

ECONOMY WATCH

By ICMA Research and Publications Department



Green Sukuk is Building a Sustainable and Inclusive Future for Pakistan

Pakistan's first sovereign domestic Green Sukuk – a 3-year, Rs. 30 billion Ijarah bond – was launched on May 16, 2025, at the Pakistan Stock Exchange. This landmark issuance will finance climate-resilient energy projects (including three dams) under a new Sustainable Investment Sukuk framework. The government emphasized that broad investor participation was invited — including local retail and institutional investors, NRPs/RDA holders, and foreign funds — and that the Sukuk will be listed on the PSX, reflecting growing market confidence. Through this, Pakistan has increased its share of Shariah-compliant debt to about 14% of domestic borrowing (approximately Rs. 5 trillion out of Rs. 37 trillion). This introductory green Sukuk marks Pakistan's entry into ESG Sukuk finance: a Shariah-compliant way to fund green infrastructure.

Green Sukuk blend Islamic finance with ESG principles by offering Shariah-compliant, asset-backed instruments that fund sustainable projects such as renewable energy, pollution control, and climate adaptation. Their risk-sharing structure and alignment with both Islamic law and environmental goals attract faith-based and ESG-focused investors alike.

International Agencies Perspective on Sukuk

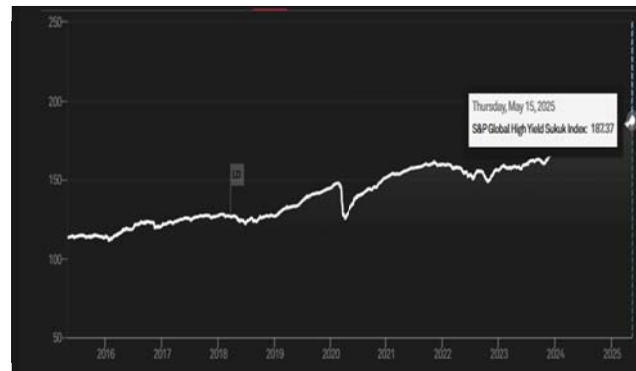
Fitch Ratings Fitch Rating on Global ESG Sukuk Market 2025

Fitch forecasts the ESG sukuk market will exceed USD 50 billion in 2025, led by Saudi Arabia, the UAE, Indonesia, and Malaysia, after growing 23% in 2024 to capture 20% of emerging-market ESG dollar debt. Most issues are investment-grade, but issuers face risks related to Shariah compliance, geopolitics, and oil prices. Pakistan's 2025 debut could unlock sustainable finance, climate-resilient infrastructure funding, and broaden the investor base.

S&P Global Ratings S&P Global Rating on Sukuk

As of May 15, 2025, the S&P index stood at 187.37 USD, with a 10-year annualized return of 5.11%, reflecting steady growth despite pandemic-related dips. This resilience mirrors the broader ESG sukuk market in emerging markets (excluding China), where ESG sukuk now represent over 50% of total ESG debt issuance in 1Q25, up from about 20% in 2024. With global ESG sukuk outstanding reaching USD 50 billion, growing 21.6% year-on-year and surpassing overall

sukuk market growth, Saudi Arabia (64%), the UAE (28%), and Malaysia (8%) lead issuance. Despite volatility from factors like US tariffs, the market's credit profile remains stable, with risks including oil price swings, greenwashing, and evolving Shariah-compliance. These trends underscore ESG sukuk's growing role as a reliable tool for sustainable finance in emerging markets like Pakistan.



Source: S&P

International Case Studies on Sukuk Adoption

Several non-Muslim countries have successfully adopted sukuk, not only as a funding tool but also as a strategic move to broaden their investor base, promote financial inclusion, and strengthen ties with Islamic markets.

Hong Kong

Since 2014, Hong Kong has issued three USD sukuk, including a landmark US\$1 billion sukuk with a 10-year tenor in 2021 by its AAA-rated government. Earlier issuances attracted strong investor demand from the Middle East and Asia, highlighting Hong Kong's growing role in Islamic finance.

Luxembourg

In 2014, Luxembourg issued a €200 million Shariah-compliant sovereign sukuk and became a leading European center for Islamic finance. By Q3 2021, it hosted 30 Shariah-compliant funds. Over six years, its Islamic mutual fund industry grew 122%, reaching USD 6.7 billion in AUM. Despite having no Islamic banks or takaful operators, it leads sukuk listings with 21 sukuk totaling around USD 9 billion on its stock exchange.



South Africa

In 2021, South Africa issued sukuk worth approximately USD 127 million through the RSA Domestic Sukuk Trustee, marking progress in Islamic finance. Rated 'BB-' by Fitch, the sukuk reflects sovereign obligations, backed by rental income and purchase undertakings. Proceeds went to the National Revenue Fund under South African law, signaling efforts to diversify funding through Shariah-compliant instruments.



Nigeria

In 2024, Nigeria issued a ₦350 billion sovereign sukuk for infrastructure and plans its first USD 500 million sukuk under external borrowing. By 2023, its Islamic finance industry had grown to ₦2.5 trillion, with ₦1.36 trillion in Islamic banking assets and ₦1.09 trillion in sukuk—highlighting sukuk's growing role in funding and Shariah-compliant finance.

How Pakistan Can Learn from Global Sukuk Experience

1) Use Green Sukuk to Finance Climate Projects

- Pakistan can use Green Sukuk proceeds to fund key climate-related initiatives such as solar and wind farms, hydropower projects, and electric public transport—similar to how Nigeria used sukuk for road infrastructure. Preparing a clear list of eligible projects (e.g., renewable energy, irrigation, climate adaptation) can build investor confidence. Linking each sukuk tranche to specific assets (like solar parks or dam construction) can also facilitate Shariah compliance and improve ESG ratings.

2) Attract Overseas and Islamic Investors - To broaden its investor base, Pakistan should actively market its sukuk to global Islamic finance institutions and the Pakistani diaspora. Like Nigeria's diaspora bond and Hong Kong's outreach to international funds, Pakistan can consider issuing a USD or diaspora-focused sukuk to tap into Gulf sovereign wealth funds, Asian Islamic banks, and expatriate savers. Strong foreign participation would support external financing and ease pressure on currency reserves.

3) Reduce Dependence on Expensive Borrowing - By expanding sukuk issuance, Pakistan can shift away from costly conventional debt. The May 2025 Green Sukuk already accounted for 14% of domestic sukuk. Increasing this share would reduce borrowing costs and foreign exchange risk. With sound reforms and improved credit ratings, Pakistan could issue sukuk at lower spreads—similar to Hong Kong's success. Green Sukuk thus offer dual benefits: supporting sustainable development while reducing debt servicing costs.

4) Strengthen the Islamic Finance Ecosystem -

Regular sovereign sukuk issuances can help establish an Islamic yield curve, encouraging banks, corporations, and public-sector entities to issue their own sukuk. South Africa's sukuk strategy targeted state-owned enterprises (SOEs), and Pakistan can follow by enabling SOEs in energy, water, and transport sectors to access sukuk markets. Introducing standard benchmarks (3-, 5-, and 10-year sukuk) and promoting sukuk-based funds or ETFs can deepen market liquidity and resilience.

5) Promote Financial Inclusion and Sustainable Finance -

Opening sukuk auctions to retail investors—through Roshan Digital Accounts and local banks—will enhance financial inclusion. The May 2025 auction welcomed both domestic and overseas retail participation. Continuing this inclusive approach allows individuals to invest in national development. Embedding ESG disclosures (e.g., impact reports) will promote transparency and encourage responsible investing, helping mainstream both Islamic and sustainable finance in Pakistan.

Conclusion

Pakistan's Green Sukuk initiative holds significant promise as a strategic financing tool—provided it is anchored in transparency, regulatory reform, and investor trust. As noted by the PSX, this first Green Sukuk represents "a groundbreaking step in Pakistan's journey toward sustainable development."

To fully realize this potential, Pakistan must continue to:

- Strengthen transparency through robust tracking of green expenditures,
- Simplify tax and legal frameworks to attract wider participation, and
- Engage global investors by building credibility through ratings and reforms.

If these foundations are maintained, Green Sukuk can go beyond project financing—they can become a catalyst for broader economic reform and a gateway to sustainable, international capital. By aligning Shariah principles with climate goals, Pakistan has the opportunity to transform Green Sukuk into a lasting driver of inclusive growth and climate resilience.

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