

Integrating Islamic Social Finance and Circular Economy: A Conceptual Framework for Achieving the SDGs

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Abstract—This paper examines the integration of Islamic Social Finance (ZISWAF) with Circular Economy (CE) principles as a theory-driven approach to addressing poverty, inequality, and environmental degradation. Anchored in Stakeholder Theory and Sustainable Development Theory, the study employs a structured narrative literature review to synthesize recent developments in ZISWAF and CE and to identify opportunities for their convergence. The paper proposes a multi-stakeholder collaborative framework involving government, ZISWAF institutions, communities, and academia, illustrating how ZISWAF can mobilize ethical and financial capital to operationalize CE pathways of reduce, reuse, and recycle. The analysis highlights the potential contributions of this integration to key Sustainable Development Goals (SDGs), particularly those related to poverty reduction, food security, green employment, and responsible consumption. The study also identifies critical research gaps concerning stakeholder coordination, financing mechanisms, and empirical validation of integrated initiatives. Overall, the paper advances a conceptual foundation for faith-based circularity and offers strategic insights for policymakers and practitioners in emerging and Muslim-majority economies.

Keywords—Islamic social finance, Zakat, Infaq, Sadaqah, and Waqf (ZISWAF), circular economy, Sustainable Development Goals (SDGs), sustainability

I. INTRODUCTION

Poverty remains one of the most persistent global challenges in the modern era. According to the World Bank (2022), more than 9.2% of the world's population lives below the extreme poverty line of USD 2.15 per day, reflecting severe deprivation in access to food, clean water, education, and healthcare (World Bank, 2022). This condition is further exacerbated by inequality, as highlighted in the World Inequality Report (2022), which shows that the richest 10% controls more than 76% of global wealth. Such inequality perpetuates the cycle of poverty, especially in developing countries where infrastructure and redistribution policies are often insufficient.

The impacts of poverty are not only economic but also deeply intertwined with environmental issues. The Intergovernmental Panel on Climate Change (IPCC, 2023) reports that global warming of 1.1°C has increased the frequency and intensity of natural disasters such as floods and droughts. Poor communities are the most vulnerable, as they lack resilience infrastructure and must often allocate scarce income for disaster recovery, making it harder to escape poverty traps.

At the same time, the prevailing linear economy model, characterized by the “take-make-dispose” pattern, worsens environmental degradation and disproportionately affects

low-income groups. Global waste exceeds 2 billion tons annually, much of it generated in developed countries but with disproportionate impacts on developing economies (World Bank, 2021). These dynamics underline the inseparability of poverty alleviation and environmental sustainability.

In response, the Circular Economy (CE) has emerged as a paradigm shift emphasizing resource efficiency, waste minimization, and sustainability through the principles of reduce, reuse, and recycle. CE provides an alternative to the linear model, aiming to extend product life cycles and reduce environmental burdens (Geissdoerfer *et al.*, 2017; Kirchherr *et al.*, 2017). While several advanced economies, such as the Netherlands, have made significant progress in implementing CE models (Dimitrov & Ivanova, 2017), developing countries continue to face barriers including limited financing, infrastructure, and public awareness.

Parallel to this, Islamic Social Finance (ISF), consisting of Zakat, Infaq, Sadaqah, and Waqf (ZISWAF), has shown considerable potential in promoting social justice, wealth redistribution, and community empowerment. Prior studies highlight zakat's role in poverty reduction and microenterprise empowerment in Indonesia (Herianingrum, Iswati, *et al.*, 2024) and the long-term impact of waqf in financing education, health, and social infrastructure (Kasdi, 2016). However, existing ISF practices are rarely integrated with sustainability frameworks such as the circular economy.

This study argues that integrating ISF with CE provides an innovative pathway to simultaneously address poverty, inequality, and environmental challenges. By linking the redistributive capacity of ZISWAF with circular practices, resources can be channeled into sustainable initiatives such as waste recycling, repair centers, organic farming, and reforestation. This paper contributes to the literature in three ways: (i) proposing a multi-stakeholder collaboration model involving government, communities, financial institutions, and academia; (ii) offering a direct mapping of ISF–CE integration to multiple SDGs (1, 2, 3, 8, and 12); and (iii) presenting lessons from Indonesia as a global case study with broader implications for other Muslim-majority and emerging economies.

II. LITERATURE REVIEW

The integration of Islamic Social Finance (ZISWAF) and Circular Economy (CE) in this study is anchored in Stakeholder Theory, which asserts that value creation in any socio-economic system depends on the coordinated roles, ethical obligations, and interdependent interests of multiple actors (Moriarty, 2024; Valentinov, 2024; Waxenberger &

Spence, 2003) This theoretical lens aligns with the nature of ZISWAF, which, through instruments such as zakat, infaq, sadaqah, and waqf embodies Islamic principles of al-adl (justice) and al-qist (equity) and operates as a redistributive mechanism aimed at empowering marginalized communities and supporting long-term social development (Ali Azizan *et al.*, 2022; Herianingrum, Supriani, *et al.*, 2024; Kasdi, 2016).

Stakeholder Theory helps conceptualize ZISWAF not merely as a charitable system but as a multi-actor governance mechanism in which donors, beneficiaries, government bodies, ZISWAF institutions, communities, and private-sector actors collectively shape socio-economic outcomes. This relational dynamic is critical for CE implementation, which similarly requires cooperative action to operationalize the principles of reduce, reuse, and recycle (Geissdoerfer *et al.*, 2017; Kirchherr *et al.*, 2017). CE's reliance on shared responsibilities, such as waste reduction, resource recovery, and sustainable production, reflects the same ethical and systemic considerations emphasized in Stakeholder Theory, including the management of diverse interests, legitimacy creation, and long-term collective benefit (Freudenreich *et al.*, 2020; Melé, 2009). When combined with Sustainable Development Theory, which frames development as the simultaneous pursuit of economic welfare, social equity, and environmental preservation (Leal Filho *et al.*, 2020), this theoretical foundation provides the overarching conceptual coherence needed to interpret how ZISWAF-CE integration advances SDGs 1, 2, 3, 8, and 12. Thus, grounding the review in these interlocking theoretical perspectives offers the interpretive depth, causal logic, and analytical unity required to elevate the proposed framework beyond descriptive synthesis into a theory-informed conceptual model.

Research Gap: Although recent studies, such as Abduh (2024), have conceptually discussed the role of Islamic philanthropy in supporting the circular economy, most remain normative and theoretical, lacking contextual applications and stakeholder-based models. Moreover, few works explicitly map the integration of ISF and CE to multiple SDGs. This study addresses these gaps by (i) proposing a multi-stakeholder collaboration model (government, ISF institutions, communities, academia), and (ii) presenting Indonesia as a case study with global lessons for emerging economies.

III. MATERIALS AND METHODS

This study adopts a structured narrative literature review supported by PRISMA-inspired procedures to enhance methodological rigor and transparency. Relevant publications were identified through Scopus, Web of Science, Google Scholar, and institutional repositories (UNDP, BAZNAS, BWI) using combinations of keywords such as "Islamic social finance," "ZISWAF," "zakat," "waqf," "Circular Economy," "sustainability," and "SDGs," focusing on works published between 2016–2024. The initial search was followed by a screening process based on predetermined inclusion and exclusion criteria, whereby only studies addressing ZISWAF instruments, CE principles (reduce, reuse, recycle), and sustainability linkages were retained, while engineering-focused or conceptually

irrelevant works were excluded. Eligible sources were then analyzed through thematic synthesis to identify patterns across four major clusters: (1) ZISWAF's redistributive and empowerment functions, (2) CE mechanisms and their socio-environmental implications, (3) potential pathways for integrating ISF with CE, and (4) stakeholder roles in sustainability transitions. Guided by these themes, a conceptual framework was developed and theoretically anchored in Stakeholder Theory and Sustainable Development Theory, which together provide the causal logic and multi-actor governance perspective needed to explain how ZISWAF can operationalize CE practices and contribute to selected SDGs (1, 2, 3, 8, and 12).

IV. RESULT AND DISCUSSION

A. Collaborative Model for Integrating ZISWAF and Circular Economy in Indonesia

The integration of Islamic Social Finance (ZISWAF) with Circular Economy (CE) practices offers a multi-dimensional approach to addressing poverty, environmental degradation, and resource inefficiency. Anchored in Stakeholder Theory, the model positions sustainable development as a collective outcome produced through coordinated interactions among government, ISF institutions, academia, communities, and microfinance actors. Rather than treating ZISWAF merely as a redistributive instrument and CE as a technical environmental strategy, the model conceptualizes both as complementary components of a multi-actor sustainability governance system.

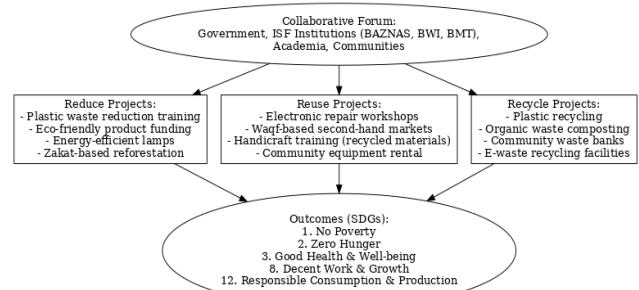


Fig. 1. Collaborative model for integrating ZISWAF and circular economy in Indonesia. (Source: Author's illustration).

As illustrated in Fig. 1, each stakeholder plays a differentiated yet interdependent role. Government agencies establish regulatory and incentive structures that enable CE-based community enterprises. ZISWAF institutions such as BAZNAS, BWI, and BMT allocate financial and social capital to fund CE initiatives and empower vulnerable groups. Academia contributes knowledge production, model design, and capacity-building. Communities act as core implementers by adopting CE practices and developing grassroots enterprises. This configuration reflects Stakeholder Theory's emphasis on aligning diverse interests to generate shared socio-environmental value.

The model operationalizes CE principles through three categories of initiatives, Reduce, Reuse, and Recycle. Reduce projects (e.g., plastic waste reduction training, eco-friendly product funding, zakat-based reforestation) aim to minimize resource consumption and prevent environmental harm. Reuse projects (e.g., repair workshops, waqf-based

second-hand markets, crafts from recycled materials) extend product lifecycles and stimulate local entrepreneurship. Recycle initiatives (e.g., waste banks, composting, e-waste processing) convert waste streams into economic opportunities. By linking ZISWAF funding mechanisms with CE pathways, the model demonstrates how faith-based financial resources can drive circularity at the community level.

This collaborative arrangement directly contributes to several SDGs, including poverty reduction (SDG 1), food security (SDG 2), improved health through better sanitation (SDG 3), green employment and entrepreneurship (SDG 8), and sustainable consumption and production (SDG 12). While grounded in the Indonesian context, the model provides a transferable conceptual framework for Muslim-majority and emerging economies seeking to align ethical finance with circular development strategies. It highlights how ZISWAF can function not only as a social safety net but as an institutional catalyst for sustainability transition, thereby enriching global discourses on green and inclusive economic models.

B. The Impact of Integrating ZISWAF and Circular Economy on the SDGs

The integration of ZISWAF and Circular Economy (CE) creates a complementary pathway toward achieving key Sustainable Development Goals (SDGs). Rather than treating ZISWAF as a purely redistributive instrument and CE as an environmental strategy, their integration produces multi-dimensional development outcomes aligned with the economic, social, and environmental pillars of Sustainable Development Theory. Anchored in Stakeholder Theory, these outcomes emerge from coordinated actions among donors, communities, ZISWAF institutions, government, and CE enterprises, demonstrating how collaborative governance translates financial and social capital into measurable SDG progress.

Poverty reduction (SDG 1) is achieved not only through financial transfers but through the creation of circular enterprises, such as repair workshops, waste banks, and recycling centers, that generate stable livelihoods for vulnerable groups. ZISWAF funding reduces entry barriers for marginalized households while CE activities expand income diversification and strengthen local economic resilience.

Food security (SDG 2) benefits from circular agricultural initiatives, where organic waste is converted into compost for smallholder farmers and waqf resources are used to rehabilitate land or establish community gardens. These initiatives form closed-loop food systems that reduce waste, enhance soil health, and stabilize food availability at the community level.

Health and environmental quality (SDG 3) improve through ZISWAF-supported sanitation projects and CE-based waste management systems. By reducing pollution from plastics, organic waste, and electronic waste, communities experience lower exposure to environmental hazards, illustrating how ethical finance can reinforce preventive public health measures.

Decent work and inclusive growth (SDG 8) emerge from the expansion of green jobs in recycling, repair,

remanufacturing, and second-hand markets. Through zakat-based skills training and waqf-financed production spaces, communities gain access to productive employment while strengthening local circular value chains.

Responsible consumption and production (SDG 12) is advanced through household-level waste reduction campaigns, reuse initiatives, and recycling activities funded by ZISWAF. These programs shift behavioral norms while institutionalizing circular practices at the community scale, thereby embedding sustainability values within daily consumption patterns.

Overall, the ZISWAF–CE integration demonstrates a coherent mechanism through which faith-based finance can operationalize circularity and accelerate progress across interconnected SDGs. This shows that ZISWAF is not only a social safety net but an institutional catalyst capable of driving systemic sustainability transitions.

C. Challenges in Implementing the Integration of ZISWAF and Circular Economy

While offering significant potential, the implementation of ZISWAF–CE integration also faces several challenges that need to be addressed to ensure sustainability and effectiveness.

1) Low public awareness

One of the main barriers is the limited awareness of Circular Economy principles (Almulhim & Abubakar, 2021). Although many communities are familiar with ZISWAF, they often lack understanding of sustainable resource management and the role of CE in long-term development. The prevailing linear consumption pattern, where damaged goods are discarded rather than repaired, reduces the effectiveness of ZISWAF-funded CE initiatives. To overcome this, continuous education and awareness programs are essential to encourage recycling, reuse, and responsible waste management among communities.

2) Institutional capacity and governance

Another critical challenge is the need for more organized and efficient management of ZISWAF (Aflah, 2018). Despite the large potential of ZISWAF funds, weak governance can reduce their impact (Widiastuti *et al.*, 2021). Some ISF institutions may lack the institutional capacity, technical expertise, or management systems required to run complex CE-related projects. These limitations affect planning, execution, and monitoring processes, hindering the success of sustainability-driven programs. Addressing this challenge requires capacity building for ZISWAF institutions, including training, the adoption of digital technologies, and collaboration with CE experts.

3) Financing and long-term sustainability

ZISWAF funds are often distributed for short-term relief rather than long-term investments. However, CE projects demand consistent financing, infrastructure development, and long-term sustainability models. Without innovative financial mechanisms such as green sukuk, impact investment, or waqf-based endowment funds, the integration risks stagnation. Developing blended financing models and partnerships with governments and private sectors could provide more sustainable funding streams.

4) Policy and regulatory gaps

In many Muslim-majority countries, including Indonesia, national policies do not yet explicitly connect ISF instruments with environmental sustainability frameworks. The absence of integrated legal and regulatory frameworks can hinder collaboration between state institutions, private sectors, and civil society. Therefore, policy reforms are needed to formally embed ZISWAF in national CE strategies, ensuring alignment with both Islamic finance regulations and global sustainability commitments.

Overall, overcoming these challenges requires a comprehensive strategy that combines public education, institutional strengthening, innovative financing, and supportive policies. Only through such efforts can the integration of ZISWAF and CE deliver transformative contributions to social welfare and environmental sustainability.

D. Practical and Strategic Implications

The integration of ZISWAF and Circular Economy (CE) requires coordinated strategies across policy, institutional design, and community engagement. Rather than focusing solely on operational programmes, a strategic approach emphasizes governance mechanisms, institutional alignment, and capacity building that enable ZISWAF-funded CE initiatives to be scalable and sustainable.

For policymakers, the main priority is to establish an enabling regulatory environment that legitimizes the use of ZISWAF for CE-related initiatives. This includes integrating ZISWAF into national sustainability agendas, developing clear guidelines for CE-oriented zakat and waqf utilization, and incentivizing partnerships between ZISWAF institutions, private-sector innovators, and local governments. Strengthening regulations for circular infrastructure—such as recycling centers, repair hubs, and waste banks—ensures consistency in standards and enhances the long-term viability of projects.

For ZISWAF institutions, strategic alignment is essential. Institutions should embed CE principles into their fund allocation frameworks, prioritize outcome-based programming, and strengthen impact measurement systems. Digital platforms can enhance transparency, track environmental and social outcomes, and improve public accountability. Collaboration with private-sector actors, particularly in waste management and green technology, can expand technical capacity while reducing operational risks. By professionalizing project selection and monitoring, ZISWAF institutions can position themselves as key catalysts in circular development.

For communities, meaningful participation is central to sustaining CE initiatives. Communities must not only serve as beneficiaries but also as co-implementers who manage waste sorting, recycling activities, repair workshops, and local circular enterprises. ZISWAF-funded awareness programs and vocational training—such as composting, electronics repair, or upcycling—can strengthen local skills and enhance behavioural change. Such empowerment expands livelihood opportunities while fostering environmental responsibility at the grassroots level.

Overall, the practical and strategic implications highlight that ZISWAF–CE integration is most effective when

financial, institutional, and social resources are aligned through collaborative governance. This approach not only accelerates progress toward the SDGs but also provides a scalable model for sustainable development in Muslim-majority and emerging economies.

E. Theoretical and Research Implications

This study offers several theoretical implications that extend the existing literature on Islamic Social Finance (ISF), Circular Economy (CE), and sustainable development. First, by anchoring the analysis in Stakeholder Theory, the paper reframes ZISWAF not merely as a charitable mechanism but as a multi-actor governance system capable of coordinating diverse interests—donors, beneficiaries, state institutions, financial intermediaries, and private actors—to operationalize CE practices. This reconceptualization advances theoretical understanding by positioning ZISWAF as an institutional enabler of sustainability transitions rather than a standalone financial instrument. Second, the proposed integration model contributes to Sustainable Development Theory by introducing a faith-based circularity pathway, demonstrating how moral redistributive systems can complement technological and market-based CE approaches. This perspective enriches sustainability scholarship, which has largely emphasized regulatory and economic levers while overlooking religious and ethical frameworks.

From a research standpoint, this study identifies several important gaps. Existing literature remains fragmented, with most studies focusing normatively on ZISWAF's socio-economic roles or addressing CE from a technical perspective, while very few examine their intersection or map their joint contribution to multiple SDGs. Furthermore, current research lacks empirical assessments of ZISWAF-funded CE initiatives, stakeholder collaboration mechanisms, and long-term sustainability outcomes. Future studies should therefore explore (i) comparative analyses of ISF–CE integration across Muslim-majority and non-Muslim emerging economies; (ii) empirical evaluations of pilot projects such as waste banks, repair centers, and waqf-based second-hand markets; (iii) the role of financial innovations—including green sukuk, blended finance, and waqf endowments—in scaling CE initiatives; and (iv) governance models that manage stakeholder conflicts and align incentives within ZISWAF–CE ecosystems. Expanding the evidence base in these areas will strengthen theoretical insights and support the development of more robust, scalable, and context-sensitive models.

By articulating these conceptual linkages, identifying research gaps, and proposing clear empirical directions, the paper moves beyond descriptive synthesis and contributes to advancing scholarly debates on faith-based sustainability, Islamic economics, and circular development models.

V. CONCLUSION

This study demonstrates that integrating Islamic Social Finance (ZISWAF) with Circular Economy (CE) practices offers a coherent, theory-driven pathway for accelerating progress toward multiple Sustainable Development Goals (SDGs). Grounded in Stakeholder Theory and Sustainable Development Theory, the analysis reconceptualizes ZISWAF as a multi-actor governance mechanism capable of

mobilizing ethical, financial, and social capital to support circular transitions. The proposed framework explains how circularity principles can be systematically enabled through ZISWAF arrangements, thereby linking community empowerment with resource efficiency and sustainability outcomes.

The findings indicate that the convergence of ZISWAF and CE constitutes an underexplored domain with significant potential for advancing inclusive and environmentally conscious development models. This review highlights several research gaps, including the need for empirical assessments of ZISWAF-funded CE initiatives, deeper analysis of stakeholder coordination mechanisms, and evaluations of long-term sustainability performance. Addressing these gaps will be essential for strengthening theoretical development and informing policy design in Muslim-majority and emerging economies.

Overall, the study contributes a theory-informed conceptual model that advances scholarly understanding of faith-based circularity and offers actionable insights for policymakers and practitioners seeking to integrate ethical finance with sustainable economic transformation.

CONFLICT OF INTEREST

The author declares no conflict of interest.

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