**Green & Social Sukuk: A Game Changer for Pakistan**

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The realisation of the severity of global climate change and environmental degradation among the world leaders have intensified after the 2021 United Nations Climate Change Conference in Glasgow or COP-26. As the clock ticks towards 2030, it is time to start thinking out of the box if Pakistan wants to solve the escalating natural environmental and resource degradation problems. Green innovation is critical in developing and scaling up the solutions for reducing and reversing the adverse environmental impacts of global climate change. It can guide us towards a net-zero, carbon resilient pathway towards an environmentally sustainable future. Reaching this pathway will require significant green innovations in policy, financial system, culture, institutions, sciences, technology and management. Such green innovation pathways are critical for developing countries like Pakistan to avoid the high-carbon development pathways of the past and protect the country from the worsening impacts of climate change. However, unlike the developed countries, Pakistan has faced several barriers in adopting the green innovation pathways, such as the lack of capital flow for sustainable investments and inadequate awareness regarding sustainable management adoption.

One of the critical challenges in implementing the Paris Agreement on climate change is the funding required to implement environmentally friendly projects that positively combat climate change and foster a green economy. According to estimates, Asia requires approximately US$ 1.7 trillion annual investments for the development of green infrastructure. However, the actual green investment pledged each year is closer to US$ 880 billion. Green innovation through the development of Sustainable Sukuk can play an essential role in bridging this green and social investment gap. A Sukuk is an Islamic bond that can generate returns to investors without violating Islamic Shariah law. It sells a certificate with proceeds used to purchase an asset that both buyer and seller mutually own. Sustainable Sukuk is an innovation in the area of green and social financial instruments in which the proceeds from Sukuk issuance are used to finance environmentally and socially sustainable projects. In the recent past, the global Sukuk market has grown rapidly, from an estimated US$ 85 billion of Sukuk issuances in 2016 to an estimated US$ 172 billion in 2020.

The role of Sustainable Sukuk as a solution to the global economic and environmental woes has also been highlighted in COP-26. It has been estimated that US$ 30 to 50 billion can be raised globally by the year 2025 through the issuance of Green and Social Sukuk. Many countries, including Malaysia and Indonesia, have successfully launched sustainable Sukuk to finance sustainable, climate-resilient growth in countries. For example, Malaysia launched the world’s first Green Sukuk for funding renewable energy generation in 2017. Similarly, in 2018 Indonesia issued the first sovereign Green Sukuk amounting to US$ 1.25 billion. Pakistan can learn from these countries by adopting this green innovation to overcome the funding barriers existing in environmental and social sustainability.

Furthermore, Green and Social Sukuk can be used as an innovative approach to finance the country’s United Nations-Sustainable Development Goals (UN-SDGs) 2030 and green development. The UN-SDGs is designed as a blueprint to achieve a better and more sustainable future for the countries. The goals are developed to tackle various social challenges like ending poverty, improving health and education, reducing inequality, and spurring economic growth while combating climate change and preserving our natural environment. Therefore, the issuance of Sustainable Sukuk can play a pivotal role in ensuring a resilient green recovery for the economy in this Post-COVID 19 era. The proceeds of Green and Social Sukuk can be utilized towards projects that focus on access to essential services and SME financing and employment generation categories under the umbrellas of ‘UN-SDG # 3: Good Health and Well-Being’ and ‘UN-SDG # 8: Decent Work and Economic Growth’, respectively. The proceeds from Social Sukuk can be used to finance projects aimed at attaining UN-SDG # 1 (No Poverty), UN-SDG # 2 (Zero Hunger) and UN-SDG # 4 (Quality Education). Similarly, Green Sukuk can be issued for financing green investment projects focusing on various UN-SDG attainment including UN-SDG # 7 (Affordable and Clean Energy), UN-SDG # 13 (Climate Action), UN-SDG # 14 (Life Below Water) and UN-SDG # 15 (Life on Land).

The issuance of Sustainable Sukuk will help initiate sustainable Shariah-compliant projects for combating climate change and facilitate the investors in diversifying their funding portfolio. It will also provide an additional financing instrument to investors who are interested in financing eco-friendly and socially sustainable projects. The proceeds of Sustainable Sukuk can be utilized to finance or refinance projects related to alternative energy generation, pollution prevention and control, biodiversity conservation, water conservation and management, green transportation, green cement and brick, green buildings and green infrastructure development. It can also be used to facilitate the development of the country’s Micro, Small & Medium Enterprises (MSME) and sustainable agriculture sectors. Sustainable Sukuk can provide green investment for the various construction projects initiated by the Government of Pakistan such as the Naya Pakistan Housing Scheme, Ravi Riverfront Urban Development Project and Green CPEC projects. In Pakistan, smog season has become the fifth season causing severe economic and health risks for the country’s population. The Sustainable Sukuk can be used to finance green projects to combat this environmental menace through the installation of smog towers or the development of the green vehicle industry.

Pakistan offers a green investment potential of US$ 96.2 billion for achieving the UN-SDGs 2030. According to the Government of Punjab, the sustainable investment potential of Rs. 5,318 billion, Rs. 392 billion, Rs. 201 billion, and Rs. 319 million exist in health, education, drinking water, and sanitation facilities, respectively. This untapped market can be captured by issuing Sustainable Sukuk or sustainable bonds for financing projects in these areas. However, one of the biggest challenges within Pakistan’s Islamic banking sector is the general lack of experience and knowledge concerning Sustainable Sukuk. In addition, there is a lack of guidance for Shariah scholars when it comes to considering such matters as part of their roles in shaping the Islamic finance landscape. The Institute of Bankers Pakistan-State Bank of Pakistan (IBP-SBP) and the National Institute of Banking & Finance (NIBAF) can play an important part in creating awareness and knowledge regarding Sustainable Sukuk among the stakeholders. The SBP aims to make Islamic banking one-third of the Pakistan banking industry by the year 2025 by expanding the share of Islamic banks’ assets and deposits to 30% in the overall banking industry. The development of Sustainable Sukuk can play an important role in fostering the growth of the Islamic banking sector in Pakistan. The development of Sustainable Sukuk can prove to be a game-changer for Pakistan’s green economic transformation.

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