

Waqf and Sustainable Development: The Role of ESG in Strengthening Socio-Economic Impact

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ABSTRACT

The integration of Environmental, Social, and Governance (ESG) principles into waqf management offers a promising yet under explored approach to enhancing socio-economic development. Although waqf has historically functioned as a sustainable financing mechanism, its potential remains constrained by weak governance, lack of standardization, and limited alignment with modern sustainability frameworks. To address these challenges, this study develops a conceptual framework examining how ESG integration mediates waqf's socio-economic outcomes. Using a narrative review methodology, it synthesizes findings from peer-reviewed articles, theoretical papers, and policy reports retrieved from the Scopus database. Key themes identified include waqf's contribution to sustainable development, benefits of ESG integration, and barriers to implementation. Findings suggest that ESG incorporation can strengthen waqf's impact by promoting environmental stewardship, advancing social equity, and reinforcing governance practices. This alignment connects traditional Islamic finance with contemporary sustainability goals. The proposed framework emphasizes stakeholder collaboration, standardized metrics, and regulatory mechanisms to ensure transparency and accountability. Theoretically, the study highlights the complementary relationship between waqf and ESG principles, offering a new perspective on sustainable development within Islamic finance. Practically, it provides actionable insights for policymakers and practitioners to optimize waqf's role in promoting socio-economic growth. However, reliance on existing literature presents a limitation, indicating the need for empirical validation. Future research should examine case studies and regional differences to evaluate the feasibility and scalability of ESG-integrated waqf models, contributing to a more inclusive and resilient society while addressing global challenges such as poverty, inequality, and environmental degradation.

Keywords: Waqf, ESG Principles, Sustainable Development

INTRODUCTION

The global pursuit of sustainable development has renewed interest in longstanding mechanisms that balance economic, social, and environmental objectives. Among these, waqf, a centuries-old Islamic endowment institution, has re-emerged as an effective tool for advancing socio-economic development (Hassana et al., 2020). Traditional waqf institutions supported education, healthcare, and community welfare, contributing to societal resilience. Nevertheless, contemporary challenges require innovative approaches to help waqf institutions achieve their full potential. Integrating Environmental, Social, and Governance (ESG) practices into waqf management offers a way to align waqf with modern sustainability paradigms, such as the United Nations

Sustainable Development Goals (SDGs). Integrating ESG practices will not only reinforce the role of waqf, but also establish it as a model for sustainable and inclusive development.

Despite its potential, the application of ESG principles in waqf remains largely unexplored in existing literature. While previous research has emphasized the socio-economic contributions of waqf (Hassan & Noor, 2021; Budalamah et al., 2019), few studies have examined how ESG integration could further support and strengthen these impacts. Although existing studies have highlighted the importance of ESG in achieving the Sustainable Development Goals (SDGs) (Skvarciany & Jurevičienė, 2024; Sarkar et al., 2023), limited research has explored its integration with Islamic finance instruments such as waqf. Moreover, the lack of standardized measures and regulatory frameworks presents significant challenges to the effective application of ESG principles in waqf (Lestari et al., 2023). These gaps highlight the need for a conceptual model that connects traditional waqf practices with contemporary sustainability initiatives.

This study addresses these gaps by proposing a conceptual framework that examines the mediating role of ESG integration in enhancing the socio-economic impact of waqf. By exploring how ESG values influence waqf's contribution to sustainable development, the paper seeks to provide practical guidance for policymakers, practitioners, and researchers. The proposed framework is grounded in corporate social responsibility (CSR) theories and stakeholder theory, both of which emphasize the interconnectedness of financial prosperity, social welfare, and environmental sustainability (Richardson, 2023; Von Rosing et al., 2024).

This study not only contributes to the theoretical understanding of waqf but also offers practical proposals for expanding its scope. The contribution of this research is twofold, both theoretical and practical. Theoretically, the study contributes to Islamic finance literature by incorporating ESG considerations, thereby connecting two critical themes: Islamic endowments and sustainable development. Practically, it offers recommendations to waqf institutions seeking to adopt ESG principles to contribute more significantly to global sustainability agendas. For example, the findings of the report could shape the development of regulatory frameworks, such as national waqf indices, for measuring and enhancing institutional performance (Lestari et al., 2023). Secondly, through multi-stakeholder co-creation among governments, the private sector, and communities, the research fosters ecosystems conducive to sustainable financing (Tahiri Jouti, 2019).

The paper is organized as follows: Section 2 provides literature on waqf, ESG, and their relations to sustainable development. Section 3 explains the methodology in the study by highlighting the application of a narrative review approach in both synthesizing academic literature and developing a theoretical framework. Section 4 outlines the suggested theoretical model emphasizing the mediating effect of ESG on waqf's socio-economic impact, whereas Section 5 concludes with directions for future research. Adopting this step-by-step methodology, the study aspires to instigate transformative change in Islamic finance and the sustainable development landscape.

LITERATURE REVIEW

Waqf has traditionally been regarded as a successful model of sustainable development in Muslim societies, with its historical contributions to social welfare, education, and healthcare closely aligning with the objectives of the United Nations Sustainable Development Goals (SDGs) (Khaleel Al Hashmi, 2022; Hassan & Noor, 2021). Historically, waqf institutions have financed essential infrastructure such as schools, hospitals, and mosques, thereby addressing key socio-economic needs. For example, Yaakob, Suliaman, and Khalid (2017) demonstrate how waqf lands were traditionally used to support education and healthcare systems, strengthening community resilience and promoting inclusivity. Despite its historical importance, the potential of waqf remains underutilized in modern settings due to regulatory constraints, operational inefficiencies, and limited public awareness (Kachkar & Al-fares, 2022). These challenges highlight the need for innovative strategies that incorporate modern sustainability frameworks, such as Environmental, Social, and Governance (ESG) principles, to strengthen waqf's socio-economic impact.

The integration of ESG principles into institutional practices has received significant attention for its role in promoting sustainable development and enhancing organizational performance (Alharbi, 2024; Richardson, 2023). Research shows that organizations adopting ESG factors tend to achieve stronger financial outcomes,

including higher returns on equity, reduced debt costs, and greater innovation capabilities (Ma et al., 2023). However, although the benefits of ESG integration are well established in corporate contexts, its application within Islamic finance instruments such as waqf remains largely underexplored. This gap presents an opportunity to examine how ESG principles can be adapted to waqf management to enhance its socio-economic contributions.

Existing research tends to focus separately on the socio-economic contributions of waqf or the independent benefits of ESG integration, with limited attention given to their intersection (Ayub et al., 2024; Kachkar & Alfares, 2022). For instance, re-search on waqf primarily highlights its contributions to poverty alleviation, education, and healthcare, whereas studies on ESG emphasize its role in promoting environmental stewardship, social equity, and governance transparency. This divide presents an opportunity to propose a conceptual framework that explores how ESG integration can mediate and strengthen the socio-economic impact of waqf, thereby advancing broader sustainability goals.

The proposed framework is informed by empirical evidence supporting a positive relationship between ESG practices and economic growth (Kachkar & Alfares, 2022; Ayub et al., 2024). Integrating ESG principles into waqf management enables institutions to address global challenges such as poverty, inequality, and environmental degradation, while promoting inclusive and equitable development. For example, ESG-aligned waqf initiatives could invest in sustainable agriculture, renewable energy projects, or affordable housing, thereby aligning with both Islamic values and contemporary sustainability objectives (Hassan & Noor, 2021).

Stakeholder theory further reinforces the integration of ESG principles into waqf management by highlighting the need to balance the interests of diverse stakeholder groups (Ma et al., 2023; Alharbi, 2024). Waqf institutions engage with a broad range of stakeholders, including beneficiaries, regulators, and financiers, each with distinct needs and expectations. Through the adoption of ESG-aligned practices, waqf institutions can ensure that their initiatives remain financially sustainable while also being socially and environmentally responsible, thereby maximizing their impact on the communities they serve.

Despite its potential, the implementation of ESG principles within waqf management faces several challenges, notably the lack of universal standards for evaluating waqf performance (Lestari et al., 2023). Initiatives such as the National Waqf Index in Indonesia seek to address this gap by establishing standardized metrics and regulatory frameworks to assess and enhance waqf performance (Kachkar & Alfares, 2022). These developments emphasize the critical role of strong governance mechanisms in promoting transparency and accountability within waqf institutions.

Collaboration among diverse stakeholders is another essential factor in strengthening the socio-economic impact of waqf through ESG integration (Tahiri Jouti, 2019). Governments, businesses, and social organizations must work collectively to build sustainable ecosystems that support waqf initiatives. For instance, public-private partnerships can offer the funding and expertise needed to sustainably develop waqf properties, ensuring long-term benefits for communities.

Empirical research has demonstrated that ESG factors significantly contribute to economic growth, with financial development further reinforcing this relationship (Alharbi, 2024). For waqf institutions, this suggests that adopting ESG principles can enhance resource allocation efficiency, strengthen governance practices, and promote greater alignment with global sustainability objectives. By applying these insights, waqf institutions can assume a pivotal role in addressing both local and global challenges, including poverty alleviation and climate change mitigation.

The intersection of waqf and ESG principles also creates new opportunities for innovation within Islamic finance. For example, waqf-based sukuk (Islamic bonds) could be utilized to finance sustainable development projects, effectively combining the strengths of both instruments (Khaleel Al Hashmi, 2022). Such innovations not only amplify the socio-economic impact of waqf but also advance the broader adoption of sustainable finance practices across the Islamic finance sector.

Ultimately, this study contributes to both theory and practice by proposing a conceptual framework that connects

traditional waqf practices with contemporary sustainability paradigms. By synthesizing insights from existing literature on waqf, ESG, and sustainable development, the framework offers practical recommendations for policymakers and practitioners. Additionally, it identifies gaps in the current literature, suggesting avenues for future research, such as examining regional differences in waqf management and evaluating the feasibility of ESG-integrated waqf models across diverse cultural and regulatory contexts.

METHODOLOGY

Research Design: Narrative Review Methodology

This study employs a narrative review methodology to investigate the mediating role of ESG integration in enhancing the socio-economic impact of waqf. A narrative review is particularly suited for this research, as it allows for an in-depth synthesis of diverse literature to identify patterns, gaps, and opportunities within existing knowledge (Green et al., 2006). Unlike systematic reviews, which apply stricter inclusion criteria, narrative reviews provide the flexibility to synthesize theoretical concepts, empirical research, and conceptual frameworks across diverse disciplines. This approach aligns with the study's objective of developing a conceptual framework that integrates conventional Islamic finance principles with contemporary sustainability paradigms. By integrating multidisciplinary findings, the narrative review facilitates a comprehensive understanding of how ESG principles can be incorporated into waqf management to achieve sustainable development goals. The narrative review approach involves the critical examination and synthesis of peer-reviewed articles, books, and reports that discuss waqf, ESG principles, and their connections to sustainable development.

The research objectives guide the direction of the review, focusing on identifying key challenges, exploring opportunities for innovation, and offering practical recommendations. In doing so, the study not only maps gaps within the existing literature but also contributes to the advancement of both theoretical and practical developments in Islamic finance and sustainable development.

Key Steps in Conducting a Narrative Review: Data Collection through Scopus Database

The data collection for this narrative review was conducted systematically using the Scopus database, a leading abstract and citation platform recognized for its extensive coverage of high-quality academic literature (Elsevier, 2023). Scopus was selected due to its robust search capabilities and the broad range of indexed publications it offers, ensuring access to relevant and credible sources. The search strategy involved using a combination of keywords related to the study's focus, including "waqf," "ESG," "sustainable development," "Islamic finance," and "socio-economic impact." Boolean operators ("AND," "OR") were applied to refine the search results and ensure comprehensive coverage of the relevant literature.

The initial search generated a large body of literature, which were subsequently screened using predefined inclusion and exclusion criteria. Articles were included if they directly addressed waqf, ESG principles, or their contributions to sustainable development. Studies that were not relevant to the research objectives or published in non-peer-reviewed outlets were excluded. In addition, the reference lists of the selected articles were manually reviewed to identify further sources that could enhance the analysis. The final dataset consisted of a combination of empirical studies, theoretical papers, and policy reports, providing a balanced and comprehensive perspective on the topic.

To ensure accuracy in the review process, the following steps were undertaken: (1) thematically organizing the selected articles to identify recurring themes and patterns; (2) critically evaluating the quality and relevance of each source; and (3) synthesizing the findings to construct a coherent narrative aligned with the research objectives. This iterative process helped develop a clearer understanding of how ESG integration mediates and strengthens the socio-economic impact of waqf. By using the Scopus database and following a structured review process, this study ensures the reliability and validity of its findings, contributing meaningfully to the broader discussions on sustainable development and Islamic finance. Figure 1 explains the narrative review process using Scopus.

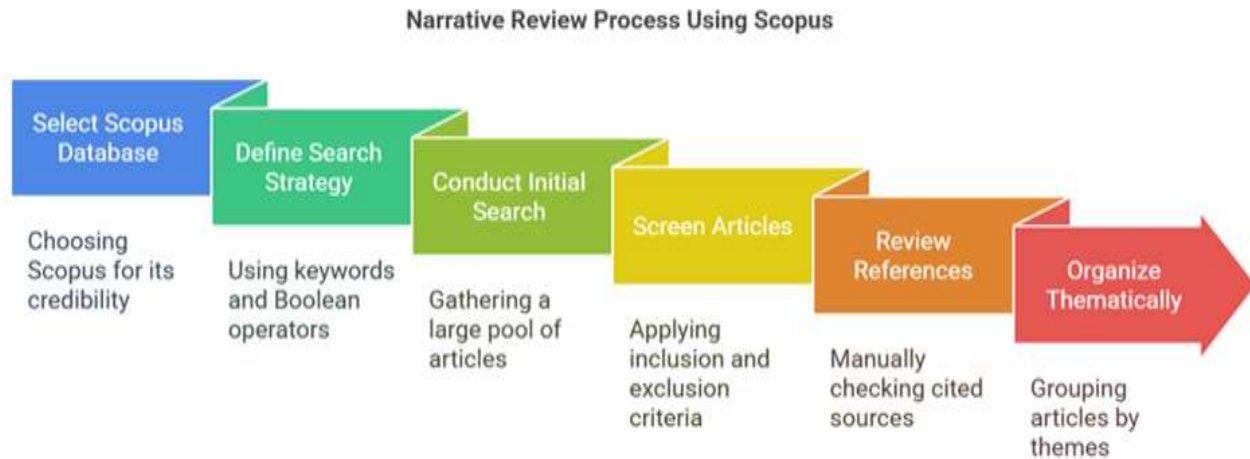


Fig. 1: Narrative Review Process Using Scopus

Data Collection and Review Strategy

Search String and Database Selection

To ensure a comprehensive and systematic approach to data collection, this study employed a carefully designed search string to capture relevant literature at the intersection of waqf, sustainable development, and ESG principles. The search string was constructed using Boolean operators ("AND," "OR") to combine multiple keywords drawn from five thematic clusters: (1) waqf-related terms, (2) sustainability-related terms, (3) socio-economic impact-related terms, (4) resource management-related terms, and (5) Islamic finance-related terms. The final search string is presented as follows:

("waqf" OR "endowment" OR "charitable trust" OR "waqf system") AND ("sustainable development" OR "sustainability" OR "eco-friendly" OR "green development") AND ("social impact" OR "community development" OR "economic growth" OR "poverty alleviation") AND ("resource management" OR "funding" OR "investment" OR "allocation") AND ("Islamic finance" OR "ethical finance" OR "social finance" OR "impact investing").

The search string was applied in the Scopus database, a leading multidisciplinary academic platform recognized for its extensive coverage of peer-reviewed journals, conference proceedings, and books (Elsevier, 2023). Scopus was selected for its advanced search features, citation tracking capabilities, and rigorous indexing standards, which help ensure the inclusion of high-quality and relevant sources.

The initial search produced a large corpus of articles, which were subsequently screened for relevance based on their titles, abstracts, and keywords. Priority was given to articles that explicitly addressed the integration of ESG principles into waqf management or examined the socio-economic impact of waqf. In addition, backward and forward citation chaining was conducted to identify seminal works and recent developments in the field. This iterative process helped ensure that the final dataset was both comprehensive and representative of the current state of knowledge.

Integrative Thematic Analysis Approach

To synthesize the data collected, an integrative thematic analysis approach was employed. This method systematically identifies, organizes, and interprets key themes, concepts, and theoretical perspectives from the reviewed literature (Braun & Clarke, 2006). The process began with open coding, during which each article was carefully read and annotated to extract insights relevant to the research objectives. These annotations were then

grouped into broader categories based on conceptual similarities, such as "waqf as a tool for sustainable development," "ESG integration in Islamic finance," and "challenges in waqf governance."

Next, axial coding was conducted to establish relationships between the identified categories and subcategories. For example, the theme "ESG integration in Islamic finance" was connected to subcategories such as "environmental stewardship," "social equity," and "governance frameworks," illustrating how these dimensions collectively influence the socio-economic impact of waqf. This step helped identify recurring patterns and gaps within the literature, providing a foundation for the development of the proposed conceptual framework.

Finally, selective coding was applied to refine the analysis by concentrating on the core themes that directly addressed the mediating role of ESG integration in enhancing the socio-economic impact of waqf. This step involved synthesizing findings from a range of sources, including empirical studies, theoretical papers, and policy reports, to construct a coherent narrative. For instance, the analysis indicated that effective ESG integration depends on robust governance mechanisms, standardized metrics, and stakeholder collaboration; insights that shaped the study's recommendations for practice and future research.

Ensuring Rigor and Validity

To ensure the rigor and validity of the review, several measures were undertaken. First, clear inclusion and exclusion criteria were established to minimize selection bias. Only peer-reviewed articles, books, and reports published in reputable sources were included, ensuring the credibility and reliability of the findings. Second, inter-rater reliability was ensured by involving two independent reviewers in the coding process, with any discrepancies resolved through discussion and consensus. Third, transparency in the review process was enhanced by systematically documenting all steps, from search string formulation to thematic synthesis, thereby supporting re-productibility and accountability.

By employing an integrative thematic analysis approach, this study identified key themes and concepts and synthesized them into a cohesive framework that addresses the research objectives. This methodology ensures that the findings are grounded in empirical evidence while also offering novel insights into the potential of waqf as a catalyst for sustainable development. A summary of the findings is presented in Table 1 below.

Key Findings from the Narrative Review

Table 1: Summary of Key Findings

KEY FINDING	DESCRIPTION
Waqf as a Tool for Socio-economic Development	Waqf properties, when managed sustainably, can generate funds to support education, healthcare, and poverty alleviation, aligning with Sustainable Development Goals (SDGs).
Local Financing through Waqf	In regions like Arab municipalities, waqf serves as a sustainable financing model to bridge revenue gaps, promote social cohesion, and support local SDG initiatives.
ESG Alignment with SDGs	ESG factors are critical in addressing global challenges such as poverty, inequality, and environmental degradation, making them essential for achieving SDGs.
Enhanced Organizational Performance through ESG	Organizations that integrate ESG principles experience improved financial performance, including higher returns on equity, lower costs of debt, and better resource allocation.
Holistic Evaluation of Waqf Projects	ESG integration enables a comprehensive evaluation of waqf projects by considering financial, social, and environmental impacts, driving more sustainable and responsible initiatives.

Governance Frameworks for Waqf	Effective ESG integration in waqf requires robust governance mechanisms, such as standardized metrics and regulatory frameworks, exemplified by the proposed National Waqf Index in Indonesia.
Challenges in Waqf Management	Key challenges include the lack of universal standards for evaluating waqf performance, limited awareness, and insufficient collaboration among stakeholders.
Collaboration for Sustainable Ecosystems	Building sustainable ecosystems through collaboration between governments, businesses, and social organizations is essential for enhancing the socio-economic impact of waqf initiatives.

DEVELOPMENT OF THEORETICAL FRAMEWORK

The theoretical framework of this study is based on stakeholder theory and CSR principles, which offer a strong foundation for exploring the mediating role of ESG integration in enhancing the socio-economic impact of waqf. Stakeholder theory emphasizes that organizations must balance the interests of various groups, including communities, governments, and investors, to achieve sustainable outcomes (Freeman et al., 2010). Similarly, CSR highlights the ethical responsibility of institutions to contribute positively to society while maintaining financial sustainability (Carroll and Shabana, 2010). In the context of waqf, these theories are particularly relevant as they align with the Islamic principle of *maslahah* (public interest), which emphasizes the importance of addressing societal needs through sustainable practices. Integrating ESG principles into waqf management allows institutions to better meet the diverse needs of stakeholders while supporting the achievement of SDGs.

The proposed framework conceptualizes waqf as a dynamic mechanism for sustainable development, with ESG integration serving as the mediating factor. This framework is illustrated in Figure 2 below. It begins by identifying key stakeholders, including beneficiaries, regulators, and financiers, and examines how their needs can be addressed through ESG-aligned practices. For example, environmental stewardship supports the sustainable use of waqf properties, while social equity promotes inclusive benefits for marginalized communities (Skvarciany and Jurevičienė, 2024). Governance frameworks, including standardized metrics and regulatory mechanisms, play a critical role in ensuring transparency and accountability (Lestari et al., 2023). This conceptualization synthesizes insights from existing literature on waqf, ESG principles, and sustainable development, connecting gaps identified in previous studies. For instance, Hassana et al. (2020) emphasizes the potential of waqf in promoting socio-economic development, while Richardson (2023) highlights the financial and social benefits of ESG integration. Together, these insights contribute to a holistic framework that aligns traditional waqf practices with contemporary sustainability paradigms.

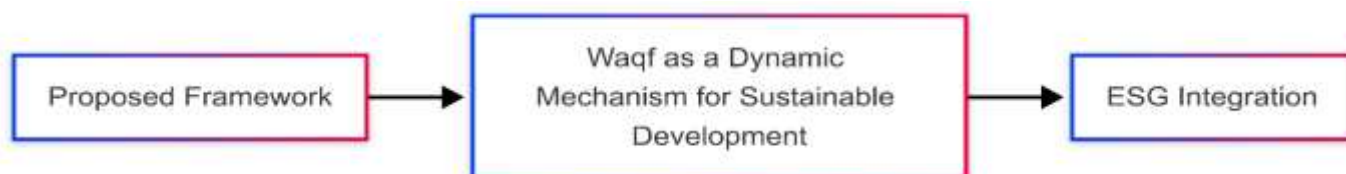


Fig. 2: Proposed theoretical framework

PROPOSITION DEVELOPMENT

Waqf Affects Socio-economic Impact

Waqf, as an Islamic endowment system, has historically proven its capacity to support socio-economic development by addressing critical needs such as education, healthcare, and poverty alleviation, in alignment with the objectives of the SDGs (Hassan and Noor, 2021; Ayub et al., 2024). The sustainable development of waqf properties not only enhances their financial value but also generates funds that can be reinvested into

communities, promoting long-term welfare and stability (Hassana et al., 2020). However, the socio-economic impact of waqf is often limited by challenges such as weak governance frameworks and the lack of universal standards for performance evaluation (Lestari et al., 2023). By integrating ESG principles, waqf institutions can address these limitations and strengthen their contributions to socio-economic development. ESG integration promotes responsible and sustainable practices, enhances transparency, and aligns waqf initiatives with broader societal objectives, thereby increasing their overall impact (Razali et al., 2024). This synergy between waqf and ESG principles highlights the potential of waqf to serve as a catalyst for sustainable development. Based on this analysis, the following proposition is formulated:

Proposition 1: The integration of ESG principles into waqf management positively enhances its socio-economic impact.

Waqf Affects ESG

Waqf, as a traditional Islamic endowment system, holds significant potential to influence ESG principles by embedding sustainable practices within its operational framework. When managed with a sustainability focus, waqf properties can contribute to environmental stewardship by promoting the responsible use of resources, minimizing waste, and supporting green initiatives (Hassana et al., 2020). From a social perspective, waqf institutions address essential community needs such as education, healthcare, and poverty alleviation, aligning with the "Social" dimension of ESG and promoting social equity (Hassan and Noor, 2021). In addition, governance in waqf management can be enhanced through the adoption of standardized metrics, transparency measures, and accountability mechanisms, which are fundamental to the "Governance" pillar of ESG (Lestari et al., 2023). By integrating ESG principles, waqf institutions can enhance their operational efficiency while simultaneously contributing to broader sustainability goals, effectively bridging traditional charitable practices with modern sustainability frameworks (Razali et al., 2024). This alignment highlights the potential of waqf to serve as a driver for ESG adoption within the context of Islamic finance. Based on this analysis, the following proposition is proposed:

Proposition 2: The adoption of waqf principles positively influences the integration of ESG practices

The Integration of ESG Affects Socio-Economic Impact

ESG principles play a crucial role in enhancing socio-economic impact by addressing global challenges such as poverty, inequality, and environmental degradation, while supporting the broader goals of sustainable development (Skvarciany and Jurevičienė, 2024; Sarkar et al., 2023). Integrating ESG considerations into institutional practices has been shown to improve financial performance, mitigate risks, and create long-term value, all of which are essential for driving positive socio-economic outcomes (Richardson, 2023). For example, strong ESG performance is often associated with higher returns on equity, lower costs of debt, and more efficient resource allocation, enabling organizations to more effectively address societal needs (Genasan, 2024). In addition, ESG integration promotes transparency, accountability, and stakeholder engagement, all of which are critical for maximizing the socio-economic benefits of initiatives such as waqf (Lestari et al., 2023). By aligning with ESG principles, institutions can bridge traditional practices with modern sustainability frameworks, ensuring that their efforts contribute to broader societal objectives such as social equity, economic growth, and environmental sustainability (Budalamah et al., 2019; Razali et al., 2024). Based on this analysis, the following proposition is proposed:

Proposition 3: The integration of ESG principles positively enhances socio-economic impact.

CONCLUSION

This study highlights the transformative potential of integrating ESG principles into waqf management to strengthen its socio-economic impact. The key findings indicate that ESG integration not only aligns waqf practices with modern sustainability frameworks but also contributes to addressing critical global challenges such as poverty, inequality, and environmental degradation. The theoretical implications of this study highlight the importance of connecting traditional Islamic finance mechanisms with contemporary ESG considerations,

offering a new perspective on how waqf can contribute to the achievement of sustainable development goals. From a practical standpoint, the study provides actionable insights for policymakers, practitioners, and stakeholders, emphasizing the need for robust governance frameworks, standardized metrics, and collaborative ecosystems to maximize the impact of waqf initiatives. By promoting transparency, accountability, and inclusiveness, waqf institutions can play a pivotal role in advancing sustainable and equitable growth within communities.

Despite its contributions, this study has certain limitations. The proposed framework is primarily based on existing literature, which may not fully capture the complexities involved in implementing ESG principles across diverse cultural and regulatory contexts. In addition, the study's focus on theoretical development highlights the need for empirical validation to assess the practical feasibility and effectiveness of the proposed framework. Future research could address these gaps by conducting case studies or quantitative analyses to evaluate the real-world impact of ESG-integrated waqf models. Exploring regional variations in waqf management and their alignment with ESG principles could also offer deeper insights. In addition, longitudinal studies could investigate the long-term outcomes of such integrations, providing a more comprehensive understanding of their sustainability and scalability. These efforts would not only help refine the proposed framework but also pave the way for innovative solutions within the field of Islamic social finance.

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