operations. The report concludes with actionable recommendations for Danantara's implementation and policy suggestions for regulatory bodies to enforce Maqasid-based reporting standards, thereby advancing the integrity and societal contribution of the global Islamic finance industry.

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