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CASE ANALYSIS OF INDONESIAN SHARIA FUNDS THROUGH THE PERSPECTIVE OF SHARIA ECONOMIC LAW: DISCONGRUENCE BETWEEN FORMALITIES OF CONTRACTS AND SUBSTANTIVE JUSTICE

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Abstract

The failure of PT Dana Syariah Indonesia in October 2025, which resulted in a loss of IDR 2.4 trillion for 14,000 lenders, reveals a fundamental failure to realize the core values of sharia economic law. This literature research analyzes the case through a normative-philosophical approach with five main principles, namely justice ('adl), transparency, prohibition of gharar, trust, and sustainability (istidamah). Research sources include the Qur'an, Hadith, works of classical scholars, academic literature, DSN-MUI fatwas, OJK regulations, and investigative reports. The results of the study show a serious gap between the formality of using sharia labels and the application of the substance of justice values. DSI uses formal sharia contracts, institutions, and symbols. However, in practice, it undermines these principles through fictitious fund allocation, false reporting, avoidance of transparency, the absence of independent sharia audits, and unsustainable business practices that resemble Ponzi schemes. This study develops a substantive Sharia compliance framework that distinguishes between formal and substantive compliance based on value realization. The main findings confirm that the absence of independent Sharia audits is an important factor enabling fraud. Its theoretical implications emphasize that sharia economic law is not merely a procedural rule but an epistemology of justice that requires integrating form, substance, and purpose (maqasid al-shariah). Policy recommendations include independent Sharia audit obligations, blockchain-based transparency, an autonomous Sharia Supervisory Board, and a comprehensive consumer protection scheme.

Keywords: *Dana Syariah Indonesia, keadilan ('adl), transparansi, gharar, kepercayaan, hukum ekonomi syariah, kepatuhan substantif, fintech syariah.*

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Introduction

Since the institutionalization of the Islamic financial system in Indonesia through Law No. 21 of 2008 concerning Sharia Banking and POJK No. 77/2016 concerning Information Technology-Based Money Lending Services (Law of the Republic of Indonesia No. 21 of 2008, 2008; Financial Services Authority, 2016), the sharia *lending peer-to-peer* (P2P) fintech industry is growing rapidly with annual asset growth of more than 30 percent. By 2024, there will be 23 *Sharia* P2P lending platforms, with funds raised of around IDR 12 trillion, offering yields of 12–18 percent per year and attracting thousands of investors from various economic backgrounds (Financial Services Authority, 2023). PT Dana Syariah Indonesia (DSI), which was established in 2019, is one of the major players with claims of full compliance with *DSN-MUI Fatwa No. 116/2017* and operates using three sharia contracts: *amanah* (trust funds for projects), *qard* (interest-free loans), and *murabahah* (buying and selling on margin) (National Sharia Council–Indonesian Ulema Council, 2017).

However, in October 2025, the platform was suddenly unable to return principal or yield to funders. Further investigations by the Criminal Investigation Branch of the National Police and the OJK revealed a structured and systematic operational scheme (Criminal Investigation Report of the National Police, 2025; Financial Services Authority, 2025). The use of fictitious projects accounts for about 80 percent of the more than 500 projects that were never actually built. DSI's financial statements contain fictitious data, with assets worth Rp 2.1 trillion reported as "project receivables," when in reality these assets cannot be billed and may not even exist. The flow of funds was diverted to affiliated companies, namely Mediffa Barokah International and Duo Properti Lestari, without transparency. A pure Ponzi mechanism occurs when funds from a new lender are allocated to pay the returns of the old lender. The absence of an independent *Sharia* audit made these irregularities undetected for two years. The total loss reached Rp 2.4 trillion with 14,000 funders harmed. Three executives (CEO Taufiq Aljufri, former Director of MY, and Commissioner of ARL) were designated as suspects based on the articles of fraud and money laundering (Bareskrim Polri, 2025, pp. 201–220; Investigation Warrant SP Number. Investigation-1625/2025, 2025).

Although the DSI case has been the center of media and regulatory attention, normative-philosophical analyses of violations of the legal values of *Sharia* economics have not received in-depth attention in the academic literature. The existing literature on sharia fintech focuses more on digital transformation, governance, and technological transparency without critically interrogating whether the implementation of sharia contracts automatically guarantees compliance with the substance of Islamic values. Although several recent studies have touched on issues surrounding sharia compliance in digital financial services, discussions on the mechanism of *religious fraud* or *sharia laundering* - that is, the use of Islamic labels without substantive value - have not yet become a systemic focus in academic research (Kurniawan et al., 2022).

The pressing questions, therefore, are how DSI's practices deviate from the five fundamental principles of sharia economic law (*al-ʿadl, al-wuḍūḥ, gharar, amānah,* and *istiḍāmah*), whether the use of the label *sharia* without independent audit creates a *false legitimacy* that facilitates fraud, how the concept of justice in Islam can be realized substantively rather than merely formally, and what the theoretical and practical implications are for sharia fintech regulatory reform (Alam, 2020; Ahmad, 2023). These questions reflect a significant epistemological gap in the study of Islamic financial technology. Existing literature tends to treat formal compliance - such as the use of contracts, DSN-MUI fatwas, and Islamic banking institutions - as evidence of substantive compliance, whereas the DSI phenomenon suggests that this is a superficial and potentially dangerous assumption (Hanif, 2021; El-Ashker & Wilson, 2006, pp. 178-195). Thus, this study seeks to fill that gap.

This study aims to analyze the case of DSI through the five main principles of sharia economic law: justice (*'adl*), transparency (*al-wuduh*), prohibition of ambiguity (*gharar*), accountability (amanah), and sustainability (istidamah). This study identifies the mechanism underlying the discongruence between the formality of sharia contract use and the substantive application of justice values. It explains how the absence of an independent *Sharia* audit facilitates fraud. The research develops a conceptual framework of "substantive sharia compliance" as a theoretical contribution to the legal literature on sharia economics. It formulates policy recommendations grounded in *Sharia* values to improve governance, transparency, and consumer protection in the *Sharia* fintech ecosystem.

Literature Review

Key Concepts in Sharia Economic Law

Sharia economic law is built on ethical and legal principles that regulate economic behavior in accordance with Islamic teachings. One of the central principles is justice, which requires the fair distribution of rights, obligations, risks, and benefits in every transaction. In Islamic economic thought, justice is not limited to formal legality, but also concerns whether an economic practice produces fairness and public benefit in substance. Recent studies argue that Islamic finance must move beyond contractual formality and ensure that its operations reflect *maqasid al-sharia*, especially protection of wealth, fairness, and social welfare (Ahyani et al., 2022; Hudaefi, Caraka, and Wahyudi, 2021).

Another key concept is transparency, which refers to openness in disclosing information about contracts, risks, profit-sharing mechanisms, and fund management. Transparency is essential in Islamic finance because incomplete or misleading information can lead to injustice and undermine accountability. Contemporary research shows that transparency and disclosure are strongly associated with public trust, governance quality, and the credibility of sharia financial institutions, especially in digital financial services (Rahman et al., 2021; Sarea & Hanefah, 2022).

The prohibition of *gharar* is also highly relevant. *Gharar* refers to excessive uncertainty, ambiguity, or lack of clarity in contractual terms or in the object of exchange. In recent Islamic finance scholarship, gharar is often discussed in relation to financial innovation, fintech, and investment products that may appear sharia-compliant on paper but have unclear risk structures in practice. Studies over the last decade emphasize that avoiding *gharar* is necessary to protect parties from deception, speculation, and contractual imbalance (Muneeza & Mustapha, 2021; Yussof & Abdullah, 2020).

Closely related to these ideas is *amanah*, or trustworthiness, which requires institutions and fund managers to act honestly, responsibly, and in accordance with agreed objectives. *Amanah* is not merely a moral virtue, but also an operational principle that supports accountability and fiduciary responsibility in Islamic

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financial governance. Recent literature highlights that weak supervision, poor internal control, and inadequate sharia auditing often lead to violations of *amanah*, even when Islamic legal terminology is formally maintained (Kasri, 2023; Nomran, Haron, and Hassan, 2018).

This study also uses the concept of substantive compliance. Substantive compliance distinguishes between merely using Islamic contracts and actually implementing Islamic values in practice. Over the last 10 years, many scholars have criticized the tendency of some Islamic financial institutions to prioritize legal form over ethical substance. They argue that true sharia compliance should be measured not only by the use of contracts such as *murabahah*, *qard*, or *wakalah*, but also by whether the institution upholds justice, transparency, accountability, and social responsibility (Amin, Abdul-Rahman, and Razak, 2020; Huda, Qodriah, Rini, and ... e need to assess not only what contractual forms are used, but whether those forms truly embody Islamic legal and ethical principles.

Previous Relevant Studies

Recent studies on Islamic finance and sharia governance show that institutional success depends on both regulatory compliance and ethical implementation. Research by Nomran, Haron, and Hassan (2018) found that the effectiveness of sharia supervisory mechanisms significantly influences governance quality and stakeholder confidence in Islamic financial institutions. Similarly, Kasri (2023) emphasized that governance in Islamic finance must be strengthened through independent supervision, stronger internal controls, and robust accountability frameworks.

In the context of Islamic fintech, recent investigations have shown that rapid digital expansion often creates new legal and ethical challenges. Muneeza and Mustapha (2021) note that fintech products frequently raise questions regarding contractual clarity, risk disclosure, and the possibility of hidden uncertainty. Rahman et al. (2021) also found that user trust in Islamic digital finance depends heavily on transparency, operational accountability, and the perceived authenticity of sharia compliance. These findings are relevant because they show that digital Islamic financial platforms are particularly vulnerable to the gap between formal compliance and substantive practice.

Other recent studies focus more specifically on *maqasid al-sharia* as a framework for evaluating Islamic financial institutions. Ahyani et al. (2022) argue that Islamic economic institutions should be assessed according to their ability to protect wealth, ensure justice, and promote public welfare. In a similar vein, Hudaefi, Caraka, and Wahyudi (2021) demonstrate that Islamic financial governance should integrate ethical performance indicators rather than relying solely on formal legal benchmarks. These studies support the argument that the legitimacy of a sharia institution depends on whether it realizes Islamic objectives in practice.

Research on *Sharia* auditing and accountability also provides an important foundation for this paper. Sarea and Hanefah (2022) explain that stronger disclosure practices and sharia audit mechanisms can reduce the risk of mismanagement and improve institutional legitimacy. Amin, Abdul-Rahman, and Razak (2020) further show that the gap between compliance claims and actual operational behavior remains a major issue in contemporary Islamic finance. This means that previous studies consistently recognize a recurring problem: many institutions use Islamic labels and contracts, but fail to fully implement the ethical principles underlying them.

Taken together, the literature of the last 10 years indicates that justice, transparency, *amanah*, and the avoidance of *gharar* are not merely doctrinal concepts, but practical standards for evaluating Islamic financial institutions. Previous studies also demonstrate that the main challenge in contemporary sharia finance lies in the discrepancy between formal sharia compliance and substantive ethical realization. Therefore, this paper builds on recent scholarship by examining how those principles are applied, neglected, or contradicted in practice.

Research Method

This study uses a case-based, normative-qualitative approach with document analysis to explore PT Dana Syariah Indonesia (DSI). This approach focuses on reviewing relevant literature as well as legal documents, regulations, and reports related to DSI cases. As the primary method, document analysis is used to identify and analyze the basic principles of Sharia economic law that are violated in DSI's operational practices, drawing on regulatory documents, including DSN-MUI fatwas, audit reports, and investigation reports issued by the authorities. The analytical framework of this research includes five main principles of sharia economic law: justice ('*adl*), transparency (*al-wuduh*), prohibition of ambiguity (*gharar*), accountability (amanah), and sustainability (*istidamah*). The documents analyzed include primary sources (the Qur'an, Hadith, works of classical scholars) and secondary literature (DSN-MUI fatwas, OJK regulations, investigation reports, and related case studies).

The procedural steps of the analysis begin with the collection and organization of relevant documents into thematic categories. Furthermore, each document is extracted to obtain key concepts related to *Sharia* principles, followed by an analysis of the suitability between DSI practices and normative standards drawn from the existing literature. This process ensures that the findings from each document are verified and contextualized to explain the irregularities in DSI practice.

Result/Findings

Justice ('*Adl*): Fictitious Allocation of Funds as a Fundamental Violation

Justice in *Sharia* economic law is not merely an abstract principle, but a practical imperative that must be realized in every transaction. In Surah An-Nisāʾ verse 58, Allah commands believers to deliver trusts to those entitled to receive them and to judge with justice; this verse integrates trust and justice as two inseparable pillars in Islamic economic ethics (Al-Ṭabarī, 2001, pp. 234-267; Ibn Kathīr, 1998, pp. 456-478). In the context of *Sharia* fintech, justice means that access to information must be equal between lenders and borrowers, the distribution of returns must be proportional to each party's risk and contribution, lender funds constitute property rights that must not be abused, and no party may be harmed for the benefit of another (Alam, 2020). Justice is the foundation of all good; when justice is lost, every system collapses. This principle is reflected in the classical maxim *al-ʿadl asās al-mulk* - justice is the foundation of power (Al-Māwardī, 2000, pp. 35-42).

The Bareskrim report revealed that approximately 80% of the more than 500 projects promoted by DSI were fictitious, never built, or merely sham projects supported by fabricated borrower data (Criminal Investigation Report of the National Police, 2025;

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Financial Services Authority, 2026). The process of fund allocation occurred as follows: lenders transferred funds to DSI's custodial account in the belief that the funds would be allocated to real projects; in the backend system, projects were registered under fictitious borrower names or falsified data; the funds were then transferred to affiliated companies for non-transparent purposes; and lenders remained unaware that the projects had never been realized, relying instead on financial statements indicating that the projects were running normally (Criminal Investigation Branch of the National Police, 2025; Financial Transaction Reporting and Analysis Center, 2025). This mechanism systematically created a fundamental information asymmetry between the platform and its users, thereby violating the principle of *al-wuḍūḥ*, or transparency, which will be further analyzed.

In *ʿaqd al-amānah* or trust-based contracts, the party receiving the trust bears absolute responsibility to preserve and use it in accordance with the agreed purpose, and therefore the use of funds for fictitious projects constitutes a fundamental breach of trust (Ibn Qudāmah al-Maqdisī, n.d., pp. 227-289; Dewan Syariah Nasional-Majelis Ulama Indonesia, 2017, Article 5). Al-Māwardī and Ibn Qudāmah emphasize that *khiyānah* or betrayal of trust is a grave sin and entails full compensatory liability (Al-Māwardī, 2000, pp. 156-178; Ibn Qudāmah al-Maqdisī, n.d., pp. 289-312). Furthermore, lenders were placed at a disadvantage because they received returns from projects that never existed, meaning those returns originated from other lenders' funds through a Ponzi scheme rather than from genuine project outcomes. In Islamic economic terminology, this has been associated with unlawful gain not grounded in real transfer or possession of value (Kurniawan et al., 2022, pp. 298-302).

This practice violates the principle of fair distribution of profit for several reasons. First, in legitimate sharia transactions or *ʿaqd ṣaḥīḥ*, profits or returns must arise from real economic activity, not from the circulation of funds among users (Al-Kāsānī, 1986, pp. 134-178). This principle is known in sharia law as *al-kharāj bi al-ḍamān* - profit is justified only when accompanied by responsibility and risk (Az-Zuḥaylī, 1997, pp. 234-267). Second, where no real risk-bearing activity exists, no lawful entitlement to gain can arise (Ibn Qudāmah al-Maqdisī, n.d., pp. 456-489; Al-Kāsānī, 1986, pp. 178-210). Third, sharia fintech operations are normatively required to ensure conformity with the substantive rules of lawful financing, not merely their contractual form (Dewan Syariah Nasional-Majelis Ulama Indonesia, 2017, Articles 6-8). More broadly, the ethical purpose of Islamic economic transactions is to preserve wealth, trust, and public welfare, not to exploit legal forms while undermining moral substance (Al-Ghazālī, n.d., pp. 178-195).

DSI's practice reveals a deep gap between formality and the substance of justice in the *Sharia* fintech ecosystem. Although DSI employed sharia contractual terminology and claimed compliance with DSN-MUI Fatwa provisions, its operations betrayed the essence of *ʿadl* or justice, which is the foundation of all Islamic economic law. This violation is not merely an administrative error or a weakness of governance, but a systematic betrayal of fundamental *Sharia* values requiring further analysis through the universally recognized principles of justice in classical and contemporary jurisprudential literature.

Transparency (*Al-Wuduh*): False Reports and Extreme Information Asymmetry

The hadith narrated by Muslim states that *lā yaḥill li-aḥadinā an yashtarī min māl akhīhi shayʾan illā an yaʿlam bihi* - no transaction should be conducted without the knowledge of the parties involved - reflecting the prohibition of ambiguity in *ʿaqd* (Muslim, n.d.). The platform must provide complete information about the borrower, the project, the risk, and the repayment mechanism before the lender invests; this fatwa explicitly positions transparency as a mandatory and uncompromisable operational requirement (Dewan Syariah Nasional-Majelis Ulama Indonesia, 2017). Transparency in Islamic economic law is not merely data disclosure, but clarity and verification - data must be clear and independently verifiable by third parties such as auditors, regulators, and the public. Transparency is a manifestation of fairness (*ʿadl*) because without clear and verifiable information, lenders cannot make informed, fair investment decisions. This principle is known as *al-ʿilm bi al-muʿāmalah* or knowledge of transactions, which is a prerequisite for the validity of any contract in the Islamic legal perspective (Alam, 2020).

The OJK report finds that DSI's financial statements from 2021 to 2025 contained fictitious data, in which assets worth IDR 2.1 trillion were reported as project receivables but were in fact non-collectible or non-existent (Financial Services Authority, 2026). Project data were never independently verified; information about the projects was derived solely from DSI management, creating an operational black box in which lenders had no access to basic information on project reliability or borrower credibility (Criminal Investigation Report of the National Police, 2025; Financial Services Authority, 2026). Prior to the Bareskrim investigation, no *Sharia* audit had ever been conducted by an AAOIFI-accredited institution, even though *Sharia* audits are a minimum regulatory requirement in several jurisdictions, such as Malaysia and Saudi Arabia (Ahmad, 2023). Information about liquidity problems and cash-flow distress since 2023 was concealed from lenders, even though the financial reports showed healthy liquidity (Financial Services Authority, 2026). In conventional accounting terms, this constitutes misleading financial reporting; in the Islamic legal perspective, it amounts to a betrayal of transparency or *khiyānah al-wuḍūḥ* (Al-Māwardī, 2000; Ibn Qudāmah al-Maqdisī, n.d.).

The absence of an independent sharia audit constitutes a fundamental breach of the principle of transparency, as audits are not merely tools of financial verification but also mechanisms for enforcing sharia commitments. In Sharia economic law, Sharia audit may be understood as a collective obligation to ensure compliance with Islamic values in any institution operating under the label of Sharia (Al-Ghazālī, n.d.). Islamic fintech platforms that do not conduct independent sharia audits implicitly signal that they are not committed to substantive sharia values, but instead deploy the label primarily for marketing purposes. The reporting system provided to lenders displayed only aggregate data - total funds, total returns, and return percentages - without granular information on project allocation, project-specific risk profiles, or borrower default rates. This directly violates Article 7 of DSN-MUI Fatwa No. 116/2017, which requires platforms to provide transparent and comprehensible information concerning investment risks (Dewan Syariah Nasional-Majelis Ulama Indonesia, 2017, Article 7).

Furthermore, this extreme information asymmetry facilitated fraud. According to information asymmetry theory, when one party possesses substantially better information than the other, the informed party may exploit that advantage for private gain, creating conditions of adverse selection and moral hazard (Alam,

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2020). In DSI's case, management possessed complete information that many of the projects were fictitious, while lenders had virtually no access to such information. This asymmetry created ideal conditions for fraud because management could divert funds to affiliated companies without fear of detection or challenge (Criminal Investigation Branch of the National Police, 2025; Financial Transaction Reporting and Analysis Center, 2025).

More significantly, the absence of an independent sharia audit reveals a pattern of false legitimacy that facilitated fraud. Within the sharia fintech ecosystem, the existence of an independent sharia audit serves as a market signal that an institution is committed to substantive rather than merely formal compliance (Ahmad, 2023). When DSI lacked an independent sharia audit, this should have constituted a major red flag for regulators and prospective lenders; however, in practice, the absence of such an audit neither halted DSI's operations nor attracted sufficient regulatory intervention. This points to a systemic failure within the regulatory ecosystem to treat independent sharia audits as a licensing prerequisite rather than an optional recommendation. Recent research indicates that countries with mandatory sharia audit requirements, such as Malaysia and Brunei, tend to experience lower levels of fraud and sharia-washing than countries in which such audits remain optional (Ahmad, 2023).

The DSI case confirms that the absence of independent audit mechanisms facilitated extreme information asymmetry, allowing management to allocate funds without meaningful accountability. Without an independent and transparent *Sharia* audit accessible to the public, no effective mechanism existed to verify whether funds reported as allocated to projects were actually disbursed as claimed, or whether the reported projects were real and economically viable (Financial Services Authority, 2026; Criminal Investigation Report of the National Police, 2025). This constitutes a fundamental violation of *al-wuḍūḥ*, because transparency without independent verification is fictitious - it is merely transparency theater rather than substantive transparency. Thus, DSI's practices show that without an independent *Sharia* audit, the label *Sharia* becomes a justification for neglecting transparency rather than a means of enforcing it.

Gharar (_Obscurity_): Fictitious Projects and Speculations Without Economic Basis

Gharar literally means ambiguity, uncertainty, or speculation that opens a gap for fraud in commercial transactions. In the classical Islamic legal tradition, the prohibition of *gharar* is not just an administrative procedure, but a form of protection of contract integrity and substantive justice for the parties. The hadith confirms this prohibition for a fundamental reason, namely that the seller or buyer does not know clearly what is being transacted so that one of the parties can be harmed without their knowledge (Muslim, n.d.). In the context of the digital economy and Islamic fintech, *gharar* arises in three interrelated dimensions: first, the unclear existence of the transaction object because there is no verification of the location, progress, or completion of the project; second, the promise of returns without a clear economic basis because there is no explanation of how returns are generated; and third, the absence of comprehensive risk communication so that lenders do not understand the risks they bear in their investment transactions (Alam, 2020; Kurniawan et al., 2022).

An investigation by the National Police Criminal Investigation Agency revealed that PT Dana Syariah Indonesia systematically carried out what can be called *project fictionalization*, the process of creating fictitious projects on paper using fake borrower identities or falsified data (Criminal Investigation Report of the National Police, 2025). This mechanism is not sporadic, but rather structured and iterative in the platform's investment portfolio. A concrete documented example is *the Green Valley Housing Project in East Jakarta, where DSI presented borrower data on behalf of PT Konstruksi Maju with a Taxpayer Identification Number* known to be fake. The platform claims the project will be completed in the fourth quarter of 2025, with the property object guaranteed construction insurance. In reality, the location is vacant land with unclear ownership status, and there is no evidence of development progress since 2023 (Criminal Investigation Report of the National Police, 2025; Financial Services Authority, 2026).

The use of fictitious projects in DSI investment transactions represents pure *gharar* because there is no clear and identifiable object of the transaction (*ʿayn*). In Islamic philology and legal definitions, *gharar* is technically defined as the ambiguity (*jahālah*) of one of the essential elements of a contract that prevents the formation of a valid, mutually beneficial agreement (Al-Kāsānī, 1986; Ibn Qudāmah al-Maqdisī, n.d.). When the project does not exist, not only is the object ambiguous, but the entire causal basis (*ʿillah*) of the transaction becomes nil. In the Hanafi, Maliki, Shafi'i, and Hanbali schools, a *ʿaqd* with a fictitious or non-existent object is seen as *bāṭil* or null and void for the sake of law, so it has no binding force and does not give rise to legal obligations for the parties (Al-Kāsānī, 1986; Ibn Qudāmah al-Maqdisī, n.d.). The rulings and commentaries of classical scholars such as al-Kāsānī and Ibn Qudāmah emphasize that the absence of a clear object is an obstacle (*māniʿ*) to the validity of a contract, just as the absence of *ijāb* or *qabūl* (Al-Kāsānī, 1986; Ibn Qudāmah al-Maqdisī, n.d.).

In addition, DSI promises a return of 12 to 18 percent per annum but does not provide a transparent explanation of how the returns are generated from the project's economic activities. In the legal theory of sharia economics, the principle *of al-kharāj bi al-ḍamān* – that profit should come with risk and responsibility – requires that returns (*ribḥ*) must come from a real contribution to economic value (Az-Zuḥaylī, 1997). When profits are promised without a clear economic mechanism, such as business results, sales margins, or service fees, these conditions can fall into the category of riba or pure speculation, which is prohibited in Islam (Kurniawan et al., 2022; Az-Zuḥaylī, 1997). In the case of DSI, the lender who receives the "return" from the fictitious project actually receives the transfer of funds from the new lender through a *Ponzi scheme* mechanism, not from the real economic results of the project (Criminal Investigation Report of the National Police, 2025; Financial Transaction Reporting and Analysis Center, 2025). This is a double *form of gharaar*: ambiguity about the source of profit and ambiguity about the mechanism of value creation. Lenders think their profits come from the profitability of housing projects, when in reality they come from the flow of new investor funds (Kurniawan et al., 2022).

The third dimension of *gharar* in DSI operations is the absence of adequate risk communication to lenders. The platform does not provide detailed information on operational, project, or liquidity risks inherent in its investments. In the context of *ʿaqd al-amānah*, the trustee has a fiduciary obligation to communicate the risks inherent in the funds entrusted to him (National Sharia Council-Indonesian Ulema Council, 2017; Ibn Qudāmah al-Maqdisī, n.d.). The absence of this risk communication violates the principle *of al-*

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ʿilm bi al-muʿāmalah, which holds that both parties must have an equal understanding of the transaction and its risks (Alam, 2020). The investigation report shows that DSI has never disclosed to lenders that the platform has experienced a *cash crunch* since 2023 or that the project failure rate reached 80 percent. This information is hidden behind financial statements that show "healthy liquidity," even though it is a *material misrepresentation* of actual operating conditions (Financial Services Authority, 2026; Criminal Investigation Report of the National Police, 2025).

The DSI case shows that without a robust independent audit mechanism, *gharar* can shift from a mere operational accident to a systematic, structured operational strategy. The use of fictitious projects, promises of return without economic basis, and lack of transparency of risk are not sporadic mistakes, but rather integral features of DSI's business model designed to facilitate the flow of funds from new lenders (Criminal Investigation Report of the National Police, 2025; Financial Services Authority, 2026). In contemporary economic and legal terms, gharar in this case functions as a technology of fraud, a systematic mechanism that allows fund managers to extract rents through the manipulation of information and expectations (Kurniawan et al., 2022). This *gharar* structure can last for two years, namely 2023 to 2025, due to the absence of an independent sharia audit capable of detecting and uncovering deviations between formal representation and substantive reality (Ahmad, 2023; Financial Services Authority, 2026).

***Amanah* (*Accountability*): Absence of Independent Audit and False Accountability**

The Qur'an Surah Al-Anfal verse 27 states: "O you who believe! Do not betray Allah and the Messenger, and do not betray the trust entrusted to you." Trust is a *trust* given by another party to a person to be maintained and managed in accordance with the agreed purpose. In the context of fintech, trust means that fund managers are morally and legally responsible for managing funds in accordance with their goals; the manager must be accountable to the party that grants the mandate (the lender); and accountability must be exercised through a transparent and verifiable mechanism (an audit). In Sharia economic law, audit is an instrument for realizing the mandate because, without an audit, there is no evidence that the manager has fulfilled their responsibilities. Research on the OJK and Bareskrim reports indicates that no independent sharia audit was conducted prior to the regulator's intervention. The internal audit was conducted by DSI's own staff, who clearly faced a conflict of interest and were not independent.

DSI's Sharia Supervisory Board (DPS) is nominal, with no access to backend operational data or detailed project documentation. There is no whistle-blowing mechanism that allows staff or internal parties to report irregularities without fear of retaliation. The absence of an independent sharia audit is a *hiyanah* (betrayal) of trust because the lender entrusts the funds to the platform, confident that it will use them in accordance with sharia principles. Yet, there is no mechanism to verify that the trust is maintained. The sharia literature emphasizes that independent sharia audits are mandatory for all sharia financial institutions, including fintech; without it, there is no evidence of sharia compliance. The DSI case confirms that the absence of an independent audit facilitates fraud by giving management unlimited room to misuse funds.

***Istidamah* (*Sustainability*): Ponzi Schemes and Unsustainable Business Models**

Maqasid al-Shariah indicate that the economy should be managed sustainably, without damaging the environment or harming future generations. In contemporary literature, the concept of the Sustainable Development Goals (SDGs) aligns with *Sharia* values regarding sustainability. A business model that relies on a Ponzi scheme is antithetical to sustainability because it can only last for a while before it collapses. Based on the investigation reports of the Criminal Investigation Agency and the OJK, the DSI mechanism follows the classic Ponzi pattern. In the growth phase (2019-2023), DSI raised funds from lenders by promising a 12-18 percent annual return, and some of the funds were allocated to real (early) projects, while the rest was used to pay returns to previous lenders.

In the critical phase (2023-2024), to sustain the DSI cycle, an increasing inflow of funds from new lenders is needed, but growth slows, and operating costs rise, resulting in a liquidity deficit. In the collapse phase (October 2025), the inflow of funds was insufficient to cover the return, causing the system to collapse and preventing lenders from withdrawing funds. Ponzi schemes are haram in Sharia economic law because they exploit early lenders who believe in the platform's legitimacy to pay new lenders, are unsustainable because they can only be sustained through unrealistic exponential growth, and harm the final generation of lenders, who will lose all funds when the system collapses. In classical terms, Ponzi is a form of *khiyānah* (betrayal), *gharar* (obscurity), and *riba* (exploitation) combined into one destructive mechanism.

Discussion

Formal-Substantive Discongruence: Critical Diagnosis

A comprehensive analysis of PT Dana Syariah Indonesia's operational practices reveals what can be called the *formality-substance gap*—a critical gap between the formal dimensions of sharia compliance and the substantive realization of fundamental values in Islamic economic law. The platform uses *Sharia labels* and adopts the architecture of Islamic contracts in public documentation and representation. However, in operational practice, it negates the substance of each of these promised principles. This phenomenon is not just a case *of ordinary organizational mismanagement* but a systemic pathology in the implementation of Islamic financial regulations, revealing a fundamental gap between formal and substantive *compliance*.

The continuation of DSI's operations for two years without being detected by regulators reveals a more fundamental problem: *regulatory capture* or asymmetric access to regulatory processes that allows institutions to evade substantive *oversight*. Within the framework of the institutional economic theory developed by Stigler and Peltzman, regulated institutions often influence the regulatory process through a variety of mechanisms, including revolving doors between regulators and industry, *effective lobbying*, and exploitation of regulatory loopholes. In the context of *Islamic fintech* in Indonesia, the OJK report indicates that POJK No. 77/2016 on Fintech requires only external financial audits, not independent sharia audits, to verify substantive compliance with Islamic principles. The absence of an independent *Sharia* audit mandate in regulation is evidence of what could be termed a regulatory gap—a gap in the regulatory framework that allows institutions to claim *Sharia* compliance without substantive verification mechanisms. Research on *maqasid al-shariah* also confirms that formal compliance with legal instruments cannot be separated from the achievement of the substantive goals of sharia itself (Auda, 2008; Al-Raysuni, 2005).

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The consequence of *this regulatory gap* is a crisis in *institutional legitimacy*—people who previously believed in *Sharia* labels become skeptical that they have substantive guarantees. As argued in *the theory of institutional legitimacy*, legitimacy built through formal *compliance* without substance can collapse quickly when fraud is exposed, creating a *legitimacy crisis* that extends to the entire industry (Deephouse & Suchman, 2008). In addition, studies on *governance* in *Islamic finance* show that in many jurisdictions, Sharia Supervisory Boards and other sharia oversight mechanisms operate without clear standards of independence, transparency, or accountability, making them easy for management to neutralize or manipulate (Ahmed, 2023).

The formal-substantive gap observed in DSI confirms what various scholars have identified as a fundamental problem in the implementation of contemporary *Islamic finance*: that *Islamic finance* often builds sophisticated formal compliance buildings, but masks economic realities that are contrary to Islamic principles (Choudhury, 2020). This problem is not just a matter of implementation or bad practices by individual institutions, but a structural problem in how Islamic finance is institutionalized within modern regulations. In a broader framework, DSI can be seen as an example of what the Quran calls *preference falsification*—a situation when agents display commitments that differ from their actual preferences due to reputational or commercial incentives. DSI managers clearly made a conscious choice to use *sharia* labels and adopt Islamic contracts, not because of a genuine commitment to Islamic values, but because they believed sharia labels attract depositors with a higher trust premium and greater *regulatory tolerance*.

Structural Roots: Absence of Independent Audit as a Supporting Factor

An analysis of POJK No. 77/2016 on Information Technology-Based Money Lending Services reveals a significant regulatory gap: the regulation mandates external financial audits by licensed public accountants but does not require independent sharia audits as an operational prerequisite. The difference between *a financial audit and a Sharia* audit is substantive, not merely a matter of scope or methodology. *Financial audit*, as defined in the International Standards on Auditing (ISA), is an examination of whether financial statements present a reasonable picture of an entity's financial position and performance in accordance with generally accepted accounting principles. In contrast, a sharia audit is an examination of whether transactions, contracts, and operational practices are in accordance with sharia, including an assessment of whether the economic substance of the transaction is in line with the objectives of Islamic law and does not contain prohibited elements of *riba, gharar, maysir, or darar* (Ariffin & Jaffer, 2015; Karim, 2018). This difference means that financial statements that are *clean* in financial audits can, at the same time, be non-compliant in Sharia audits. For example, a transaction that is reported as *murabahah* (buying and selling on margin) in documentation can be examined by a financial auditor only to see if the accounting records are accurate, without evaluating whether the transaction structure actually meets the substantive requirements *of murabahah* in Islamic law, such as the seller's actual possession of the goods prior to the transaction or *markup* transparency price (Ibn Qudamah al-Maqdisi, n.d.; al-Kasani, n.d.).

In the case of DSI, the financial statements audited by public accountants showed that project receivables totaling Rp 2.1 trillion were reported with proper documentation and internal controls that appeared sufficient. However, *this financial audit does not detect that the underlying asset is fictitious because the financial auditor is not mandated to evaluate the project's physical existence* or to perform direct verification of the actual *borrower*. An independent sharia audit, on the other hand, will have a mandate to conduct more in-depth due diligence on the structure of the contract, the *identity of the borrower*, and the substantive existence of the *underlying asset* as part of the evaluation of sharia compliance. This regulatory gap reveals what can be called the *compliance displacement problem*—regulations that mandate financial audits create *false assurances* that sharia compliance is also tested, when in fact the two are completely separate dimensions (Thaens & Halleux, 2013).

To understand the extent to which Indonesia's regulatory loopholes are anomalies or norms, it is important to compare them with regulatory frameworks in more *established Islamic finance* jurisdictions. In Malaysia, *Islamic finance regulations* developed by Bank Negara Malaysia and the Securities Commission mandate Shariah *Audit* as an integral component of the governance requirements for any institution operating in *the Islamic finance* segment. Bank Negara Malaysia issued *the Guidelines on Shariah Audit Function for Islamic Financial Institutions*, which explicitly stipulate that independent external auditors must conduct sharia audits, have certified competencies in Islamic finance jurisprudence, and report their findings not only to the internal *Shariah Committee* but also to regulators. Under Malaysian regulations, sharia auditors have the same standing as external financial auditors, and both are responsible for conducting comprehensive sharia audits of key transactions.

By comparing this regulatory framework with POJK 77/2016, it becomes clear that Indonesia's regulation for Islamic fintech is at the lowest level in terms of strict Shariah oversight requirements. Indonesian regulations mandate DPS only, without an external sharia audit mandate, clear investigative authority, or strict reporting requirements to regulators on sharia compliance vulnerabilities. This disparity is not just an administrative difference but reflects a fundamental difference in the philosophical approach to maintaining *Sharia* compliance in Islamic financial institutions.

The absence of an independent sharia audit as a gatekeeping mechanism creates a "*cascading verification failure*". When one layer of the oversight mechanism fails, no alternative layer can provide backup verification. In systems with layered filtration (such as Malaysian regulations), failures in one layer can be compensated for by the others. However, in the Indonesian system, when DPS fails to detect *fraud* (which, in the context of information asymmetry, is almost certain), there is no external screening layer mandated to conduct cross-verification. The consequence of this multi-level verification failure is a systemic crisis of trust — not only are the lenders on the DSI platform harmed, but the entire Islamic fintech industry loses credibility due to doubts about whether other Islamic-based fintech platforms are also operating with substantial sharia compliance or merely formal compliance.

This phenomenon is consistent with Akerlof's "Market for Lemons". When the consumer cannot verify a product's quality, detrimental selection occurs: a low-quality product is preferred over a high-quality one because the consumer cannot distinguish between them. In the context of *Islamic fintech*, in the absence of a trustworthy, independent sharia audit, even platforms with

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substantial sharia compliance will lose a premium of trust in the market because consumers have no basis to distinguish a truly compliant platform from one that only appears compliant.

Conclusion

The case of PT Dana Syariah Indonesia represents a systemic failure in realizing the core values of sharia economic law in the digital era. Although the platform formally uses sharia contracts and has access to Islamic banks, in substance, DSI practices collective injustice through fictitious fund allocation, false reports, systematic gharars, the absence of independent audits, and unsustainable Ponzi schemes. This shows that the use of the "sharia" label without independent audit and substantive oversight creates "false legitimacy" that facilitates fraud. This discongruence between formality and substance is a critical diagnosis revealing that sharia compliance is only declaratory, not substantial—form exists, but spirit is lost.

The study's main findings show a formal-substantive discongruence in which DSI has the formality of a contract and a sharia label, but lacks the substance of justice, transparency, prohibition of gharar, accountability, and sustainability. The absence of an independent *Sharia* audit is a major enabler factor that allows *fraud* to go undetected for two years. The "substantive compliance" framework provides a conceptual tool for distinguishing between democratic formal compliance and substantive compliance, suggesting that only the full realization of all sharia values can it be said that the platform truly meets the legal standards of sharia economics. The failure of DSI is not just a business failure, but a violation of the fundamental values of Islam, which resulted in injustice to 14,000 lenders and a violation of the principles of justice that are the basis of *Sharia* economic law.

Strategic reforms are needed on four dimensions to prevent the recurrence of similar cases. Regulations should mandate independent *sharia* audits, blockchain transparency, autonomous DPS, and consumer protection schemes. Sharia audit bodies should strengthen their capacity and adopt the AAOIFI standardization at the local level. The cultural dimension requires lender education on *Sharia* principles and the importance of verifying fairness before investing. With this comprehensive reform, the Islamic fintech industry can restore public trust and truly realize its mission of bringing justice to the Islamic digital financial system—not just using the "sharia" label as a marketing tool without substance. Sharia economic law is the epistemology of justice, and justice can only be realized through the integration of the form, process, and substance of Islamic values in every economic transaction. The DSI case should be a momentum for a fundamental transformation in the way we understand and implement *Sharia* compliance, from formalistic to substantive, from declarative to realistic.

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