

# Sustainable Sukuk: Global Trends and Market Overview

This research explores the evolving landscape of sustainable sukuk, highlighting global trends, market insights, and key project examples driving the growth of environmentally and socially responsible investments



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# Glossary

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## 01 Wakala

Wakala is an Islamic financial contract in which one party (the principal) appoints another party (the agent) to act on their behalf for specific tasks or services. It is commonly used in Islamic banking and finance purposes such as an investment management, trade transactions, and takaful (Islamic insurance).

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## 02 Murabaha

Murabaha is an Islamic financing structure in which the seller provides the buyer with the cost and profit margin for an asset. It is commonly used in Islamic banking for asset financing, trade financing, and working capital. Unlike conventional loans, Murabaha does not involve interest but instead relies on a predetermined profit margin.

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## 03 Murabaha-Wakala

Murabaha-Wakala is a hybrid Islamic financial structure that combines elements of Murabaha and Wakala contracts. In this arrangement, the client appoints the bank as their agent (Wakil) to purchase an asset on their behalf. The bank then sells the asset to the client at the purchase cost plus an agreed profit margin, typically paid in installments. This structure ensures efficiency, transparency, and compliance with Islamic law.

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## 04 Tawarruq

Tawarruq is a financial arrangement in Islamic finance where an individual buys a commodity on credit at a marked-up price and subsequently sells it to a third party for cash at a lower price. This structure is used to obtain liquidity in a Sharia-compliant manner.

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## 05 Tawarruq Wakala-Murabaha

Tawarruq Wakala-Murabaha is an Islamic financial structure combining Tawarruq, Wakala, and Murabaha contracts. In this arrangement, the client appoints the bank as their agent (Wakil) to buy and sell commodities on their behalf. The bank purchases a commodity and sells it to the client at a profit margin (Murabaha). The client then sells the commodity to a third party for cash (Tawarruq), obtaining liquidity in a Sharia-compliant manner.

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## 06 Ijarah

Ijarah is an Islamic financial contract similar to leasing, where one party (the lessor) leases an asset or service to another party (the lessee) for a specified period in exchange for periodic rental payments. The lessor retains ownership of the asset while the lessee gains the right to use it. This structure is commonly used for real estate, equipment, and vehicle leasing in a Sharia-compliant manner.

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# Sukuk Market Overview in the Context of Global Trends



# Trends and Forecasts in the Sukuk Market

In 2023, the sukuk market experienced robust growth, with total issuance volumes reaching \$168.4 billion<sup>1</sup>, despite facing challenges such as tighter liquidity conditions in Saudi Arabia and a lower fiscal deficit in Indonesia.

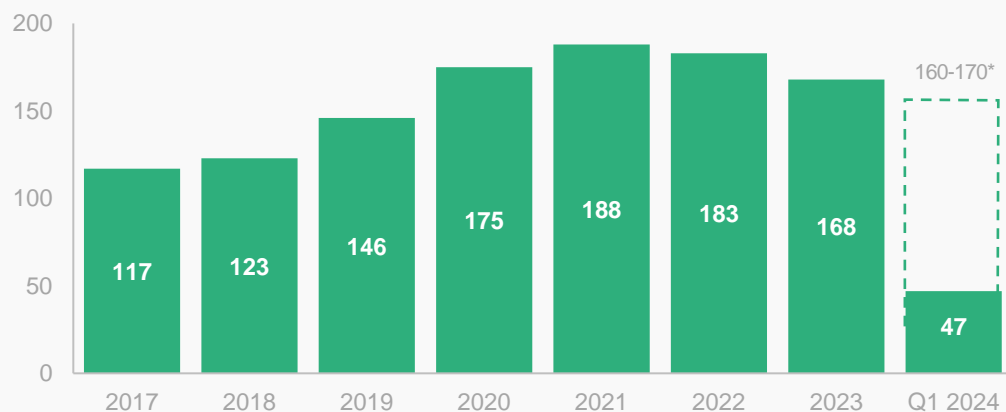
The issuance of foreign currency-denominated sukuk helped mitigate these challenges.

The decline in issuance volume in 2023, which was mainly caused by tighter liquidity conditions in Saudi Arabia's banking system and a reduction in Indonesia's fiscal deficit, was partly offset by an increase in the issuance of sukuk denominated in foreign currencies. It is also worth noting that Saudi Arabia and its Vision 2030 program stimulated issuance in 2023 and will continue to do so in 2024.

Based on Bloomberg data, the global Sukuk market reached \$908.51 billion by the end of the first quarter 2024 (according to different sources, the volume varies from \$895 to \$1,064 billion). For 2024, the sukuk market is expected to see issuance volumes between \$160 billion and \$170 billion<sup>1</sup>, maintaining levels similar to 2023.

However, looking ahead to 2025 and beyond, the introduction of AAOIFI Standard 62 might create headwinds that could potentially slow down issuance growth due to the new requirements on asset ownership and risk transfer.<sup>2</sup>

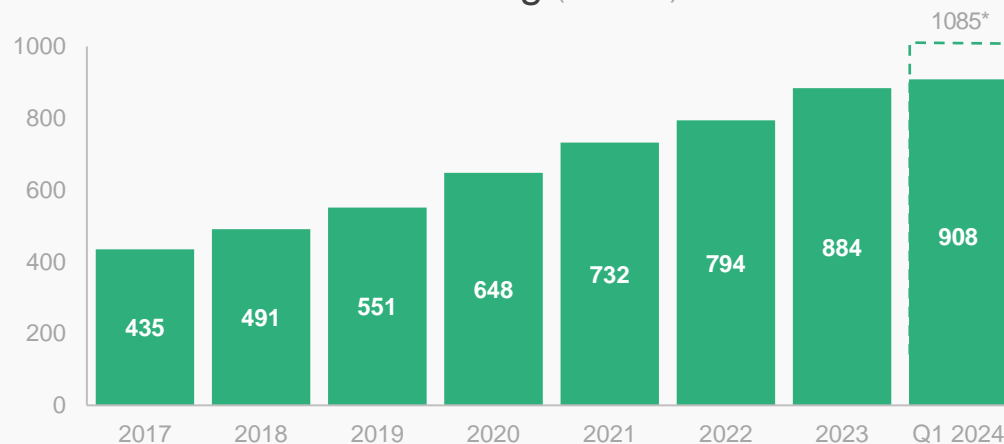
Sukuk Market – issuance (billion \$)



\* Outlook for 2024

Sources:  
IIFM Sukuk report 2023; Bloomberg; S&P Global Market Intelligence

Sukuk Market – outstanding (billion \$)



Sources:  
IIFM Sukuk reports 2018-2023; Bloomberg; Research and Markets: Sukuk Global Market Report 2024

1 S&P Global Market Intelligence  
2 More about Standard 62 on pages 8-9

# Global Sukuk Market Dynamics and Key Issuers

In 2023 growth was driven by key regions including the Gulf Cooperation Council (GCC) countries, particularly Saudi Arabia and the UAE, and Southeast Asia, led by Malaysia and Indonesia.

Saudi Arabia's Vision 2030 program played a crucial role in sukuk issuance in 2023, focusing on economic diversification and infrastructure projects. The UAE also saw significant activity, partly due to COP28, which emphasized the importance of sustainable finance.

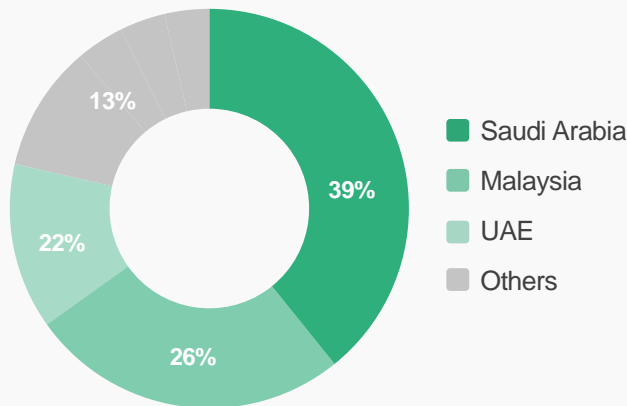
Southeast Asia remained a pivotal region for sukuk issuance, with Malaysia and Indonesia leading the way. Strong regulatory frameworks in these countries supported the market's growth. However, tighter liquidity conditions in Indonesia led to a reduction in local currency-denominated sukuk.<sup>2</sup>

The sukuk market remained active both internationally and domestically. International issuances attracted a global investor base, while local issuances in countries like Malaysia and Saudi Arabia were driven by regional demand and supportive regulations. Digitalization emerged as a potential driver for future growth, with digital sukuk offering a quicker and cheaper way for issuers to access Islamic finance markets. However, this will require robust legal frameworks and standardized Sharia interpretations.

## Sukuk issuance by country/issuer type

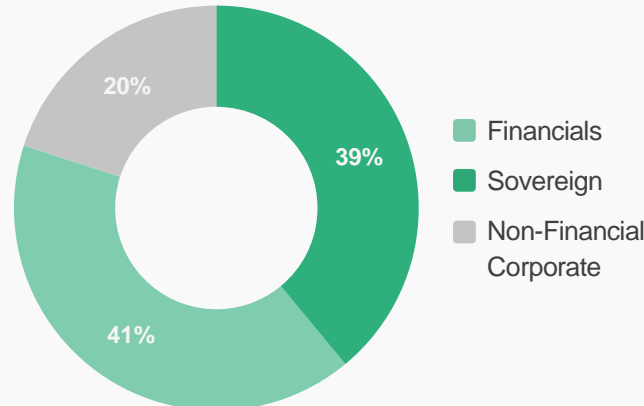
(% of value of sukuk issued)

Full Year (FY) issuance - 2023



Source: Bloomberg

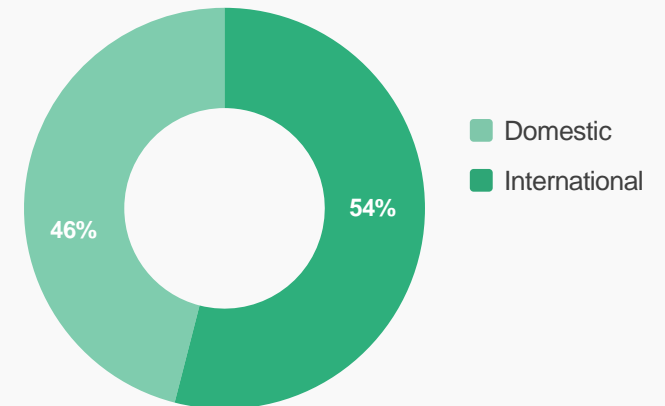
FY issuance - 2023



## Sukuk issuance by market of issue

(% of value of sukuk issued)

FY issuance - 2023



Source: Bloomberg

# Global Leaders in Sukuk and Sustainable Sukuk Issuance

In 2023, the leaders in global sukuk issuance were dominated by key regions and prominent issuers. Saudi Arabia emerged as a top issuer, with its Ministry of Finance issuing \$25.8 billion in sukuk, leveraging these instruments to fund major infrastructure projects and economic initiatives.

The Public Investment Fund (PIF) issued its first dollar-denominated Shariah-compliant sukuk, totaling \$3.5 billion. This milestone supports PIF's medium-term capital raising strategy and international capital markets program, with proceeds for general corporate purposes.<sup>2</sup>

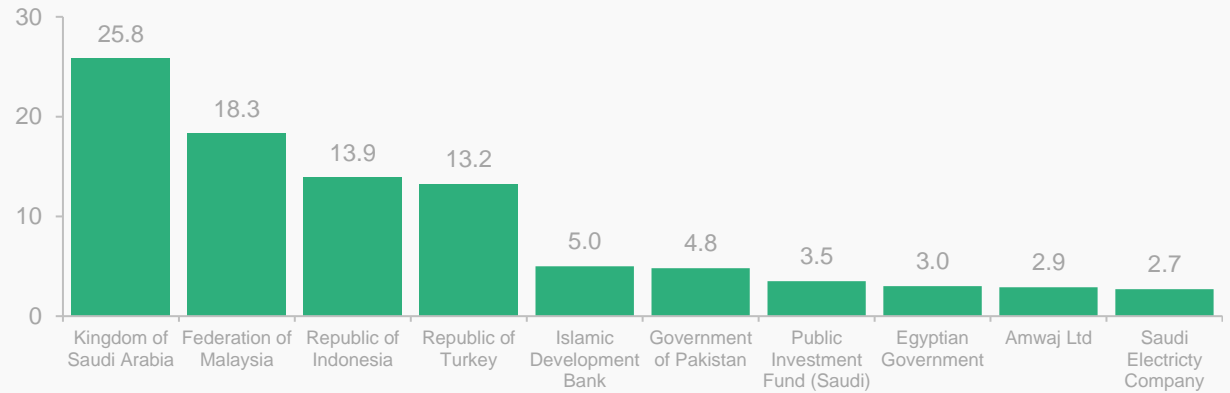
Turkey also played a significant role, with the Ministry of Treasury and Finance issuing \$13.2 billion. In Southeast Asia, Malaysia and Indonesia stood out, supported by strong regulatory environments and mature Islamic finance ecosystems.

Sustainable sukuk also saw significant growth, reflecting the increasing emphasis on environmentally and socially responsible investments. The Government of Indonesia was a leading issuer in this category, with sustainable sukuk issuances totaling \$2.6 billion.

In September 2023, DP World, based in the United Arab Emirates, raised \$1.5 billion through the issuance of a green sukuk to fund sustainable projects such as electrification, renewable energy, clean transportation, and energy efficiency initiatives.<sup>1</sup> In April 2023, Saudi Electricity Company issued a \$1.2 billion green sukuk to finance projects that contribute to environmental sustainability, such as renewable energy and energy efficiency initiatives.<sup>3</sup>

## Top 10 issuers of sukuk by issued amount (billion \$)

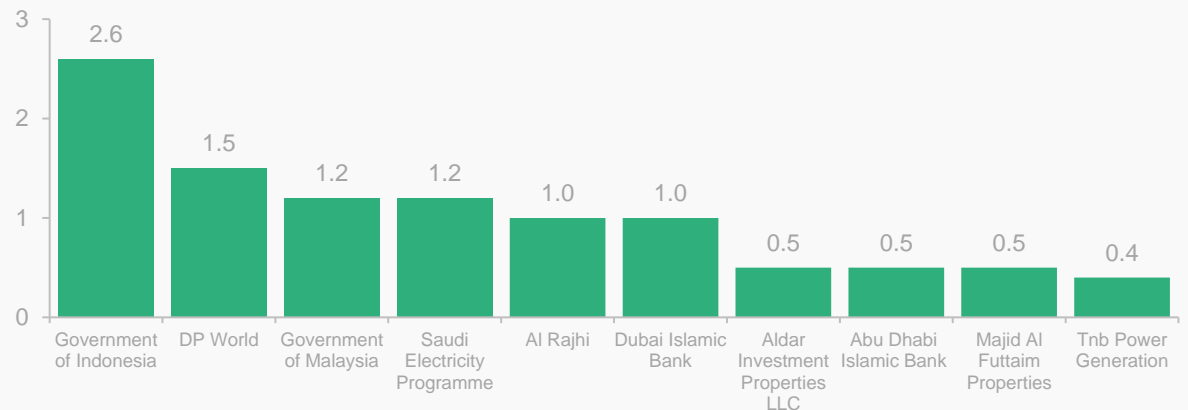
FY issuance - 2023



Source: Bloomberg

## Top 10 issuers of sustainable sukuk by issued amount (billion \$)

FY issuance - 2023



Source: ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024

1 Gulf News: DP World raises \$1.5 billion via green sukuk, Oct 23, 2023

2 PIF: Announces Pricing of Inaugural \$3.5 billion International Sukuk Issue

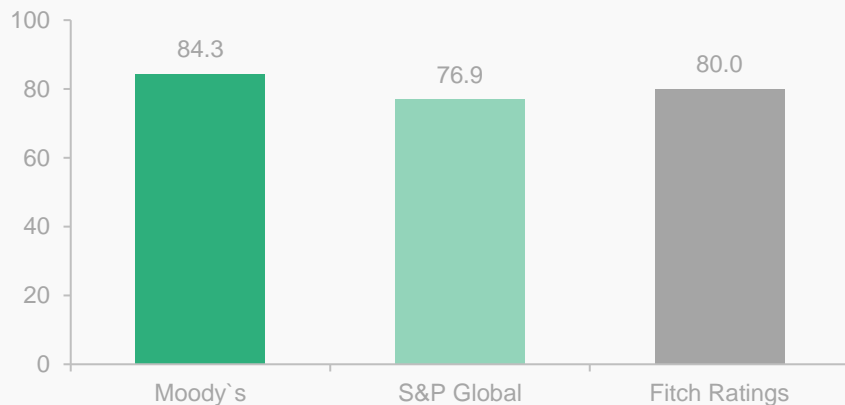
3 Arab News: Saudi Electricity Co. completes issuance of two sukuk tranches valued at \$2bn

# Rating Distribution of Sukuk and Sustainable Sukuk by Categories

By the end of the first quarter of 2024, according to Bloomberg data, the cumulative volume of sukuk (including sustainable sukuk) is distributed among rating categories in such a way that 75-85% is at investment grade level (BBB-/Baa3 and above).

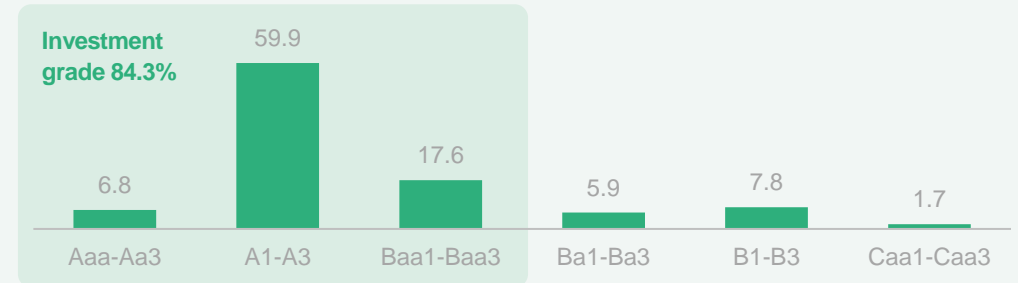
This indicates a strong level of creditworthiness and investor confidence in sukuk instruments, further solidifying their position as attractive investment options within the global financial market. The predominance of investment-grade sukuk underscores the robustness and stability of the sukuk market, providing investors with a reliable avenue for diversification and risk management in their portfolios.

## Share of Credit Ratings above investment grade, %

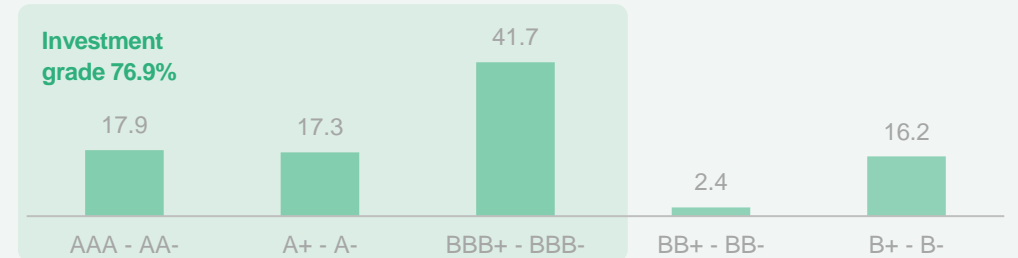


Source: Bloomberg

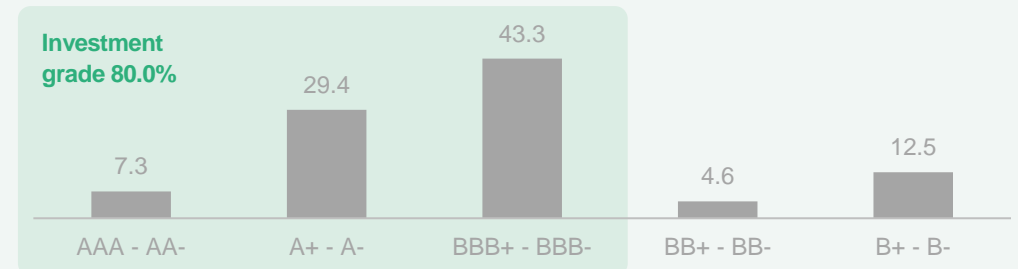
## Moody's, %



## S&P Global, %



## Fitch Ratings, %



Source: Bloomberg



# Accounting and Auditing Organization for Islamic Financial Institutions

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an international Islamic organization that sets accounting, auditing, governance, and ethical standards for Islamic financial institutions and the industry at large. AAOIFI's standards are widely recognized and followed by Islamic financial institutions around the world to ensure compliance with Sharia principles.

01 AAOIFI is a not-for-profit organization

02 Set up in 1991 by key industry stakeholders and has 161 active institutional members

03 119 standards and technical pronouncements in issue – 5 areas:

- Sharia – 59
- Auditing – 8
- Accounting – 36
- Governance – 15
- Ethics – 1

04 Adopted, adapted, or used as guidance in more than 40 jurisdictions

**Countries and jurisdictions that follow AAOIFI Sharia standards fully, partially or as guidance:**

Afghanistan, Astana Financial Services Authority (AFSA), Bahrain, Dubai International Financial Centre (DIFC), Iraq, Islamic Development Bank Group, Jordan, Kyrgyz Republic, Lebanon, Libya, Mauritius, Nigeria, Oman, Palestine, Pakistan, Qatar, Qatar International Financial Centre (QIFC), Sudan, Syria, United Arab Emirates, Yemen.



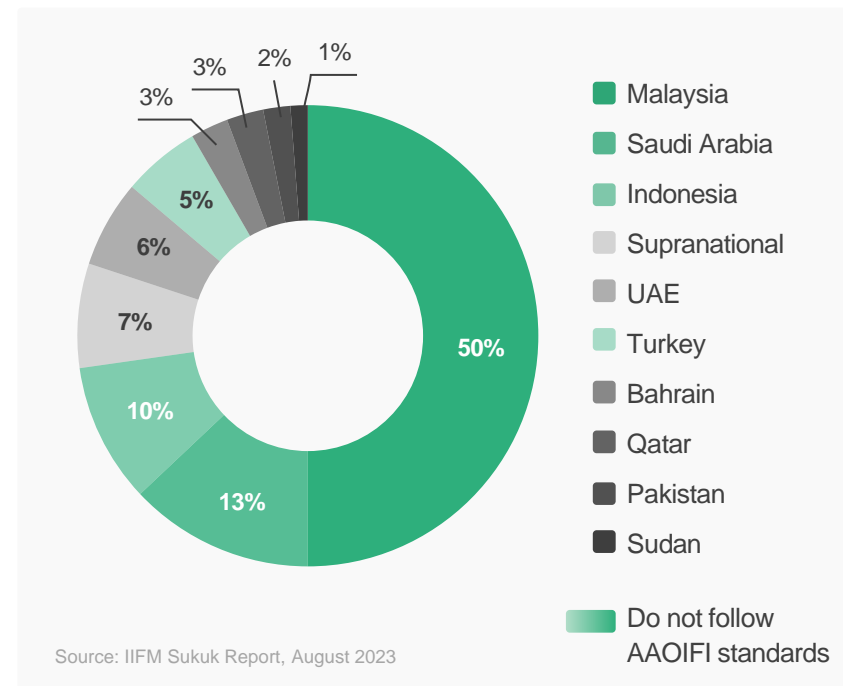
# Standard 62

## Standard 62 (part of Sharia Standards)

Standard 62, proposed by the AAOIFI, introduces significant changes to the sukuk market. The main requirement of the standard is the transfer of ownership and risks related to the underlying assets to the sukuk holders.

This could promote the development of mortgage-backed sukuk markets in countries that have adopted AAOIFI standards. However, such changes might make it more difficult to structure other types of sukuk, which could negatively impact their issuance and increase the cost of financing for companies and governments.

As a result, the sukuk market may face a slowdown in growth from 2025 onwards. Although, the countries where 78% (see countries with green color on chart on the right) of the sukuk market is concentrated (based on issuance volumes from 2001-2022) do not follow AAOIFI standards.



## Key effects of the Standard 62:

01	Ownership and Risk Transfer	Standard mandates that both ownership and risks associated with the underlying assets must be transferred to sukuk holders
02	Impact on Structuring Sukuk	Structuring certain types of sukuk, particularly those backed by sponsors' contractual obligations, will become more challenging.
03	Reluctance to Transfer Sovereign Assets	Sovereign entities may be hesitant to transfer assets due to concerns that it could be seen as a form of privatization.
04	Corporate Concerns over Asset Control	Corporations may be unwilling to lose control over their assets, as this could increase their financing costs.
05	Market Fragmentation and Investor Confidence	Standard could lead to greater market fragmentation between AAOIFI adopters and non-adopters, and may affect investor confidence, potentially altering the pricing dynamics of sukuk transactions.

Source: Exposure Draft of Sharia Standards No. (62) Sukuk

# Overview of Sustainable Sukuk



# Types of Sustainable Sukuk

Sustainable Sukuk are Sharia-compliant financial instruments issued to fund projects that have positive environmental or social impacts. They combine the principles of Islamic finance with the goals of sustainability, often aligned with the United Nations Sustainable Development Goals (SDGs)<sup>1</sup>.

## 01

### Green Sukuk

These sukuk are use-of-proceeds (UoP) instruments that finance or refinance eligible green projects that are also Sharia-compliant.

They align with the Green Bond Principles (GBP), and the eligible projects include renewable energy, energy efficiency, pollution control, sustainable management of living natural resources and land use, biodiversity conservation, and clean transportation.

## 02

### Social Sukuk

Like Green Sukuk, Social Sukuk are UoP instruments but are specifically geared towards financing or refinancing eligible social projects that are Sharia-compliant and align with the Social Bond Principles (SBP).

These projects typically address affordable basic infrastructure, access to essential services like health and education, affordable housing, and socioeconomic advancement.

## 03

### Sustainability Sukuk

These instruments combine the features of both Green and Social Sukuk, financing a mix of eligible green and social projects. They align with both the GBP and SBP, thus supporting a broader range of sustainability objectives under a single issuance.

## 04

### Sustainability-linked Sukuk

These are general purpose bonds that focus on the issuer achieving certain predefined sustainability performance targets. Unlike the other types, the proceeds are not limited to specific projects.

The financial or structural characteristics of these sukuk may vary based on the achievement of the sustainability targets, making them performance-based instruments.

Source: ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024

### Sustainable sukuk by type:

This detailed delineation ensures each type of sukuk aligns with specific sustainability goals while adhering to Sharia principles, thereby integrating Islamic finance with global sustainability efforts. All Sustainable Sukuk automatically fall under the ESG Sukuk category since they meet environmental and social criteria, which are part of ESG.

<sup>1</sup> The United Nations Sustainable Development Goals (SDGs) are a set of 17 global goals adopted in 2015 to address poverty, protect the planet, and ensure prosperity for all by 2030.



# Standards for Sustainable Sukuk and Sukuk

## 01 Standards Applicable to All Sukuk

- AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) Standards
- IFSB (Islamic Financial Services Board) Standards
- IOSCO (International Organization of Securities Commissions) Principles
- Local Regulatory Requirements

## 02 Additional Standards for Sustainable Sukuk

- ICMA (International Capital Market Association) Standards:
  - Green Bond Principles (GBP)
  - Social Bond Principles (SBP)
  - Sustainability Bond Guidelines (SBG)
  - Sustainability-Linked Bond Principles (SLBP)
  - Climate Transition Finance Handbook
  - Mapping to the Sustainable Development Goals
  - Guidance on other Sustainable Financial Instruments
  - Guidance on Green, Social and Sustainability Sukuk
- UN SDGs (United Nations Sustainable Development Goals) Alignment
- Global Reporting Initiative (GRI) Standards
- Local Regulatory Requirements for Sustainable Finance



# Issuance Process for Sustainable Sukuk

## Pre-issuance

01

### Create a Sustainable Financing Framework

Develop a framework aligned with ICMA's principles: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting

02

### Define and Confirm Project Categories

Identify eligible green or social projects that the sukuk will finance or refinance, ensuring they meet sustainability criteria

03

### Obtain an External Review

Secure a Second Party Opinion (SPO) or another type of external review to verify alignment with the principles

## Post-issuance

01

### Management of Proceeds

Track and manage the proceeds to ensure they are allocated to the defined projects. Use an external auditor or third party for verification

02

### Allocation and Impact Reporting

Provide annual reports on the allocation of proceeds and the environmental or social impact of the projects financed by the sukuk

03

### Obtain an External Review

Post-issuance, it is recommended that an issuer use an external auditor or third party to verify the internal tracking and allocation of funds to eligible projects

# Sustainable Sukuk Market Overview



# Trends in Sustainable Sukuk Issuance

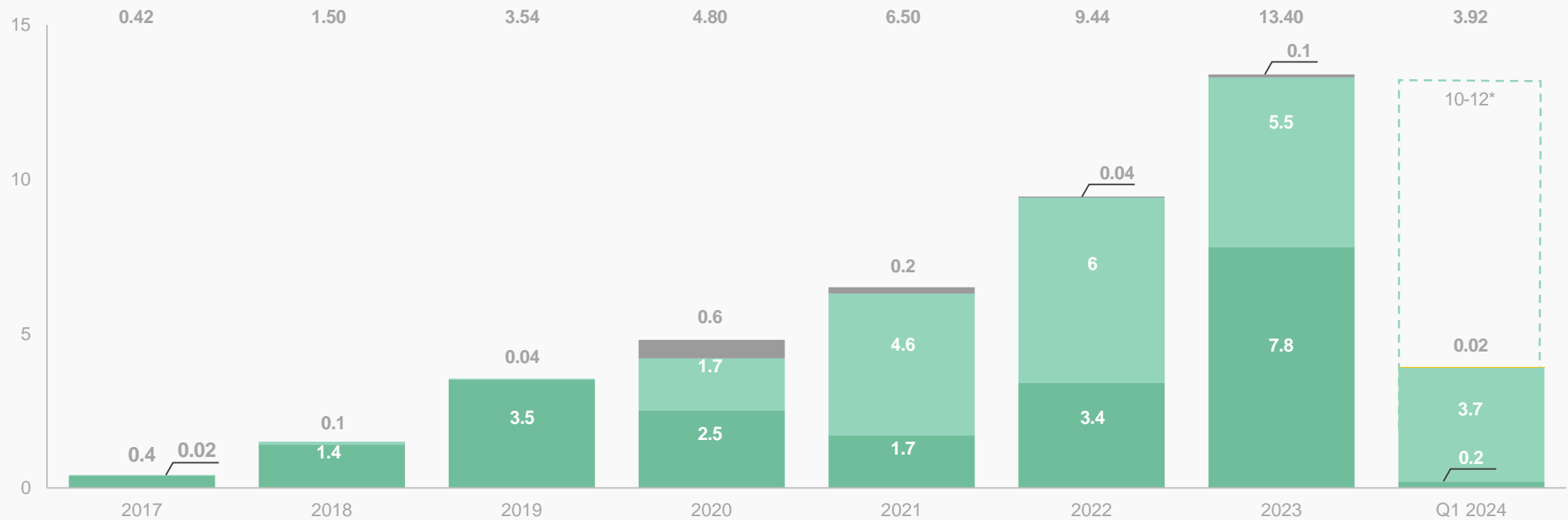
As of Q1 2024, the cumulative global issuance for sustainable bonds reached \$235.4 billion, with sustainable sukuk contributing \$4.0 billion in just the first quarter, marking a 17.2% increase from the previous year. In 2023, the issuance of sustainable sukuk totaled \$13.4 billion, surpassing the previous year's \$9.4 billion and continuing a seven-year trend of record issuances since 2017. Overall, sustainable sukuk made up 1.6% of all sustainable bond issuances and 6.2% of total sukuk issuances by the end of 2023.<sup>1</sup>

During the first six months of 2024, GCC banks accounted for 80% of all sustainable sukuk issuances as they embark on their climate transition efforts. The issuance volume of sustainable sukuk is expected to be approximately \$10-12 billion in 2024, assuming no major push in the implementation of net-zero policies or regulatory changes.<sup>2</sup>

<sup>1</sup> ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024: S&P Global Market Intelligence

<sup>2</sup> S&P Global Market Intelligence

Sustainable Sukuk Market – issuance (billion \$)



\* Outlook for 2024

■ Green sukuk    
 ■ Sustainability sukuk    
 ■ Sustainability-Linked sukuk    
 ■ Social sukuk

Source: ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024: S&P Global Market Intelligence

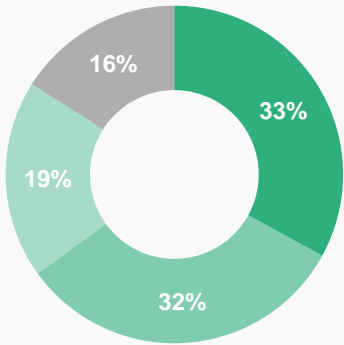
# Growth and Trends in Sustainable Bonds and Sukuk Issuance

As of the first quarter of 2024, Malaysia, Indonesia, the UAE, and Saudi Arabia led sustainable sukuk issuance, collectively raising 83% of the global volume. The only sovereign issuers, Indonesia and Malaysia, have collectively raised \$13.2 billion (cumulative issuance since 2017), accounting for 30.2% of the total.

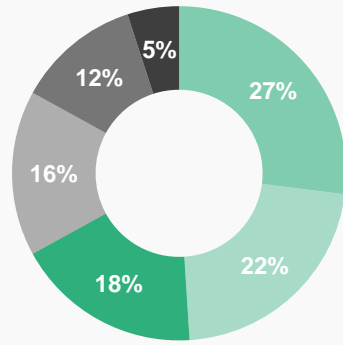
## Sustainable sukuk issuance by country

(% of value of sukuk issued)

FY issuance - 2023



Cumulative issuance as of Q1 2024



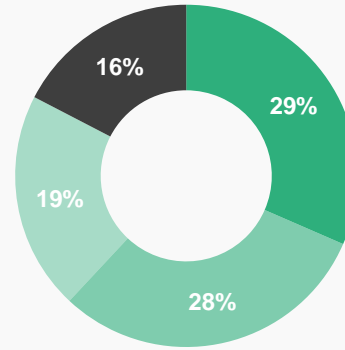
- UAE
- Indonesia
- Supranational
- Malaysia
- Saudi Arabia
- Other

Source: ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024

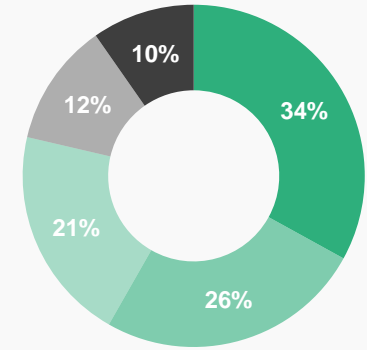
## Sustainable sukuk issuance by issuer type

(% of value of sukuk issued)

FY issuance - 2023



Cumulative issuance as of Q1 2024



- Sovereign
- Financials
- Non-Financial Corporate
- Supranational
- Quasi-Sovereign (Agency)

Source: ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024

# Green Sukuk and the Rapid Growth of the ESG Market

Green sukuk dominate the sustainable sukuk market, making up 58% of the total issuances, while sustainability sukuk account for 41%. The focus on environmental projects is evident, yet there is a growing inclusion of broader sustainability goals<sup>1</sup>

The market shows diversity in sukuk structures, with Tawarruq-Wakala-Murabaha being the most common, followed by Murabaha and Wakala.<sup>2</sup> This variety demonstrates the flexibility of sukuk in meeting different financing needs while adhering to Sharia principles. Sukuk structures can vary in terms of conditions, terms, risks, income payment mechanisms, types of assets, deal structure, flexibility, and compliance with Sharia principles.

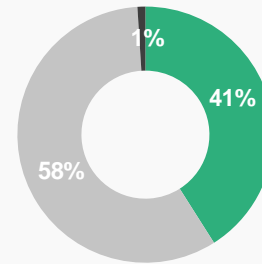
Sustainable sukuk issuance grew in 2023, driven by a focus on climate change and Islamic finance's role in addressing it. COP28 emphasized green project opportunities, leading to increased green sukuk volumes. The UAE led this segment, accounting for 40%<sup>3</sup> of total issuance due to regulatory incentives and a commitment to reducing carbon footprints. The total volume of sustainable sukuk reached \$13.4 billion in 2023.<sup>3</sup>

Key factors contributing to the growth of the ESG sukuk market include efforts toward standardization, ecosystem development, and enhanced transparency. For instance, Saudi Arabia and Oman have introduced green financing frameworks, and the UAE has extended the waiver of registration fees for green or sustainability-linked sukuk and bonds. However, several risks could impact this market, such as geopolitical volatility, rising oil prices, new Sharia requirements affecting sukuk credit risk, and weakening sustainability drives in core markets.

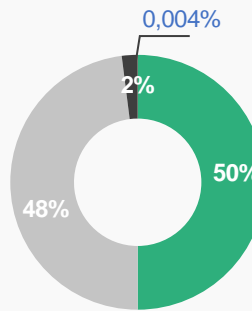
## Sustainable sukuk by ESG type

(% of value of sukuk issued)

FY issuance - 2023



Cumulative issuance as of Q1 2024



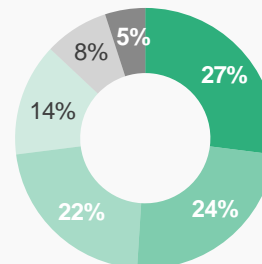
- Sustainability
- Green
- Sustainability-linked
- Social

Source: ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024

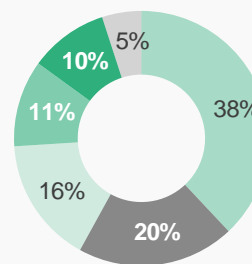
## Sustainable sukuk by Islamic structure

(% of number of sukuk issued)

FY issuance - 2023



Cumulative issuance as of Q1 2024



- Tawarruq Wakala-Murbaha
- Wakala
- Murabaha
- Other
- Ijara
- Murabaha-Wakala

Source: ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024

<sup>1</sup> ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024

<sup>2</sup> Check Glossary on slide 3

<sup>3</sup> S&P Global Market Intelligence



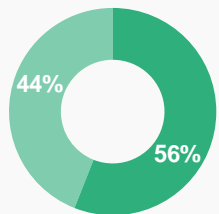
# Outlook of Sustainable Sukuk

Sustainable sukuk are predominantly issued in international markets, comprising 67% of the total cumulative issuance as of Q1 2024. This is in stark contrast to traditional sukuk, where international issuances make up only 25.2% annually. Subscription rates for sustainable sukuk generally exceed those of traditional sukuk.

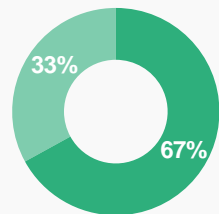
Sustainable sukuk is poised to boost the overall low sukuk issuance, as emphasized at the recent COP28 in UAE, which showcased the significant role of Islamic finance and sukuk in tackling climate change. At COP28 in the UAE, key initiatives were announced to boost the sustainable sukuk market, such as the National Biodiversity Strategy 2031, the Green Fujairah Initiative, and the Waste to Zero Initiative.<sup>1</sup> The UAE also extended the waiver of registration fees for green or sustainable sukuk and bonds. According to Fitch, the UAE holds 19% of the global sustainable sukuk market. Given that 51% of sustainable issuances in the Gulf region are sukuk, these initiatives are expected to benefit significantly from the heightened awareness being cultivated by COP28.<sup>2</sup>

## Sustainable sukuk issuance by market of issue (% of value of sukuk issued)

FY issuance - 2023



Cumulative issuance as of Q1 2024

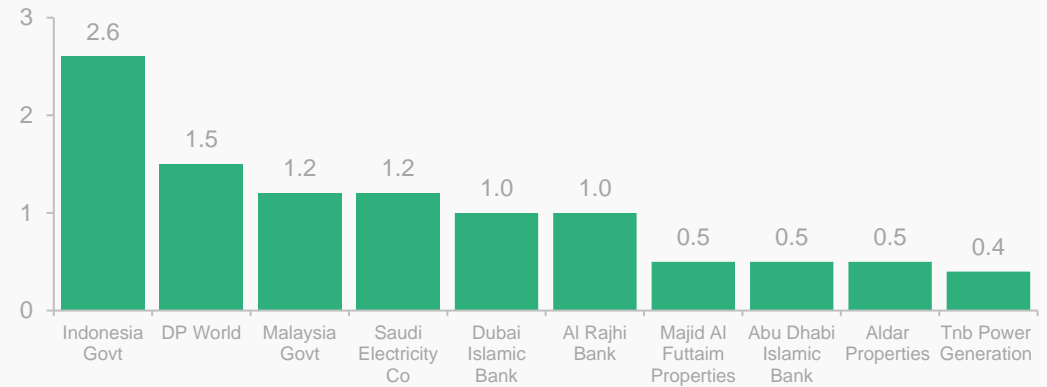


■ International  
■ Domestic

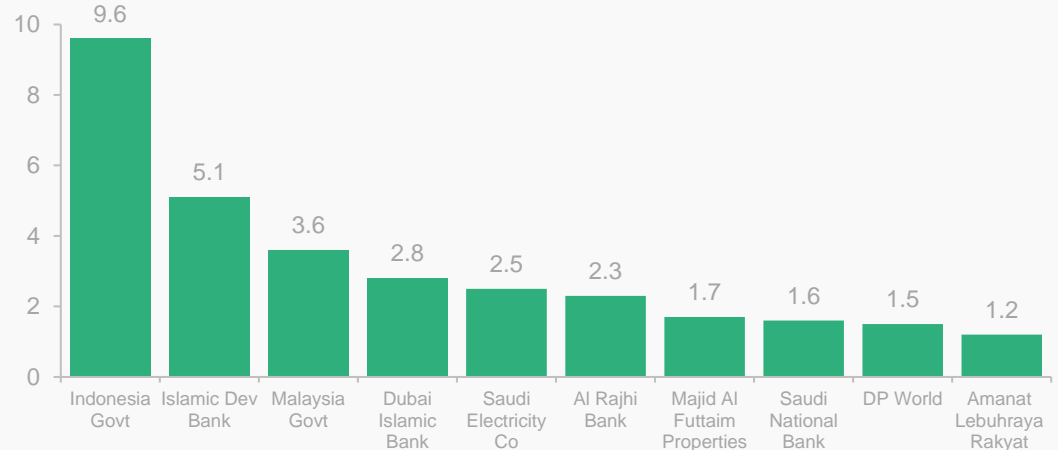
Source: ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024

## Top 10 issuers of sustainable sukuk by value of proceeds (billion \$)

FY issuance - 2023



Cumulative issuance since 2017 as of Q1 2024



Source: ICMA Guidance on Green, Social and Sustainability Sukuk, April 2024

1 The Official Portal of UAE Government

2 Zawya: COP28 boosts green financing; UAE holds 19% of global sustainable sukuk

## Case Studies



# Sustainable Sukuk Projects

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## 01 Al Rajhi Bank's Green Sukuk - XS2819196879 (International Sukuk)<sup>1</sup>

- **Country and Year:** Saudi Arabia, 2024
  - **Type of Sukuk:** Green
  - **Amount:** \$1 billion
  - **Project Description:** Al Rajhi Bank issued its first green sukuk focused on renewable energy projects, aligning with Saudi Arabia's Vision 2030. Previously, Al Rajhi issued a \$1 billion sustainable sukuk with a five-year term in March and a tier-one sukuk worth 10 billion riyals (\$2.6 billion) in November 2022. The green sukuk aims to support sustainable projects, enhance liquidity, and contribute to Saudi Arabia's economic transformation.
  - **Second Party Opinion (SPO):** S&P Global
- 

## 02 Dubai Islamic Bank Sustainability Sukuk – XS2749764382 (International Sukuk)<sup>2</sup>

- **Country and Year:** UAE, 2024
  - **Type of Sukuk:** Sustainability
  - **Amount:** \$1 billion
  - **Project Description:** Dubai Islamic Bank successfully issued its third Sustainable Sukuk, a landmark USD 1 billion 5-year senior issue with a profit rate of 5.243% per annum. This Sukuk, issued under DIB's Sustainable Finance Framework, aims to finance and refinance green and social projects, showcasing DIB's leadership in Islamic Sustainable Finance. The issuance achieved a 2.5x subscription and the lowest credit spread in DIB's history, reflecting strong investor confidence from Europe, Asia, and the Middle East.
  - **SPO:** ISS ESG
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## 03 Aldar Investment Properties – XS281681305 (International Sukuk)<sup>3</sup>

- **Country and Year:** UAE, 2024
- **Type of Sukuk:** Green
- **Amount:** \$500 million
- **Project Description:** Proceeds will be used in line with Aldar's Green Finance Framework, funding green buildings, energy-efficient upgrades, sustainable water management, pollution control, and renewable energy projects. The issuance supports Aldar's Net Zero Plan to achieve net zero carbon emissions by 2050 and will also refinance existing debt.
- **SPO:** Sustainalytics

<sup>1</sup> Arabian Gulf Business Insights: Demand is high for Al Rajhi bank's first green sukuk, March 13, 2024

<sup>2</sup> Dubai Islamic Bank successfully prices USD 1 billion Sustainable Sukuk, February 27, 2024

<sup>3</sup> Aldar Investment Properties issues its second USD 500 million Green Sukuk, May 09, 2024

# Impact Of Sustainable Sukuk Projects



## Environmental Benefits

- Reduction of Carbon Emissions
- Conservation of Natural Resources
- Biodiversity Protection



## Climate Change Mitigation

- Adaptation and Resilience
- Global Climate Goals



## Technological Advancements

- Driving Innovation
- Collaboration and Partnerships



## Social Benefits

- Improved Public Health
- Education and Awareness
- Community Development



## Economic Benefits

- Job Creation
- Economic Resilience
- Cost Savings



## Regulatory and Compliance Benefits

- Alignment with Global Standards
- Enhanced Corporate Reputation



# Challenges and Opportunities in the Sustainable Sukuk Market





# Key Challenges



## Regulatory Hurdles

- Different regulatory frameworks across countries make it difficult to standardize and implement sustainable sukuk practices.
- Varying interpretations of Shariah compliance can also pose challenges.



## Market Awareness

- Limited understanding and awareness among investors and issuers about the benefits and mechanisms of sustainable sukuk.



## Standardization Issues

- Lack of universal standards for what qualifies as "sustainable" in the context of sukuk.
- Inconsistent criteria can lead to confusion and reduced investor confidence.



## Performance Metrics

- Difficulty in measuring and quantifying the environmental and social impact of projects funded by sustainable sukuk.
- Need for robust and transparent impact assessment frameworks to assure investors of the benefits.



## Liquidity Concerns

- Lower liquidity compared to conventional sukuk and other financial instruments.
- Market depth and secondary market trading of sustainable sukuk need improvement.



## Higher Costs

- Initial costs for issuing sustainable sukuk can be higher due to the need for certification and compliance with sustainability standards.
- These costs can deter potential issuers from entering the market.

# Opportunities for Growth

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## 01 Increasing Demand

- Growing interest in sustainable investments from investors focused on environmental, social, and governance (ESG) criteria.
  - The demand for sustainable sukuk is rising, driving more issuances and market expansion.
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## 02 Government and Regulatory Support

- Governments can introduce tax incentives, subsidies, and supportive policies to encourage issuance and investment in Green Sukuk.
  - Development of standardized guidelines for sustainable Sukuk can enhance market credibility and attract more participants.
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## 03 Alignment with Global Sustainability Goals

- SDGs and Climate Goals: Green Sukuk can contribute to achieving the United Nations Sustainable Development Goals (SDGs) and global climate targets.
  - Corporate ESG Strategies: Corporations adopting ESG strategies can use Green Sukuk to finance their sustainability initiatives.
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## 04 Innovation in Financial Products

- Development of innovative Sukuk structures that combine sustainability with traditional Islamic finance principles.
  - Opportunities to use blended finance models, combining public and private investments to de-risk sustainable projects.
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## 05 Expansion into Emerging Markets

- Potential for growth in emerging markets where sustainable infrastructure and development projects are needed.
  - Local governments and institutions can issue Green Sukuk to finance national sustainability projects.
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## 06 Enhanced Reporting and Transparency

- Improved reporting on the environmental and social impact of projects funded by Green Sukuk can build investor confidence.
- Use of blockchain and other technologies to enhance transparency and traceability of Sukuk proceeds.



An aerial photograph of a lush green landscape, likely a park or a well-maintained area. The image shows a dense carpet of green grass with several palm trees scattered throughout. A winding path or road is visible on the right side of the image. The overall scene is vibrant and natural.

## Contact us

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