

Literature Review of Achieving Sustainability through Circular Economy: Analysing Potential and Challenges for SMEs and Communities

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Abstract

The growing waste problem is a significant global issue, particularly in countries like Indonesia, which ranks second in waste production. This literature review explores the potential and challenges of implementing circular economy practices in Micro, Small, and Medium Enterprises (MSMEs) and communities to achieve sustainability. A circular economy framework promotes recycling, reuse, and extending product lifespans, aiming to reduce environmental impacts while enhancing resource efficiency. Despite the potential benefits, the transition to a circular economy faces hurdles such as limited awareness, insufficient infrastructure, and inadequate policy support. This study evaluates existing literature to understand these barriers and explore strategies for successful implementation. By analyzing the integration of circular economy principles in MSMEs and communities, this review aims to identify pathways to enhance economic, social, and environmental sustainability through effective circular practices.

Keywords: Sustainability, Circular Economy, SMEs

INTRODUCTION

The waste issue has become a progressively worrying global issue. The World Bank estimates that every year, around 2.01 billion tons of trash are generated worldwide, of which about 33% are not appropriately managed using sustainable approaches. The expected 70% increase in global solid waste by 2030 makes the situation more dire. Given its high population, Indonesia significantly adds to the global garbage production. With an estimated annual plastic garbage generation of 3.2 million tons that finally finds

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their way into the oceans, Indonesia ranks second among all the countries in terms of waste production, behind China (2015).

The waste problem is directly related to Indonesia's rather high population—about 270 million in 2021. Moreover, data from the Ministry of Cooperatives and MSMEs shows that the numbers of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia are rather high—64.2 million units. Comprising about 61.97% of the GDP, these MSMEs form the backbone of the national economy. Still, MSMEs greatly contribute to the generation of waste during the manufacturing process, especially with regard to improperly treated garbage. With both solid and hazardous waste included, the 2020 Central Statistics Agency study on MSMEs claims that over half of industrial waste pollution in Indonesia comes from these entities.

In this sense, the idea of the circular economy is absolutely crucial. By means of recycling, reuse, and extending product lifespans, the Circular Economy offers a sustainable framework targeted on reducing waste. Adoption of Circular Economy concepts in the MSME sector and communities has great potential to reduce environmental effect, improve resource efficiency, and generate fresh economic possibilities by means of which environmental impact could be minimized. Circular processes let MSMEs achieve improved social, environmental, and financial sustainability. The Circular Economy can help to increase community involvement in local waste management, promote a more sustainable ecosystem, and so strengthen a shared feeling of responsibility in reducing environmental impact.

Though much research has been done on the importance of the Circular Economy in reaching sustainability goals, studies looking at the whole application of these ideas among SMEs and communities are scarce. For example, earlier studies by Dey et al. (2020) underline the significance of developing circular business models in SMEs to increase sustainability, but they underline operational factors over community cooperation. Though it did not fully analyze community engagement alternatives, the 2020 Sharma et al. study also revealed challenges to the change from a linear economy to a circular one. Along with the appropriate strategies to support this change, a more thorough research is needed to determine the limitations and possibilities of the circular economy at the MSME and community levels.

The aim of this literature review is to investigate the chances and challenges related to using the Circular Economy in MSMEs and local communities. This study will look at local level how circular practices could improve environmental, social, and



financial resilience. This study mostly seeks to evaluate the possibilities that might be used as well as to pinpoint the internal and external challenges SMEs and communities face in using a circular economy. This review of the literature will answer several important issues including:

1. What challenges do MSMEs and communities have while implementing a circular economy?
2. What potential can MSMEs and communities optimize through a circular economy?
3. What strategies can communities and MSMEs employ to successfully transition to a circular economy?

LITERATURE REVIEW

Foundation of Sustainability in MSMEs and Local Communities

Over the past few years, sustainability has grown to be one of the primary concerns in scholarly publications and worldwide legislation. Originally included in the Brundtland Report in 1987, sustainability is defined as the capacity to satisfy present demands without endangering the capacity of next generations to satisfy their own needs. 1987 saw the World Commission on Environment and Development [WCED]. Comprising three key pillars—economy, ecology, and social—known as the triple bottom line—this idea is elkington, 1997).

1. Economic sustainability: is the capacity of a company to survive and flourish over long term by means of effective use of resources, preservation of financial continuity, and generation of added value for owners and stakeholders. (DesJardine & Bansal, 2014). This is intimately tied to behaviors including cost control, product innovation, and improving competitiveness by means of environmentally conscious techniques. In the framework of the society, economic sustainability is connected to the enhancement of community welfare by means of sustainable employment and more access to equitable economic resources. (2011 Porter & Kramer).
2. Environmental Sustainability: Emphasizing the need of preserving and rebuilding ecosystems supporting human life, the pillar of sustainability is environmental This can be achieved in the practice of MSME business by means of an approach that reduces negative environmental effects including waste reduction, energy efficiency, and hazardous chemical management (Dey et al, 2020). Environmental

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sustainability also requires community participation in ecologically friendly activities such resource conservation, recycling initiatives, and protection of wildlife.

3. Social Sustainability: is component of sustainability is centered on welfare and equality inside society. Good jobs, better working conditions, and corporate social responsibility (CSR) promotion depend on SMEs in major part. (Oncioiu et al., 2018). Within the framework of communities, social sustainability refers to community empowerment, enhancement of quality of life, and strengthening of social networks to handle problems including poverty, access to education, and healthcare services.

Foundation of Circular Economy in SMEs and Community

The idea behind a circular economy is to control the product life cycle such that materials and goods retain their worth for as long as feasible inside the economic system. This idea seeks to disrupt the conventional linear economy chain using a "take-make-dispose" strategy, therefore causing resource waste and rising waste. By means of recycling, reusing, and product rethinking, the circular economy instead takes a cradle-to--cradle strategy that eliminates waste. (Ghisellini and colleagues, 2016). The key ideas of the circular economy consist in:

1. Reduce: By raising efficiency, lower the consumption of natural resources and commodities used in the production process. Reducing the usage of fresh raw materials by substituting recycled goods or more environmentally friendly resources, for instance, Minimizing the ecological impact and building a more effective value chain depend on this reduction approach. Kirchherr et al. 2017. Reducing material consumption is thus given great importance in the transition strategy towards a circular economy, particularly in the manufacturing and construction industries.
2. Reuse: lengthening the lifetime of products helps to maximize their use. Still functional products can be utilized again without having to be thrown away or recycled. Reuse not only helps to save resources but also lessens waste and enhances supply chain effectiveness (Stahel, 2016). Stahel underlines that from the start, reuse strategies should be included into product design so that product life cycles may be extended and new material demand can be lowered.



3. Recycling: is the management of garbage into fresh components fit for use in the manufacture of other goods. This is turning trash into premium raw materials for use in next manufacturing. Ghisellini et al. (2016) claim that among the key elements of the circular economy meant to reduce resource waste and lower the environmental impact of material disposal are recycling. The recycling process creates an effective closed-loop cycle by enabling the transformation of waste into raw materials fit for possible reuse in next manufacturing operations.

RESEARCH METHOD

The investigation for research articles for this study employed the keywords "Circular Economy" and "Sustainability". This decision concerns the literary sources utilized in the literature search. Google Scholar functioned as the primary source for the literature. A total of 55 papers were initially identified with the specified keywords in Google Scholar. The minimum publication year of 2016 was established to prioritize contemporary research. The author employed designated criteria to further evaluate these works. The search was refined utilizing the subsequent inclusion criteria:

Inclusion Criteria:

- a) Articles that delve into the introduction and results of sustainability through circular Economy in SMEs and Community.
- b) Articles published in or after 2016 to ensure focus on recent studies.

Exclusion Criteria:

- a) Articles broadly discussing Circular economy styles across industries without specific relevance to SMEs and Community.
- b) Studies that only provide abstract or preliminary results without comprehensive findings.

The use of these inclusion and exclusion criteria yielded 23 publications. The subsequent selection process entailed the removal of duplicate entries, yielding 18 distinct articles. Subsequently, articles were eliminated based on the completeness of their content, reducing the total to 10 pieces.

RESULT

The process of information extraction and organization involves constructing a table and defining the relevant variables as outlined in the provided documents. The variables encompassed the researcher's identification, potential, challenges, and insights

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gained. This procedure entailed a comprehensive examination of existing literature and the systematic input of pertinent data into a predetermined table based on specified attributes. Table 1 presents a brief overview of the studies analyzed.

Table 1: Summary of Studies Reviewed

No	Author's Name	Challenges	Potential	Insight
1	Dey et al. (2020)	Insufficient awareness, financial limitations, and a deficiency of technical resources.	Enhanced resource efficiency, cost savings, and heightened competitiveness.	Augmenting governmental assistance for SMEs, providing technical training, and enhancing management practices.
2	Sharma et al. (2020)	Insufficient comprehension, financial difficulties, inexperience, and technical limitations.	Expense minimization, competitive edge, and resource preservation.	Employee training, technological advancement, and governmental policy assistance.
3	Oncioiu et al. (2018)	Insufficient investment, scarcity of financial resources, and minimal participation in environmental activities.	Enhanced economic and social resources via corporate social responsibility initiatives.	Enhanced engagement in training, improved access to financial resources, and the advancement of circular ecosystems.
4	Rizos et al. (2016)	Insufficient policy backing, limited consumer awareness, and absence of teamwork.	Possible cost reductions, entry into new markets, and enhanced corporate reputation.	Creation of specialized markets, advancement of sustainable business models, and provision of technical skills training.



5	Ormazábal et al. (2018)	Perception of elevated expenses, constrained human resources, and absence of managerial foresight.	Economical efficiencies, resource optimization, and fiscal benefits.	Establishment of industrial collaborations and emphasis on management education.
6	Zamfir et al. (2017)	Challenges in identifying effective investment strategies and insufficient resources.	Enhancing economic performance via the implementation of circular techniques.	Tailoring circular economy initiatives for small and medium-sized enterprises and implementing strategic interventions.
7	Awan and Sroufe (2022)	Disintegration of research and insufficient evidence concerning the shift to circular business models.	Enhanced corporate innovation and ecological sustainability.	Improving transition documentation, overseeing strategic elements, and modifying business models.
8	Aktas & Aktaş (2022)	Difficulty in minimizing material usage and regulatory limitations specific to the business.	Minimizing consumption via optimal design and enhanced production technology.	Enforcing sector-specific regulations and advocating for design principles that support circularity.
9	Fiksel et al. (2020)	Difficulties in urban garbage management and deficiencies in technical expertise.	Strengthening community resilience via innovative waste utilization.	Implementing a comprehensive systems approach to address social and environmental issues.
10	Kravchenko et al. (2019)	Insufficient performance metrics to evaluate the	Formulation of performance measures to	Establishment of uniform performance metrics and



		sustainability of circular economy initiatives.	evaluate sustainability prior to strategy execution.	streamlining of the evaluation process.
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Referring to table 1. The circular economy in SMEs and the community encounters challenges from both human and non-human perspectives. Significant data from the economic, social, and environmental sectors indicate that effective training strategies, effective infrastructure development, and suitable policies can facilitate the transition to a circular economy, which will improve sustainability outcomes.

DISCUSSION

Potential Circular Economy in SMEs and Community

The circular economy in the context of Micro, Small, and Medium Enterprises (MSMEs) and local communities offers significant potential to enhance sustainability at the economic, social, and environmental levels. By applying circularity principles such as resource consumption reduction, reuse, and recycling, the circular economy offers a more holistic approach to addressing various challenges in the MSME sector and society. The circular economy not only focuses on waste management but also encourages operational efficiency, social participation, and overall environmental improvement.

1. Economic Potential: Minimizing Operational Expenses

The adoption of a circular economy within MSMEs presents significant opportunities for minimizing operational expenses. A primary method to accomplish this is by minimizing the utilization of new materials and implementing production procedures that are more efficient regarding energy and resources. Studies by Dey et al. (2020) and Sharma et al. (2020) indicate that SMEs implementing circular methods can decrease manufacturing expenses by enhancing energy and material efficiency. For instance, by repurposing raw materials obtained from recycling, MSMEs can diminish their reliance on new resources that are frequently costly and challenging to procure.

Energy-efficient production methods, including the utilization of advanced technology and supply chain optimization, can result in substantial long-term cost savings. Besides cost reduction, the circular economy might create chances to access new markets. Rizos et al. (2016) observe that enterprises



implementing a circular business model can reach a wider consumer base with items deemed environmentally sustainable. By seizing this opportunity, MSMEs may improve their competitiveness and foster more sustainable local economic growth.

2. Social Potential: Enhanced Social Responsibility and Community Engagement

The adoption of a circular economy provides economic advantages while promoting enhanced social responsibility and community engagement. Circular economy programs offer communities the chance to engage in waste and resource management, hence improving environmental awareness and social involvement. Oncioiu et al. (2018) assert that the execution of corporate social responsibility (CSR) efforts centered on the circular economy has markedly enhanced local community involvement. This encompasses community-oriented waste management initiatives that promote collaborative waste management, including waste bank programs and recycling cooperatives.

This community engagement enhances social networks and fosters a collective sense of responsibility for preserving the local ecosystem. The findings of Fiksel et al. (2020) indicate that innovation in community-based waste management can enhance social resilience and foster stronger connections between the community and local enterprises. Moreover, communities engaged in circular programs generally exhibit heightened understanding of the significance of responsible waste management, hence enhancing social sustainability.

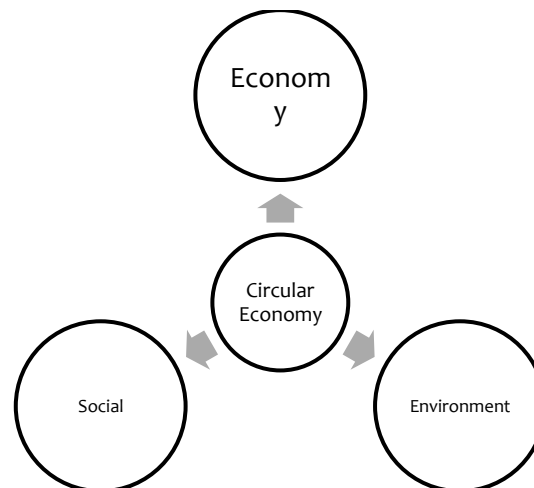
3. Environmental Potential: Reducing Environmental Impact

The environmental dimension of the circular economy presents significant promise for mitigating adverse ecological effects through strategies centered on recycling, material reuse, and sustainable product design. The execution of these solutions facilitates a substantial decrease in waste and pollution. Aktas & Aktaş (2022) emphasize that concepts of circularity, including product design that promotes extended life cycles, material use optimization, and recycling, are essential in diminishing material consumption and waste disposal. This study demonstrates that sector-specific regulations and policies are crucial in facilitating the shift to more environmentally



sustainable circular processes. In the manufacturing sector, the utilization of recycled materials or product designs that facilitate repair and reuse can diminish the consumption of natural resources and carbon emissions. Kravchenko et al. (2019) underscore the significance of suitable performance indicators for assessing the sustainability of circular economy initiatives.

By utilizing explicit performance indicators, MSMEs can assess the environmental repercussions of their operations and implement requisite measures to alleviate adverse consequences. Additional study, like that by Zamfir et al. (2017), indicates that the implementation of circular methods in business operations can enhance material utilization efficiency, diminish waste, and optimize overall resource management. This fosters environmental conservation and promotes more accountable corporate activities regarding the ecology.



Gambar 1. Potential Impact Circular Economy

Challanges Circular Economy in SMEs and Community

The adoption of a circular economy within Micro, Small, and Medium Enterprises (MSMEs) and communities encounters numerous substantial obstacles. The obstacles arise not just from human issues, such as insufficient knowledge and awareness, but also from non-human elements, including financial and infrastructural constraints. The circular economy necessitates a transformation in mentality, commercial operations, and resource stewardship. This shift necessitates cooperation among many stakeholders and

sufficient policy backing. Nonetheless, without confronting these issues, the successful implementation of a circular economy will be arduous to attain.

1. Human Factors

- a) Awareness Gaps: Many MSME stakeholders and communities understand circular economy concepts poorly. This has slowed the adoption of circular methods in this area. Management and staff often lack the skills to use sustainability and circularity principles, according to Dey et al. (2020). Corporate stakeholders miss the circular economy's benefits due to a lack of understanding. According to Sharma et al. (2020), many SMEs struggle to understand circularity, especially when it requires changes to output-focused business models. Rizos et al. (2016) found that company stakeholders' consumer awareness and technical expertise are limited, slowing circular solution adoption. Circles are often seen as a burden by company stakeholders rather than a source of innovation and efficiency.
- b) Low strategic leadership: According to Ormazábal et al. (2018), many MSME stakeholders value short-term profitability over circular economy strategy. They overlook the circular business model's long-term benefits because they view it as difficult and expensive. Many small businesses have missed opportunities to improve their competitiveness and economic sustainability due to managerial inattention. Insufficient managerial knowledge on circular tactics may further limit this perspective. According to Awan & Sroufe (2022), senior management must lead the circular business model. SME circularity initiatives are difficult to implement without executive support.

2. Non-Human Factors

- a) Structural and fiscal constraints: Limited money and infrastructure hinder circular economy development. SMEs often lack the funds or resources to implement circular economy infrastructure or technology. According to Fiksel et al. (2020), urban areas often lack recycling and repair facilities for circular activities. When infrastructure is inaccessible or difficult to get, MSMEs struggle with waste management and circular methods. Lack of policy assistance worsens the problem, according to Rizos et al. (2016). Absence of strong incentives, SMEs often lack motivation to invest in circularity-promoting technology or practices. Instead, they favor a simple,

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linear business strategy. The lack of financial resources hinders SMEs' circular innovation. Insufficient capital and investment prevents many SMEs from implementing sustainability initiatives, according to Oncioiu et al. (2018). This problem is especially severe in developing nations where money is scarce.

- b) **Performance Metrics Lack Efficiency:** Lack of performance indicators to assess circular economy initiatives' sustainability hinders their adoption, according to Kravchenko et al. (2019). Without explicit performance indicators, business participants and other stakeholders struggle to evaluate and improve initiatives. SMEs struggle to assess their environmental impact and circular strategy

Strategy to implementation Circular Economy in SMEs and Community

Implementing a circular economy in SMEs and communities necessitates a strategic approach to tackle challenges arising from both human and non-human factors. Transitioning from a linear to a circular economy entails not only the adoption of new techniques but also a fundamental shift in mindset, education, and infrastructure. To enable this transformation, it is essential to formulate strategies that improve education and community engagement while concurrently strengthening infrastructure and fostering cross-sector collaboration. This dual strategy guarantees the effective resolution of both knowledge deficiencies and logistical obstacles.

1. **Approach for Human Factors.** The successful implementation of a circular economy depends on providing SMEs and communities with essential knowledge and skills. This necessitates ongoing education and active participation of all stakeholders to guarantee that the shift to a circular economy is sustainable.
 - a) **Formal and Non-Formal Education:** A very significant first step is involving educational institutions in including the ideas of circular economy and sustainability into the official curriculum. According to studies by Sharma et al. (2020), appropriate education can help SMEs better grasp the need of switching from a linear to a circular economy. This can cover colleges, trade schools, and more specialized skill-building initiatives for particular areas of industry. These educational initiatives should be made to be sustainable and updated regularly in line with technology changes and best practices, thereby guaranteeing that students have skills relevant to the always changing industry needs.



- b) Building awareness and practical skills depends critically on regular training programs and workshops including SMEs owners, employees, and community people. Research by Dey et al. (2020) indicates that this training should concentrate on the use of circular practices including waste management, sustainable product design, and material recycling. SMEs can thus be more ready to include circular practices into their daily operations, and the local community can help these projects more broadly.
- c) Establishing local forums that let the community participate in debates and develop circular economy-based environmental projects would help to foster a feeling of ownership and group responsibility. According to a 2020 Fiksel et al. study, managing waste concerns and attaining long-term sustainability depend critically on active community participation in community-based projects. This local forum can inspire the society to exchange ideas, grow together, and create cooperative plans to assist circular economy policies.
- 2. **Approach for Non-Human Factors:** Support Infrastructure Management and Multisectoral Cooperation. Beyond education and awareness, it is critical to address non-human factors such as infrastructure and institutional collaboration. Effective strategies in this regard require improving access to resources, developing infrastructure, and fostering multisectoral cooperation.
 - a) Cooperation among the government, businesses, and research institutes: the government should lead by means of a coalition or circular economy council comprising several players. Emphasizing the requirement of multisectoral cooperation with the industrial sector, academics, NGOs, and the community to guarantee that policies and standards used are in line with the demands and difficulties on the ground, Rizos et al. (2016) stress Including best practices and enabling knowledge exchange, this coalition will be in charge of developing policies, establishing criteria, and supervising the national and local execution of circular plans.
 - b) Support of circular activities depends critically on the building and enhancement of suitable supporting infrastructure. According to a 2018 Oncioiu et al. research, one of the biggest obstacles SMEs have in putting a circular economy into effect is lack of access to recycling facilities and material infrastructure. Consequently, the government can work with the business community to provide facilities such material banks, centralized recycling centers, and logistics centers for material



management. By means of a public-private investment program, this strategy can be carried out so granting more access to SMEs and communities to make use of this infrastructure.

- c) Serious Funding Establishing and Management: Circular projects call for a committed entity to manage finances. Studies by Sharma et al. (2020) and Fiksel et al. (2020) underline the need of regular financial support in assisting SMEs change to a circular business model. For SMEs wishing to use circular methods, this institution can offer low-interest loans, financial aid, or subsidies. Furthermore, this organization can assist control tax incentives and rules to inspire more companies to use circular models, so ensuring that the applied policy structure supports long-term sustainability.

Limitations

In this study, there are several limitations that need to be considered to understand the results and generalization of the findings. One of the main limitations is the lack of focus on the local context in the implementation of the circular economy. Many cited studies such as Rizos et al. (2016) and Oncioiu et al. (2018) provide an overview of the challenges and opportunities in various European countries. However, the success of implementing a circular economy is greatly influenced by local conditions, such as infrastructure, community culture, government regulations, and the level of environmental literacy. This research has not fully explored this variation, especially in developing countries like Indonesia, which face unique challenges related to infrastructure limitations and policy support. Therefore, the conclusions drawn from these studies may not be entirely relevant or applicable in local contexts or other developing countries.

In addition, this research also faces limitations in measuring the impact of circular economy implementation, both qualitatively and quantitatively. Kravchenko et al. (2019) show that the lack of consistent performance metrics hinders the assessment of the effectiveness of circular economy initiatives. Although this research uses relevant literature to highlight the challenges in transitioning to a circular economy, the lack of in-depth empirical data and specific case studies makes it difficult to evaluate the real impact of the proposed strategies. Dependence on general indicators and conceptual views, without concrete data on cost savings, efficiency improvements, or waste reduction in specific sectors, can diminish the validity of the findings. Thus, more longitudinal studies



that combine measurable performance metrics are needed to better evaluate the implementation of the circular economy in the MSME sector and communities.

Future Research

Further study should focus on empirical analysis of circular economy implementation in local contexts and industries, especially in developing countries like Indonesia. Further research can standardize performance metrics to evaluate the circular economy's sustainability and effectiveness in SMEs and communities. Further case studies and longitudinal data are needed to understand circular economy initiatives' long-term economic, social, and environmental effects. This will show how circularity principles can be best applied in different sectors and contexts.

CONCLUSION

This study emphasizes the importance of a circular economy in MSMEs and communities for economic, social, and environmental sustainability. A circular economy has the potential to reduce waste, increase resource efficiency, and create new economic opportunities, but knowledge, infrastructure, and policy support are still major obstacles. Therefore, a comprehensive strategic approach must include continuous education, infrastructure development, and multisectoral collaboration. Creating a circular economy in MSMEs and communities can improve sustainability over time. However, government, business, and society must work together to solve the problems. A circular economy can support sustainable, inclusive, and efficient business models and societies with the right strategies.

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