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USING SUKUKS IN ENSURING SUSTAINABLE DEVELOPMENT

Abstract. *The article analyzes the role of the Islamic financial instrument - sukuk - in financing sustainable development goals. In recent years, due to climate change, increasing debt burden and social inequality in the world economy, the need for innovative, fair and Sharia-compliant financial mechanisms to ensure sustainable development has increased. As one of such instruments, sukuk is used in the areas of infrastructure, energy, education, social protection and ecology. The article examines the role, advantages and prospects of sukuk in achieving the Sustainable Development Goals.*

Keywords: *Sustainable Development Goals (SDGs), Islamic finance, sukuk, GSS (Green, Social and Sustainability) instruments, smart sukuk*

INTRODUCTION

Sustainable development is the process of achieving a balance between economic growth, social well-being, and environmental sustainability. The United Nations Sustainable Development Goals (SDGs) are a set of global targets established to be achieved by 2030, aimed at improving human well-being and addressing global challenges. However, according to the UN Sustainable Development Goals Report 2025, only 35 percent of the goals are on track, while 18 percent are lagging behind.

More than 800 million people still live in absolute poverty, global temperatures have reached their highest levels in 2 million years, and 2024 was the hottest year on record. At the same time, more than 120 million people have been displaced by war or social unrest. Debt servicing in low- and middle-income countries has reached \$1.4 trillion,

straining the resources needed for sustainable development (<https://unstats.un.org/sdgs/report/2025/The-Sustainable-Development-Goals-Report-2025.pdf>).

In such challenging circumstances, Islamic finance, with its principles of fairness, equity, and risk-sharing, is creating new opportunities. In particular, sukuk – asset-backed bonds that comply with Sharia – are proving their sustainability potential in financing infrastructure and social projects.

Sukuk (<https://www.isdb.org/sites/default/files/media/documents/2022-10/ICD%20ADER%202021.pdf>) is derived from the Arabic word “sakk”, which means “certificate”. Sukuk is a Sharia-compliant asset-backed security (i.e., an Islamic bond) that is interest-free. Unlike conventional bonds, the sukuk holder owns a share of a real asset (e.g., a building, project, equipment) and receives a halal income from it.

The table 1.

A comparative analysis of sukuk and bonds (<https://www.iefpedia.com/english/wp-content/uploads/2009/11/Sukuk-and-their-Contemporary-Applications.pdf>).

№	Sukuk	Bonds
1	The holder owns the underlying assets	The holder only has a claim to the cash flows
2	Financial obligations between the issuer and investors are created through various contracts, e.g., sale, lease, equity participation, joint venture, etc.	A debt obligation is created using a simple loan agreement
3	Income depends on elements such as profits from sale, lease, or partnership	Income depends on the interest specified in the debt contract
4	The instrument can be equity or debt depending on the underlying contract	This is a debt instrument
5	Trading of sukuk depends on the type of underlying asset	There are no restrictions on trading
6	Investments are made in Sharia-compliant activities	Income can be invested in any business without restrictions

Source: This table was developed by the author

Sukuk is based on various financial transactions. The table below lists the main types of sukuk, their definition, the sectors they are used in, and the sustainable development goals they serve.

A list of the main types of sukuk and their relations with SDG.

Sukuk Type	Definition	Project Directions	SDG goals
Ijara	Generating income by leasing an asset	Sustainable infrastructure projects, green buildings, transport	9 – Industry, Innovation, and Infrastructure 11 – Sustainable Cities and Communities
Mudaraba	Capital provided by investor; issuer manages the project	Renewable energy, water supply, agriculture	7 – Affordable and Clean Energy 6 – Clean Water and Sanitation 2 – Zero Hunger
Musharaka	Investor and issuer both contribute capital to the project	Sustainable energy projects, multistorey buildings	7 – Affordable and Clean Energy 11 – Sustainable Cities and Communities
Murabaha	Asset is purchased upfront and sold to issuer at a profit	Social projects for middleincome groups, affordable housing	11 – Sustainable Cities and Communities
Salam	Based on a product/asset to be delivered in future	Agriculture or industrial products	1 – No Poverty 2 – Zero Hunger 8 – Decent Work and Economic Growth
Istisna	Financing of construction or manufacturing project	Construction companies, facilities	9 – Industry, Innovation, and Infrastructure 8 – Decent Work and Economic Growth

Source: This table was developed by the author

In recent years, the sukuk market has actively entered the Green, Social and Sustainability (GSS) Sukuk direction. Sukuk in this direction finance projects aimed at protecting the environment, improving social welfare and ensuring economic stability. Therefore, GSS sukuk are financial instruments that are not only Sharia-compliant, but also directly aligned with the UN Sustainable Development Goals (SDGs).

Thus, the purpose of this article is to reveal the role of sukuk in ensuring sustainable development and analyze its potential in this regard. The article highlights the impact of sukuk on economic, social and environmental sustainability through theoretical and international experience.

METHODS AND MATERIALS

This study employs a qualitative and analytical approach to examine the role of sukuk in financing sustainable development. The methodology includes:

Literature Review: An extensive review of scholarly articles, reports from international organizations (UN, OECD, IIFM, IsDB), and market analyses related to sukuk issuance, Green, Social and Sustainability (GSS) instruments, and blockchain-based smart sukuk. This provides a theoretical foundation for understanding the mechanisms and applications of sukuk in sustainable finance.

Comparative Analysis: Sukuk structures (Ijara, Mudaraba, Musharaka, Murabaha, Salam, Istisna) are compared with conventional bonds to highlight differences in asset ownership, income generation, Sharia compliance, and impact on sustainable development.

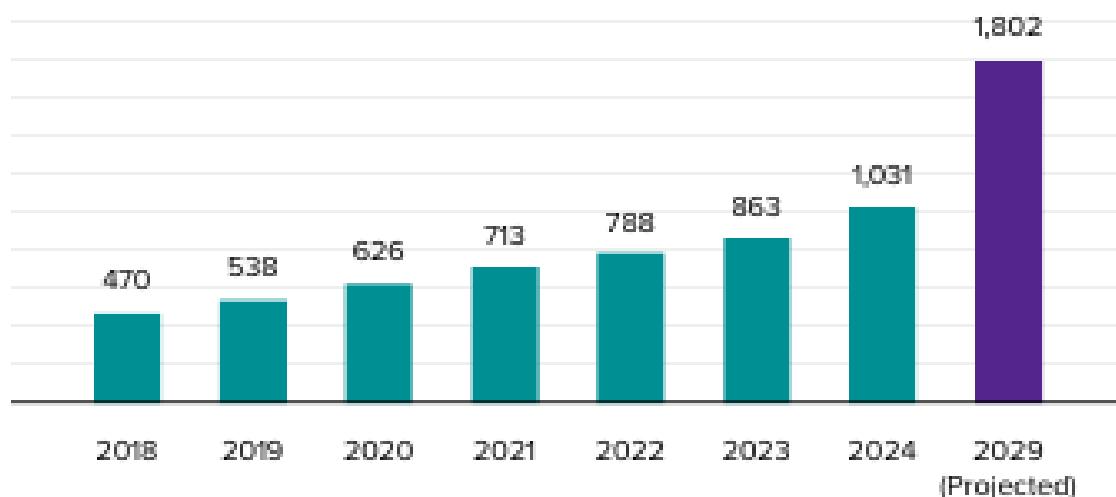
Case Study Analysis: Key case studies of sukuk issuance in Malaysia, Indonesia, UAE, Egypt, and Nigeria, including the first Green Sukuk (Malaysia, 2017) and blockchain-based smart sukuk (Al Hilal Bank, 2018; BMT Bina Ummah, Indonesia), are analyzed to assess their financial performance, social and environmental impact, and alignment with SDGs.

Data Synthesis: Market data, including sukuk issuance volumes, growth rates, and allocation of proceeds to sustainable projects, are synthesized to quantify the contribution of sukuk to the global sustainable finance landscape.

This multi-method approach ensures that the study captures both theoretical perspectives and empirical evidence regarding the effectiveness of sukuk in promoting economic, social, and environmental sustainability.

RESULTS

The global sukuk market topped US\$1 trillion in 2024, showing strong resilience despite economic and geopolitical challenges. Issuance grew 11% to US\$254.3 billion, driven mainly by GCC countries, especially Saudi Arabia. Governments led the market as they continued to rely on sukuk for funding and refinancing.



Graph 1. Sukuk value outstanding growth (USD billion 2018-2024)

Source: IIFM sukuk report 2024

With 55% of sukuk maturing by 2030 – including US\$105 billion due in 2025 – refinancing remains a key driver. And with oil prices below breakeven levels and rate cuts likely, sukuk issuance is expected to stay elevated in the near term.

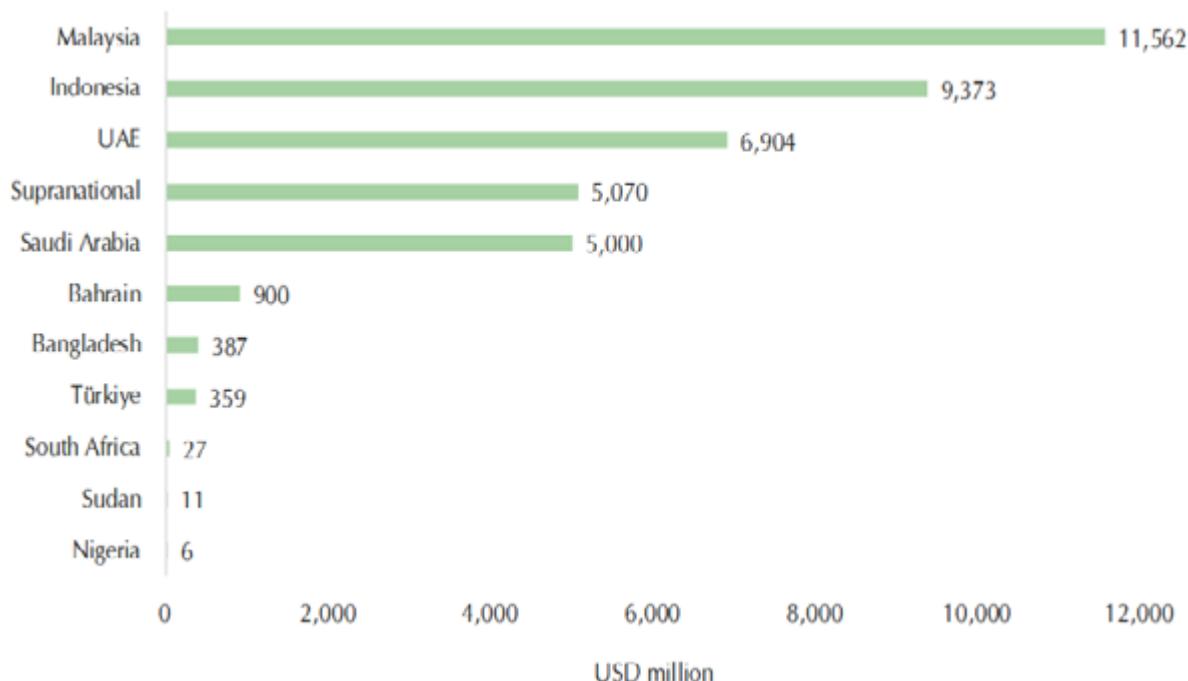
The green, social and sustainability sukuk markets have been expanding rapidly in recent years. The most active emerging markets for GSS sukuk are the Gulf Cooperation Council (GCC) and the Association of Southeast Asian Nations (ASEAN).

– Malaysia issued the world's first Green Sukuk in 2017, with issuances in this area reaching nearly \$12 billion by 2023. Currently, more than 40 percent of sukuk issued in the Malaysian market are sustainable or socially oriented instruments.

– Indonesia issued its first sovereign green sukuk in 2018 for \$1.25 billion, with 40 percent of the proceeds going to renewable energy projects.

– The Islamic Development Bank (IsDB) issued \$2.5 billion in Sustainability Sukuk in 2021, 90% of which was spent on social projects (education, healthcare, small business support).

– Egypt and Nigeria financed infrastructure and housing projects through sovereign sukuk issued in 2023.



Graph 2. Green and sustainability Sukuk cumulative issuance by country 2017-2023

Source: IIFM sukuk report 2024

As a result, the global sustainable sukuk market exceeded US \$11 billion by the end of 2023. This growth is explained by the creation of new green assets as part of national “green economy strategies” (ICD-IsDB Report, 2024). Malaysia, Indonesia, and the United Arab Emirates are leading the global green and sustainable sukuk issuance. The Malaysian government has developed a Sustainable and Responsible Investment (SRI) Sukuk Framework, which allows investors to finance projects with proven environmental and social benefits. Similarly, the governments of Saudi Arabia, the UAE, and Indonesia are expanding green and sustainable sukuk issuance as part of their net-zero strategies. Sukuk issuance currently accounts for more than 10% of the US \$150 billion global market, with an annual growth rate of 8–10% (ICD-IsDB Report, 2024).

In recent years, blockchain-based “smart sukuk” have demonstrated significant progress as an innovative tool in Islamic finance. In 2018, Al Hilal Bank conducted the world’s first blockchain-executed transaction of a US \$500 million senior sukuk, using smart contracts to automate settlement and Sharia compliance processes (Al Hilal Bank, 2018). This initiative demonstrated that digital technology could streamline sukuk

issuance while maintaining investor confidence and operational efficiency. Parallel to this, social-impact issuances have leveraged blockchain via Mudharabah-based smart sukuk to fund micro-enterprises. In Indonesia, BMT Bina Ummah raised Rp 715 million (~US \$50,500) through Blossom Finance's Ethereum-based SmartSukuk™ platform, producing a 12.94% annualized gross return for investors (Blossom Finance, n.d.). These cases illustrate how smart sukuk can mobilize capital into productive real-economy projects while delivering measurable financial returns.

The United Nations' 2025 SDG Report notes that "Islamic finance is recognised as an ethical and socially responsible form of financing the SDGs" (UN, 2025). According to the International Islamic Financial Market (IIFM), the global sukuk market reached approximately US \$823.4 billion in outstanding issuance by the end of the third quarter of 2023 (Fitch Ratings, 2023). As green and social sukuk continue to gain traction, these instruments are increasingly playing an important role in sustainable finance. Moreover, an analysis by the Organisation for Economic Co-operation and Development (OECD, 2020) found that because funds raised through sukuk are often directed into real-sector projects, their economic impact is multiplicative: each US \$1 invested can stimulate an average of US \$1.8 in economic activity. Together, these findings underscore how sukuk instruments can serve as a bridge between Sharia-compliant finance and the achievement of the SDGs by mobilizing capital into sustainable, real-economy assets and delivering measurable development impact.

In addition, the development of smart sukuk carries significant implications for sustainable and ethical finance. By integrating blockchain technology, these instruments enhance transparency, reduce operational costs, and ensure automated Sharia compliance (OECD, 2020; Al Hilal Bank, 2018). Moreover, they expand access to financing for underserved micro-enterprises and small-scale projects, channeling investment into socially and economically impactful activities. As a result, smart sukuk not only improve the efficiency of Islamic financial markets but also support the broader achievement of Sustainable Development Goals, demonstrating their strategic importance for both investors and society (Blossom Finance, n.d.; UN, 2025).

CONCLUSION

Sukuk have emerged as a vital financial instrument for achieving sustainable development goals, providing Sharia-compliant, ethical, and socially responsible funding

channels (IIFM, 2023; Mufti Muhammad Taqi Usmani, 2019; OECD, 2020). The analysis of GSS sukuk and blockchain-based smart sukuk demonstrates their capacity to mobilize capital into infrastructure, renewable energy, social projects, and micro-enterprises, thereby addressing key economic, social, and environmental challenges (Al Hilal Bank, 2018; Blossom Finance, n.d.).

The growth of the global sukuk market – exceeding US \$823 billion by 2023, with a rising share of green, social, and sustainability instruments – underscores the increasing recognition of sukuk as a strategic tool for sustainable finance (IIFM, 2023; Fitch Ratings, 2023). Smart sukuk further enhance this potential by leveraging blockchain technology to improve transparency, reduce operational costs, and ensure automated compliance, while expanding access to underserved sectors (Blossom Finance, n.d.; OECD, 2020).

Overall, sukuk not only complement conventional financial markets but also provide a bridge between ethical Islamic finance and the United Nations Sustainable Development Goals. Policymakers, financial institutions, and investors are encouraged to support the continued development and adoption of sukuk to maximize their impact on sustainable and inclusive growth globally (World Bank, 2023; The Sustainable Development Goals Report, 2025).

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