

INCORPORATING SUSTAINABILITY AGENDA IN *ŞUKŪK*: EVIDENCE FROM BANGLADESH

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ABSTRACT

Purpose — As of December 2025, Bangladesh has issued six government *şukūk* and two corporate *şukūk*. All of these, except for the second corporate *şukūk*, have integrated a sustainability agenda for the use of proceeds. This paper aims to analyse the evidence on how these *şukūk* incorporate sustainability agendas; and to assess their impact on the *şukūk* issuance process and post-issuance reporting practices.

Design/Methodology/Approach — A descriptive research design, utilising both primary and secondary sources, was employed. Existing literature was reviewed to identify the drivers and challenges influencing the issuance of sustainability-based instruments globally. Additionally, the prospectuses and information memorandums for *şukūk* issued in Bangladesh were examined to identify sustainability-related disclosures. The regulations governing both government and corporate *şukūk* were also reviewed. Semi-structured interviews were conducted to validate the findings from the secondary data and to gain deeper insights into experiences related to incorporating sustainability agendas in *şukūk*.

Findings — The research finds that, although regulatory bodies have introduced initiatives to promote sustainability, additional steps are necessary. Additionally, third-party verification and impact reporting for sustainability-based issuances are inadequate. Although issuers generally demonstrate awareness of sustainability issues, there is a significant lack of investor demand, primarily due to insufficient awareness and incentives.

Originality/Value — To the best of the researchers' knowledge, this is the first study to systematically examine how sustainability is operationalised in *şukūk* issuance in Bangladesh, addressing a significant research gap, as the existing literature predominantly focuses on theoretical frameworks and empirical analyses of causal impacts.

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Research Limitations — This study examines *ṣukūk* in Bangladesh’s nascent market, which has seen only a few issuances. This may constrain the generalisability of the findings to more mature markets. The limited disclosure practices also restrict the ability to assess the causal impacts of the findings.

Practical Implications — The research findings provide valuable insights into the challenges an emerging market such as Bangladesh faces when incorporating a sustainability agenda in *ṣukūk*. These insights will aid in developing effective sustainability policies for Bangladesh and similar markets, standard setters, and multilateral organisations.

Keywords — Bangladesh, Green bond, Green *ṣukūk*, Sustainability agenda, Sustainable finance

Article Classification — Research paper

INTRODUCTION

Emerging from the environmental concerns of the mid-20th century (Scarano, 2019), the concept of sustainability is rooted in the principle articulated by the Brundtland Commission (1987) as ‘meeting the needs of the present without compromising the ability of future generations to meet their own needs’. This principle has established a new paradigm for businesses and financial institutions, necessitating an integrated approach that addresses sustainability concerns alongside economic development. The increasing materialisation of sustainability-related risks and their impact on financial performance has made sustainability a crucial consideration in investment decisions at global, national, and local levels (EY, 2024; Gelb *et al.*, 2023; Scarano, 2019).

As investors worldwide increasingly seek to align their portfolios with sustainability agendas, various instruments designed to identify the sustainability impacts of underlying assets are gaining prominence in financial markets (Goel *et al.*, 2022; Meng, 2023). These instruments play a pivotal role in funding and incentivising issuers to contribute to sustainability efforts. Furthermore, they enhance Environmental, Social, and Governance (ESG) performance, thereby supporting national initiatives aimed at achieving the United Nations (UN) Sustainable Development Goals (SDGs) (Al Taitoon *et al.*, 2023; Fitch Ratings, 2024; LSEG, 2023).

Enhancing sustainability initiatives is particularly vital for developing countries seeking to meet their developmental needs while addressing the escalating threat of climate change. Bangladesh is one such country. According to the Notre Dame Global Adaptation Initiative (ND-GAIN) (2022) and the World Bank Group (WBG) (2024), Bangladesh is ranked among the most climate-vulnerable countries globally. Despite its minimal contribution to global greenhouse gas emissions, the nation faces considerable challenges related to climate change and rising sea levels. The WBG (2018) predicts that, in a pessimistic scenario, 7.53 per cent of the Bangladeshi population may become internal climate migrants by 2050; this figure could be reduced to 3.43 per cent under a more inclusive development scenario and further reduced to 2.02 per cent under a more climate-friendly scenario. This highlights the significant environmental, social, and economic risks that Bangladesh faces, as well as the critical need for an orderly and just transition to mitigate those risks.

In response, Bangladesh has committed to enhancing its resilience to the impacts of climate change and transitioning to a low-carbon economy (Amin *et al.*, 2022). As one of the countries that has established national targets aligned with the SDGs and the Paris Agreement (UN, 2023), Bangladesh has embedded sustainability deep within its economic development agendas, implementing policy frameworks that align government financial planning with climate objectives and guide long-term resilience efforts. Additionally, Bangladesh is working closely with multilateral organisations to improve its regulatory environment and stimulate green investments, which are a top priority for its sustainability initiatives.

For example, on 18 September 2022, Bangladesh Bank (the central bank) instituted the Policy on Green Bond Financing for Banks and Financial Institutions. This policy includes the Bangladesh Green Bond Taxonomy, which outlines eligible projects, issuance process, management of proceeds, and performance reporting by bond issuers. On 26 December 2023, Bangladesh Bank published the Guideline on Sustainability and Climate-related Financial Disclosure for Banks and Financial Institutions, requiring banks and finance companies to disclose information regarding their sustainability and climate-related risks and opportunities. Similarly, the capital market regulator, the Bangladesh Securities and Exchange Commission (BSEC), introduced incentives for green and blue instruments (i.e., bonds and *ṣukūk*) in its

Debt Securities Rules issued on 31 May 2021. In 2023, it launched initiatives to develop SDG thematic bonds (UNDP, 2023) and guidelines for sustainability bonds (TBS Report, 2023).

The *ṣukūk* issued in Bangladesh also address sustainability concerns. All six Bangladesh Government Investment Sukuk (BGIS) issued until December 2025 have identified the social impacts of the underlying projects. Similarly, the first corporate *ṣukūk* highlights the social and environmental impacts of the underlying projects and is designated as a green *ṣukūk*. The second corporate *ṣukūk* does not feature explicit sustainability agendas; however, its originator, as part of a large conglomerate that markets goods globally, has implemented various sustainability initiatives across its operations.

Despite Bangladesh's efforts so far, the Sustainable Development Report 2025 ranks the country 114th out of 167 (Sachs *et al.*, 2025). This highlights an urgent need for Bangladesh to significantly enhance its performance across various sustainability parameters. To this end, this research aims to analyse the experience of incorporating sustainability agendas into *ṣukūk* issued in Bangladesh, focusing on the driving factors and challenges faced.

Ṣukūk, as opposed to conventional bonds, deserve priority in a country like Bangladesh, where the majority of the population is Muslim, and there is a high demand for Islamic instruments from both individual and institutional investors. Moreover, while a substantial body of research exists on sustainability in general and on sustainable financing instruments in advanced markets, there is a notable lack of studies concerning the incorporation of sustainability into *ṣukūk* in emerging markets. In particular, there have been none in the context of Bangladesh. Furthermore, most of the existing studies are largely theoretical or impact-oriented, providing limited insights into the operational processes, institutional arrangements, and implementation challenges involved in integrating sustainability objectives into *ṣukūk* structures.

Therefore, this research addresses a significant gap in the existing literature by examining two main questions:

1. How are sustainability agendas incorporated and operationalised in government and corporate *ṣukūk* issuances in Bangladesh?
2. What institutional, regulatory, and market factors influence the integration of sustainability objectives within the *ṣukūk* issuance process and in post-issuance practices?

The research analyses the information presented in *ṣukūk* documents and gathers insights from experts involved in the *ṣukūk* issuance process. Consequently, the findings will assist policymakers, regulators, and standard setters in understanding the sector's realities and identifying key areas for further development to create suitable frameworks that facilitate *ṣukūk* issuance in line with the country's sustainability agendas. Moreover, the findings will help industry stakeholders incorporate sustainability principles when undertaking projects financed by *ṣukūk*.

Accordingly, this research is organised as follows. The present section provides the background of the study. The next section reviews the literature on sustainability-linked financial instruments and *ṣukūk*, identifying the key drivers and challenges faced by the industry. It also synthesises the existing literature on the experience of *ṣukūk* issuance in Bangladesh. This is followed by a section outlining the research methodology. The findings section then presents evidence derived from the interview analysis, examining government and corporate *ṣukūk* experiences separately. The discussion section interprets the findings in light of prevailing market realities and prior studies. Finally, the paper concludes with policy implications, recommendations, and directions for future research.

LITERATURE REVIEW

Sustainable finance is an evolution of green finance (Spinaci, 2021). The global debt market witnessed the issuance of the inaugural green use-of-proceeds bond—the Climate Awareness Bond—by the European Investment Bank (EIB) in 2007 (EIB, 2024). In 2008, the World Bank (WB) issued the first green-labelled bond to meet investor demand for assets addressing climate change challenges. Subsequently, sustainability agendas began to be integrated into *ṣukūk*, marking a significant development in the global bond market.

Notable early examples include the Orasis Green Sukuk issued in France in 2012 to invest in solar energy production assets (Alam *et al.*, 2016; Mat Rahim & Mohamad, 2018); the green *ṣukūk* issued by Tadau Energy in Malaysia in 2017 to finance a 50 MW solar photovoltaic power plant (WBG, 2020); and the EUR1 billion green *ṣukūk* issued by the Islamic Development Bank (IsDB) in 2019 to support various climate change and green projects across its 57 member countries (IsDB, 2019). The incorporation of sustainability into *ṣukūk* represents a natural progression, as Islamic finance and sustainability share important similarities, particularly in their emphasis on generating returns while ensuring ethical and responsible practices (Alam *et al.*, 2016; CFA Institute, 2019; Nawaz, 2025; Smolo *et al.*, 2024; Zain *et al.*, 2024).

Currently, there is an increasingly diverse range of instruments within global markets that incorporate sustainability agendas (Al Taitoon *et al.*, 2023; Fitch Ratings, 2024; LSEG, 2023). While these financial instruments share commonalities, particularly in their social co-benefits, they differ in the scope of their use of proceeds. Several terms have emerged to identify these differences, which can be broadly classified into green, social, sustainability, and sustainability-linked instruments (collectively referred to as GSSS or GSS+ instruments) (Climate Bonds Initiative, 2025; Cochelin *et al.*, 2024; Ulfah *et al.*, 2024).

The first three categories—green, social, and sustainability instruments—are considered use-of-proceeds instruments that finance projects delivering specific environmental and/or social benefits. For example, funds raised from green instruments are exclusively allocated to projects providing environmental benefits, while funds from social instruments are directed towards social initiatives. Sustainability instruments encompass both green and social projects. In contrast, sustainability-linked instruments do not finance specific green or social projects; rather, they support the overall operations of an issuer that establishes explicit sustainability targets or key performance indicators (KPIs) at the corporate level. Coupon payments on sustainability-linked instruments are linked to the achievement of the KPIs.

Various other terms are also used in the market and in academic literature. For example, there are transition instruments, classified as either sustainability-linked or use-of-proceeds instruments, specifically issued for projects that may not be designated as ‘green’ but aim to facilitate climate transition. The research uses ‘sustainability-based instruments’ as a general term for all these types of instruments.

Given that these instruments represent an emerging class of assets still in development, the literature is shifting from a focus on theoretical aspects to more practical concerns, including rationales, experiences, risks, and performance, while highlighting the drivers and challenges associated with the issuance of these instruments. Existing research predominantly centres on sustainable finance, particularly on green instruments. There is a lack of academic papers exploring various aspects of issuing instruments with sustainability concerns, with even fewer specifically considering *ṣukūk* and none covering *ṣukūk* with sustainability or green concerns in Bangladesh.

The following is a review of the literature identifying the drivers and challenges that different entities face in engaging in sustainability-related initiatives in general and in issuing instruments that address sustainability concerns in particular.

Drivers of Sustainability-based Instruments

The theoretical literature outlines both positive and negative factors that explain why entities pursue sustainability-related initiatives and tools. Several theories are relevant in this context, including agency, stakeholder, legitimacy, and institutional theories. Agency theory posits that entities primarily exist to generate profit rather than to address sustainability concerns (Levitt, 1958). Consequently, RepRisk (2023) and Kathan *et al.* (2025) suggest that some entities engage in sustainability primarily as a form of ‘greenwashing’ or ‘social washing’, projecting a facade of commitment through disclosures despite their actual performance potentially being inferior to their claims.

In contrast, stakeholder theory indicates that entities adopt sustainability practices to meet the expectations of various stakeholders, thereby signalling management’s commitment, integrity, and efficiency to the market (Awa *et al.*, 2024; Eliwa *et al.*, 2021). Recent studies confirm that regulatory support, investor awareness, and green marketing initiatives play an important role in stimulating sustainable bond issuance, particularly in emerging markets (Putri *et al.*, 2025).

Similarly, legitimacy theory asserts that corporate entities and governments engage in sustainability activities to align their actions with societal norms and values and to acknowledge a sense of responsibility, thereby mitigating the negative impacts of their operations and gaining legitimacy (Crossley *et al.*, 2021). Institutional theory offers a macro perspective on sustainability practices, highlighting that such commitments arise from complex economic environments shaped by diverse actors and institutions. Sustainability initiatives often respond to entrenched institutional pressures and economic policies, emphasising the broader societal context that influences entities’ sustainability decisions (Eliwa *et al.*, 2021).

Building on these theoretical foundations, empirical analyses clarify specific justifications for the issuance of sustainability-based instruments. Daubanes *et al.* (2022) and Septiana and Dewi (2022) note that such issuances enable entities to allocate resources towards environmentally friendly projects while simultaneously improving their financial performance. By issuing these instruments, entities publicly commit to investing in projects that yield positive environmental and social impacts, thereby attracting investors seeking responsible investment opportunities. This commitment not only signals a positive message to the market, enhancing their reputation, but also potentially affects stock prices favourably. Moreover, the rigorous evaluation process required to ensure compliance with recognised environmental standards lends credibility to the issuer’s environmental claims, reinforcing their dedication to sustainability (Shishlov *et al.*, 2016).

In addition to market and reputational benefits, issuers of sustainability-based instruments often seek alignment with government policies and guidelines (Mat Rahim & Mohamad, 2018). For example, Malaysia introduced the Sustainable and Responsible Investment (SRI) Sukuk Framework in 2014, which led to the first SRI *ṣukūk* issuance in 2015 (Securities Commission Malaysia (SC), 2021).

These instruments also promote internal collaboration within issuing entities. Financial and sustainability departments must work together, combining expertise in financial structuring and environmental considerations. For sovereign issuances, coordination extends across government bodies such as the Ministry of Environment, the Treasury, and the Ministry of

Finance (Shishlov *et al.*, 2016). Such collaboration enhances institutional understanding and supports a more integrated approach to sustainability.

Financial incentives are another key driver of these issuances (Mat Rahim & Mohamad, 2018; Septiana & Dewi, 2022). Evidence from ASEAN markets shows that strong government leadership can stimulate green and Islamic finance, while limited private sector participation and weak incentives continue to constrain market development (Lin *et al.*, 2026).

Finally, by capitalising on the growing market for sustainable investments, issuers can attract a more diverse range of investors, including those focused on environmentally friendly initiatives. This strategy achieves several objectives, notably: (1) reducing reliance on a limited pool of investors; (2) enhancing the resilience of their financing structure to fluctuations in financial markets; (3) establishing long-term relationships with investors that promote stability and reliability; and (4) fostering trust between issuers and investors through mandated transparency and disclosure (Shishlov *et al.*, 2016). Moreover, in the case of *ṣukūk*, the investor base is further expanded.

WBG (2020) highlight that entities issue *ṣukūk* with sustainability objectives to bridge the gap between Islamic and conventional finance. For example, green *ṣukūk* serve as a conduit between Islamic and conventional green finance by aligning with the tenets of Shari‘ah, which emphasises the importance of environmental preservation. Therefore, *ṣukūk* that support sustainability agendas are pivotal instruments that integrate the principles of Islamic finance with the need for sustainable and responsible investment. Consistent with this trend, WBG and IsDB (2025) report sustained growth in sustainable finance, with green and sustainability-linked *ṣukūk* expanding across both Gulf Cooperation Council (GCC) and the Association of Southeast Asian Nations (ASEAN) markets.

Challenges for Sustainability-based Issuances

Despite the promising growth and innovation associated with sustainability-based instruments, their issuance faces significant challenges. A primary obstacle is the lack of universally accepted taxonomies, standards, and definitions (Keshminder *et al.*, 2022; Mahomed & Mahbot, 2024). This absence of consensus creates uncertainty in assessing and legitimising these issuances, complicating the ability of stakeholders—including investors, issuers, and regulators—to effectively evaluate the sustainability credentials of the instruments.

Consequently, this leads to confusion among decision-makers in distinguishing between projects with genuine sustainability aspirations and those without (Faizi *et al.*, 2024; Foglie & Keshminder, 2024; Keshminder *et al.*, 2022). This issue is often exacerbated by inadequate regulations that do not align with international standards, heightening the risk of ‘greenwashing’ (Shishlov *et al.*, 2016; Zahari, 2025). While the implementation of international standards, such as those established by the International Capital Market Association (ICMA), could reduce this uncertainty and enhance investor confidence, it requires relevant expertise and a considerable investment of resources (Shishlov *et al.*, 2016).

Another critical challenge is the lack of reliable data on sustainability-based instruments due to their relatively recent emergence and ongoing development. This deficiency results in insufficient empirical research demonstrating the financial benefits of investing in these instruments, leaving investors with inadequate evidence to compare their performance with traditional financial options (Keshminder *et al.*, 2022). Furthermore, the limited historical data constrains the ability to conduct comprehensive risk assessments, potentially dissuading investors from engaging with sustainability-based instruments (UN Environment Programme, 2024).

On the one hand, studies such as Hu *et al.* (2024), Koziol *et al.* (2022), and Pirgaip and Arslan-Ayaydin (2024) indicate the presence of a ‘greenium’ in the coupon rates of sustainability-based instruments, effectively reducing issuers’ cost of capital. On the other hand, findings from several other studies challenge this notion by highlighting various costs associated with such issuances. For instance, sustainability-based issuances are subject to stringent governance and disclosure requirements, compelling issuers to establish clear parameters for sustainable practices and maintain accountability for the use of proceeds. Additionally, issuers must develop detailed plans outlining how the proceeds from the issuance will be allocated to achieve sustainability objectives. Furthermore, the use of proceeds and the projects supporting sustainability issuances necessitate ongoing monitoring and evaluation, with a strong emphasis on transparency regarding the findings of such assessments (Keshminder *et al.*, 2022; Mahomed & Mahbot, 2024; SC & WBG, 2019). However, compliance with these requirements is both challenging and costly. As Shishlov *et al.* (2016) highlight, balancing transparency with the associated costs presents a significant challenge for sustainability-based issuances.

A related challenge is the need for third-party validation to ensure the sustainability status of the underlying projects. This provides transparency, strengthens investor trust, and maintains market integrity (SC & WBG, 2019). However, the documentation and disclosures required to obtain validation certificates make the process more time-consuming and expensive than that associated with traditional issuances. While validation fees can vary substantially, they can be considerable for certain issuances. For example, the SC (2019) indicates that costs may exceed MYR333,333 (USD80,500), while the Climate Bonds Initiative (2024) mentions a minimum fee of USD1,000 for developing countries and USD2,000 for developed countries. Furthermore, such validation services may not always be readily accessible within an issuer’s jurisdiction (Keshminder *et al.*, 2022). These operational and cost burdens can deter potential investors and issuers, particularly smaller entities with limited resources.

Another barrier to growth is the limited knowledge among market participants—including issuers and investors—regarding the benefits, processes, and requirements of sustainability-based issuances (Faizi *et al.*, 2024; Hania *et al.*, 2022). Conversely, Gelb *et al.* (2023) find that major investors seek greater clarity on the value proposition of these instruments despite their support for sustainability. This situation necessitates that issuers allocate additional resources to educate and inform investors about compliance with sustainability investment standards, thereby increasing their costs (Keshminder *et al.*, 2022; Mahomed & Mahbot, 2024).

Considering these challenges and the additional costs associated with the development stage, financial incentives—such as tax rebates, subsidies, and guarantees designed to mitigate risks—are critical for lowering barriers to entry (SC & WBG, 2019). While countries such as Malaysia have introduced various incentives to promote sustainability issuances (MSFI, 2024), others have not. Hania *et al.* (2022) find that the lack of relevant government incentives to support sustainability issuances significantly affects market interest.

Furthermore, liquidity constraints arise due to the nascent and limited scale of the market, as evidenced by the case of green *shukūk*. For instance, Keshminder *et al.* (2022) observe low trading volumes for Malaysian green *shukūk*, while Hania *et al.* (2022) report similar findings for Indonesian green *shukūk*. These low trading volumes not only deter potential issuers but also create the perception that green *shukūk* are less viable investment options compared to conventional bonds, thereby limiting the pool of potential investors (Foglie & Keshminder, 2024; Mahomed & Mahbot, 2024; WBG, 2020).

Despite positive trends, thus far only a small proportion of investable funds has been allocated to sustainability-based instruments. The Climate Bonds Initiative (2025) estimates USD1.1 trillion in issuances of these instruments in 2024, accounting for approximately 12.22 per cent of the total bonds issued that year (Kraemer *et al.*, 2024). In the *ṣukūk* market, such instruments represent only a single-digit percentage (Al Taitoon *et al.*, 2023; LSEG, 2023). This suggests that, despite the long-term benefits, sustainability is not yet a primary concern for most investors, issuers, and other key stakeholders. Furthermore, reports from 2024 indicate a decline in participation in sustainability-based instruments, particularly in linked and transition instruments, due to factors such as political issues regarding sustainability in the United States, rising living costs, concerns about the use of proceeds and greenwashing, and failure to meet sustainability targets (Montagner, 2024; Mutua, 2024; WB, 2024). However, Keshminder *et al.* (2022) argue that although there is demand for instruments with sustainability agendas, the supply of these instruments remains limited.

Finally, the issuance of public sector *ṣukūk* aligned with sustainability agendas may require more complex policy coordination across various government departments, as these bodies manage both sustainability-based and traditional projects. This complexity is further compounded by the overlapping responsibilities of the MOF, environmental agencies, and public sector organisations. Additionally, ensuring accountability for sovereign issuances related to sustainability outcomes, such as linking expenditures to the resulting impacts, remains a significant challenge (WBG, 2020).

***Ṣukūk* Issuance Experience in Bangladesh**

Ṣukūk issued in Bangladesh can be broadly divided into two categories: government *ṣukūk*, referred to as BGIS, and corporate *ṣukūk*. Although instruments labelled as ‘Islamic bonds’ are also issued by Islamic banks in Bangladesh to meet regulatory capital requirements, they do not fall within the *ṣukūk* framework of the BSEC (Ahmed & Hossain, 2024). In particular, these instruments are not subject to the regulatory requirements governing Special Purpose Vehicle (SPV) structures, the transfer of underlying assets, Sharī‘ah governance, or the identification and monitoring of the use of proceeds. Accordingly, these Islamic bonds are excluded from the scope of this study.

Existing research on *ṣukūk* issuances in Bangladesh is limited, and none has examined the sustainability dimensions of these issuances. Nevertheless, the available studies (see Ahmed & Hossain, 2024; Chowdhury & Salema, 2023; Main Uddin, 2022) indicate positive market demand for *ṣukūk* while underscoring the need for greater awareness and capacity-building initiatives. Ahmed and Hossain (2024) further highlight that BGIS issuances benefitted from coordination among the MOF, Bangladesh Bank, and the Islamic banking industry. However, *ṣukūk* issuances in Bangladesh encountered several challenges, reflecting the novelty of *ṣukūk* in the local market. Key operational constraints include knowledge gaps among personnel involved in *ṣukūk* structuring and issuance, difficulties in forming Shariah Advisory Committees (SACs) due to a shortage of qualified Sharī‘ah experts, and complications arising from underdeveloped legal and regulatory frameworks, which affect the efficiency and predictability of the issuance process.

Regarding corporate *ṣukūk*, Ahmed and Hossain (2024) observe that issuers incur higher costs relative to conventional bond issuances, largely driven by increased underwriting fees and the need to establish and maintain Sharī‘ah governance arrangements. Underwriters perceive *ṣukūk* as riskier due to limited market awareness and concerns regarding compliance with Sharī‘ah standards. Additional challenges include underdeveloped and sometimes

conflicting legal and regulatory provisions, inadequate transparency and disclosure practices, and shortage of qualified human resources, including Sharī‘ah scholars and legal experts.

RESEARCH METHODOLOGY

A descriptive research design was adopted to examine the incorporation of sustainability into *ṣukūk* issued in Bangladesh. To ensure comprehensive and balanced findings that contribute meaningfully to the discourse on sustainability-based *ṣukūk* issuances and practices, the study draws on both primary and secondary data across two distinct stages, combining documentary analysis and semi-structured interviews. This two-stage methodology provides a robust understanding of both the structural dimensions and lived experiences associated with incorporating sustainability into *ṣukūk* in Bangladesh.

The first stage involves reviewing existing literature to identify the drivers and challenges influencing the issuance of sustainability-based instruments. This stage also includes a detailed examination of the prospectuses and information memorandums of *ṣukūk* issued in Bangladesh, with particular attention to sustainability-related disclosures. As of December 2025, only six BGIS and two corporate *ṣukūk* have been issued; therefore, all eight issuances were included in the analysis. Relevant regulations governing both government and corporate *ṣukūk* were also reviewed to contextualise the findings.

To validate insights derived from secondary sources and to gain a deeper understanding of practical experiences related to incorporating sustainability into *ṣukūk*, the research conducted semi-structured interviews with key stakeholders directly involved in the *ṣukūk* issuance process. A total of 12 interviews were conducted, prioritising senior individuals with hands-on experience in *ṣukūk* structuring, approval, governance, and issuance. **Table 1** identifies the profiles of the interview respondents.

Table 1: Profiles of Interview Respondents

| Category | Code | Profile |
|------------------------------------|-------|--|
| BGIS Respondents | R1–R3 | Representatives from the SPV who were directly involved in <i>ṣukūk</i> structuring, coordinating technical and operational processes, drafting documents, and liaising with BGIS stakeholders. They also managed post-issuance processes, monitored project implementation progress, and ensured compliance with BGIS requirements. |
| | R4 | Member of the SAC of BGIS responsible for reviewing <i>ṣukūk</i> structures and documents, as well as issuing Sharī‘ah pronouncements. |
| Corporate <i>Ṣukūk</i> Respondents | R5 | Representative from BSEC responsible for formulating regulations and granting approvals for corporate <i>ṣukūk</i> issuances. |
| | R6–R7 | Representatives from two corporate <i>ṣukūk</i> originators who were involved in financial modeling, structuring, internal and regulatory approval processes, investor engagement, and participation in Shariah Supervisory Board (SSB) meetings. |
| | R8 | Chairman of the SSB of a corporate <i>ṣukūk</i> , responsible for reviewing and certifying Sharī‘ah compliance of the <i>ṣukūk</i> structure and documents. |
| | R9 | Legal advisor involved in <i>ṣukūk</i> documentation, responsible for drafting legal agreements, addressing legal complexities, and ensuring regulatory and Sharī‘ah alignment. |
| Additional Key Informants | R10 | Independent Sharī‘ah scholar providing sector-wide insights on Sharī‘ah governance, sustainability principles, and prevailing market practices. |
| | R11 | Professor specialising in sustainability and advisory services, providing guidance on sustainability frameworks, ESG considerations, and impact-measurement practices in the context of Bangladesh. |
| | R12 | Senior representative of the largest Islamic bank in Bangladesh, providing institutional investor perspectives and demand-side considerations. |

Source: Authors’ own

The interview questions were on multiple themes, including: rationales for integrating sustainability agendas into *ṣukūk*; perceived benefits and challenges of sustainability integration; cost implications and pricing considerations; market responses to sustainability-based *ṣukūk*; requirements and challenges of third-party validation and impact reporting; the role of Sharī'ah committees in advancing sustainability objectives; and the role of legal advisors in embedding sustainability principles in *ṣukūk* documentation. All interviews were conducted online, each lasting approximately 30 minutes, allowing for in-depth exploration of participant experiences while maintaining flexibility in scheduling and response collection. Interviews continued until information saturation was reached.

FINDINGS

The findings are presented in a narrative format, synthesising insights to provide a comprehensive understanding of the experiences and challenges involved in incorporating sustainability agendas into *ṣukūk* issued in Bangladesh. Insights specific to BGIS and corporate *ṣukūk* are discussed in separate sub-sections. Notably, the interview findings reflect a consensus, with no significant divergence of opinion among interview respondents.

Incorporating Sustainability in BGIS

The BGIS issuance process begins with the MOF providing a shortlist of potential projects to the Islamic Securities Section of the Debt Management Department (DMD) at Bangladesh Bank. The Islamic Securities Section then consults with the Sukuk Technical Committee (STC) and the SAC to identify the most suitable project for *ṣukūk* issuance. Several factors are considered during this selection process, including the level of commitment shown by the project implementation authority, the practical timeline for project implementation (especially given the frequent delays associated with government projects), and the socio-economic impacts of the proposed projects.

As the projects offered by the MOF for the six BGIS issuances have been non-revenue-generating, social impact considerations and Economic Internal Rate of Return (EIRR) have been central to project selection. Interview participants from the Islamic Securities Section, which serves as both the SPV and the issuing authority for BGIS, noted that both the STC and SAC discuss the selection of *ṣukūk* projects, with an assessment of the social impact of the projects constituting one of their primary evaluation criteria.

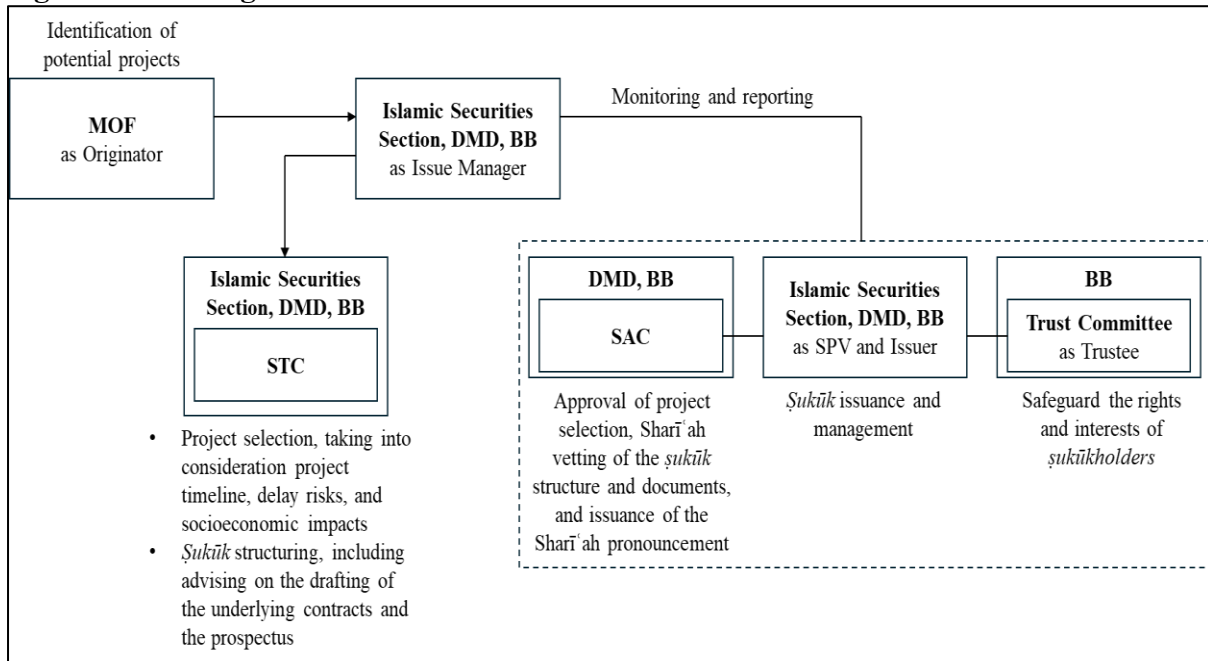
Figure 1 outlines the key components of the BGIS structure and their respective roles in the *ṣukūk* issuance process.

The rate of return of BGIS is primarily determined by prevailing market expectations while also considering the EIRR of the underlying projects. To date, the returns offered on BGIS have been set below the EIRR of the corresponding projects. During the issuance of the third BGIS, however, the STC explored the possibility of pricing *ṣukūk* based on KPIs such as poverty reduction, improved access to education, and decreased unemployment. Although the proposal was positively received during STC deliberations, it was ultimately deemed premature for implementation at this early stage of *ṣukūk* market development.

Interview respondents noted that investors prefer simplicity and predictability and are not ready to fully understand or properly value experimental structures with innovative pricing mechanisms. They prefer fixed rates. There is also an absence of commonly accepted benchmarks for evaluating sustainability parameters, coupled with difficulties in obtaining reliable data from government agencies and scepticism regarding accuracy of such data. In addition, there is a general lack of awareness of *ṣukūk* and sustainability among market

participants. Nevertheless, the STC expressed the view that as awareness improves, KPI-based pricing may become feasible.

Figure 1: Building Blocks of BGIS



Note: BB = Bangladesh Bank
 Source: Authors' own

While the prospectuses for all BGIS issuances, since the first, have included descriptions of the underlying projects to inform the market of their social impacts, it was only from the third issuance onward that the BGIS were explicitly labelled as ‘social impact *shukūk*’ to further emphasise this feature. This development was spurred by the STC, which observed that although the *shukūk* projects were inherently social in nature, this aspect had not been adequately recognised by stakeholders, including international agencies that monitor social *shukūk*. The STC recommended that using labels such as ‘sustainable’, ‘social impact’, or ‘green’ could help draw attention to BGIS’s contribution to national and international sustainability agendas. From the fifth issuance onward, BGIS has been labelled as ‘socio-economic *shukūk*’, following a recommendation by the SAC. The quality and depth of the disclosures have also improved over subsequent issuances. The prospectus of the fourth BGIS, for the first time, explicitly linked the project impacts to a specific SDG. However, these steps have not resulted in any additional attention to the BGIS. The social impact nature of BGIS has not attracted significant interest from stakeholders or from international trackers of social *shukūk*.

Interview respondents from the SPV noted that the STC had discussed the possibility of publishing periodic reports on project progress and the socio-economic impacts of *shukūk*-funded activities. While the idea was well received, its implementation faces several obstacles, including the lack of adequate human resources and coordination across multiple government entities. Additionally, there is no stakeholder demand for such reports. The demand for BGIS is already very high due to the significant shortage of Sharī’ah-compliant government instruments and the eligibility of BGIS investments for meeting banks’ statutory liquidity ratio (SLR) requirements, notwithstanding the absence of sustainability impact reporting on the use of proceeds.

There is also no dedicated staff within the DMD responsible for preparing impact reports. Job rotation at Bangladesh Bank has also been identified as one of the challenges, as it disrupts the continuity of expertise, hindering the development of the specialised knowledge needed to advance BGIS qualitatively. Moreover, reports from the Sustainable Finance Department of Bangladesh Bank have not documented any BGIS issuances. Interview respondents attributed this gap to limited inter-departmental coordination within Bangladesh Bank and the absence of impact reporting mechanisms.

Incorporating Sustainability in Corporate *Ṣukūk*

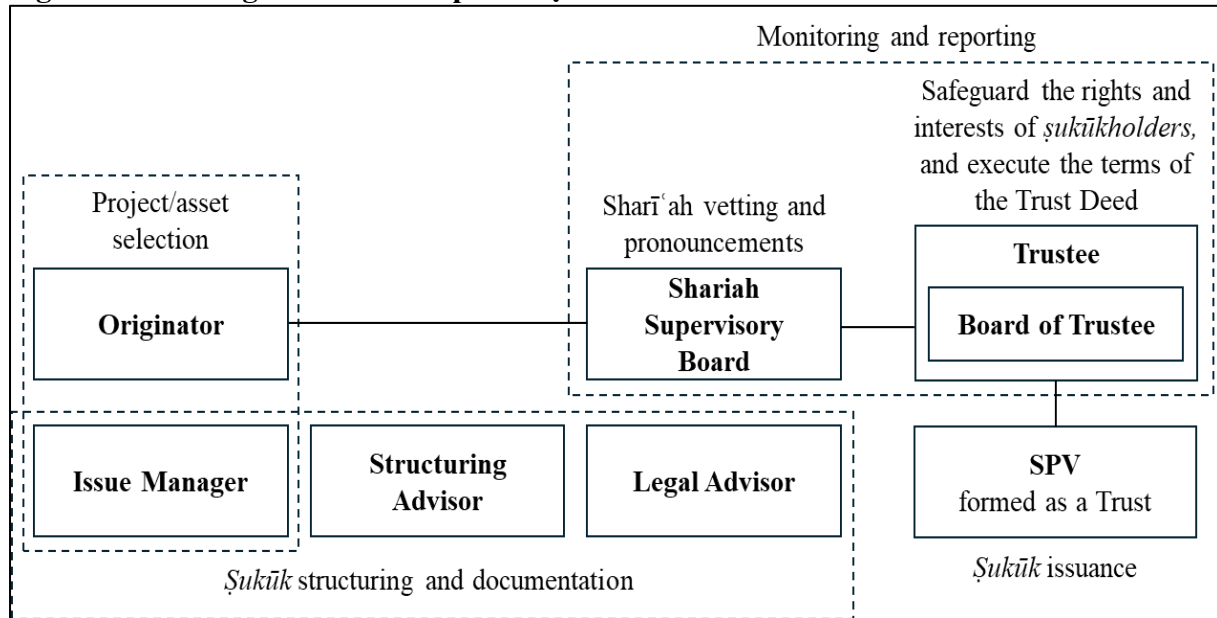
The first corporate *ṣukūk* was designated as a ‘green *ṣukūk*’ because 73.13 per cent of the proceeds were allocated to two solar projects generating green energy, while 26.87 per cent were directed towards the textile division of the originator, which has made commitments to sustainability. By specifying the use of proceeds as green, the *ṣukūk* saved BDT21 million (approximately USD0.20 million), equivalent to 0.07 per cent of the issue amount, on the BSEC’s ‘consent fee’. BSEC’s Debt Securities Rules 2021 permits green and blue securities to pay a consent fee of 0.03 per cent of the issue amount instead of the standard 0.10 per cent. The *ṣukūk*’s information memorandum outlined the environmental and social benefits associated with the underlying projects, as well as the originator’s sustainability commitments.

During the *ṣukūk* issuance process, the *ṣukūk* structuring advisor emphasised the importance of third-party validation to enhance the acceptability of the *ṣukūk*’s green status. Although the originator is accustomed to conducting sustainability assessments for other stakeholders when necessary, it chose not to pursue the third-party validation of the *ṣukūk*’s greenness due to the associated challenges and costs, as it offered no clear advantages. There are no regulatory requirements, pricing incentives, or market demand for such validation. As a result, the BSEC’s recognition of the *ṣukūk* as a green *ṣukūk* was deemed sufficient for its issuance in the domestic market. Similarly, due to the lack of regulatory requirements and market demand, no impact reporting for the *ṣukūk* has been prepared to date, although the originator produces such reports for its business activities when required by other stakeholders.

In contrast, the second corporate *ṣukūk* lacked clear sustainability commitments and did not provide information on the environmental or social implications of its use of proceeds. This is particularly noteworthy given that the originator has implemented practices such as recycling plastic products and reducing dust emissions to minimise its environmental footprint. Additionally, it produces sustainability reports for stakeholders as required. When asked why the originator did not seek to benefit from a reduction in the consent fee by linking the *ṣukūk*’s use of proceeds to a sustainability commitment, interview respondents stated a lack of clear guidance on the criteria required to access this incentive. Without such clarity, uncertainties regarding the potential outcomes of pursuing this incentive made it less appealing, suggesting that the potential savings on the consent fee did not outweigh the associated costs.

Figure 2 presents the building blocks of corporate *ṣukūk* and identifies their primary roles.

Figure 2: Building Blocks of Corporate *Ṣukūk*



Source: Authors' own

DISCUSSION

The *ṣukūk* market in Bangladesh is currently in a developmental phase, facing various challenges that hinder its growth potential. The integration of a sustainability agenda complicates these challenges by adding an additional dimension to *ṣukūk*. The weak institutional infrastructure of the bond market constrains the effective operationalisation of sustainability in *ṣukūk*. This finding is consistent with the institutional theory, which posits that organisational practices are shaped by regulatory pressures, resource constraints, and normative expectations within their environment (Eliwa *et al.*, 2021).

The most significant obstacle is the underdeveloped capital market in Bangladesh, particularly within the bond segment. Additionally, there is a widespread lack of familiarity with *ṣukūk* among stakeholders, including institutional issuers and investors. Furthermore, there is a shortage of investors in Bangladesh who prioritise sustainability concerns. The limited investor emphasis on ESG in Bangladesh explains why sustainability-based *ṣukūk* have not generated differentiated pricing or strong market traction. These findings resonate with the stakeholder theory, which suggests that firms adopt sustainability practices primarily when stakeholder demand is sufficiently strong (Awa *et al.*, 2024).

Progress in the market regarding sustainable financing is primarily driven by regulatory requirements and incentives. For instance, some banks expedite financing for green and sustainable projects towards the end of the year to fulfil the annual requirements set by Bangladesh Bank, indicating that these banks lack strategic priorities and a coherent approach to such financing. This behaviour reflects the phenomenon described by the legitimacy theory, whereby organisations adopt symbolic sustainability practices to signal conformity rather than pursue substantive impact (Crossley *et al.*, 2021). An interview respondent highlighted that Islamic banks, despite their inherent commitment to sustainability due to Sharī'ah compliance, are not among the leaders in the sustainability league. While international investors may have greater awareness of sustainability issues, they do not constitute the primary target group for *ṣukūk* issued in the country.

Insights from interviews also reveal a lack of effort among stakeholders to scrutinise the green or social impact attributes of *ṣukūk*. Their focus has primarily centred on return rates and

inherent risks, rendering sustainability agendas relatively unimportant. This finding challenges the assumption in the literature that sustainability-based instruments naturally attract ESG-sensitive investors (Gelb *et al.*, 2023; Shishlov *et al.*, 2016), suggesting that the Bangladesh market remains predominantly driven by returns rather than value.

This disconnect exacerbates the challenges associated with pricing these instruments, as no ‘greenium’ can be reflected in the return rates. This issue is exemplified by the only green *ṣukūk* issued in Bangladesh’s corporate sector, which, despite offering a return higher than bank deposit rates, faced difficulties in achieving full subscription. Conversely, the lower rate offered by BGIS was not attributable to a ‘social premium’; rather, it stemmed from excess liquidity within the Islamic banking sector. Following the depletion of this liquidity, the return rate since the fourth BGIS had to be significantly increased. This contrasts with evidence from Malaysia and China, where a greenium has been observed (Hu *et al.*, 2024; Koziol *et al.*, 2022; Pirgaip & Arslan-Ayaydin, 2024), suggesting that the absence of a greenium in Bangladesh reflects weak market maturity rather than a rejection of sustainability per se.

There is also a considerable lack of standardised processes for designating a project as green or sustainability-based, leading to uncertainty regarding the outcomes of an originator’s project selection and documentation efforts. Domestic sustainability frameworks are still in their early stages. Their practical interpretation varies widely, and the nature of their enforcement is unclear. This finding aligns with the literature that highlights the absence of harmonised taxonomies as a core impediment to market development (Keshminder *et al.*, 2022; Mahomed & Mahbot, 2024). The lack of coordination can result in one authority’s framework being deemed unacceptable by another. Moreover, adherence to international standards may be futile, as local authorities may not recognise these standards. This reflects institutional fragmentation, whereby multiple regulators exert overlapping but misaligned pressures, consistent with institutional theory’s emphasis on conflicting logics within regulatory fields (Eliwa *et al.*, 2021). Additionally, there is a shortage of skilled personnel to ensure compliance and facilitate accurate reporting.

Sharī‘ah committees can play a significant role in incorporating sustainability into *ṣukūk*, as the principles of sustainability are inherently aligned with *maqāṣid al-Sharī‘ah* (the objectives of Islamic law). However, although Sharī‘ah committee members in Bangladesh largely understand the principles of *maqāṣid al-Sharī‘ah*, they are not familiar with sustainability-specific terminologies and frameworks. This gap highlights a disconnect between Islamic jurisprudential theory and contemporary sustainability discourse, echoing Smolo *et al.* (2024), who argue that integrating ESG with *maqāṣid al-Sharī‘ah* requires targeted capacity building. None of the Sharī‘ah pronouncements for government or corporate *ṣukūk* have confirmed anything related to the green, social impact, or sustainability nature of the projects funded by these *ṣukūk*. Notably, the Sharī‘ah pronouncement for the first corporate *ṣukūk* explicitly stated that assessing the *ṣukūk*’s ‘green’ status is beyond its scope. This silence from the Sharī‘ah compliance validators weakens the signalling effect of sustainability-based *ṣukūk* and efforts to build stakeholder confidence, reinforcing concerns raised by RepRisk (2023) and Kathan *et al.* (2025) regarding greenwashing risks in the absence of credible verification mechanisms.

CONCLUSION

As sustainability becomes a priority in the global financial sector, Islamic finance is well-positioned to advance this agenda due to its inherent alignment with sustainability and ethical principles. Bangladesh, with its predominantly Muslim population, has significant untapped potential to leverage Islamic finance for sustainability-led development. In this context,

sustainability-based *ṣukūk* present substantial opportunities to address risks such as climate change, resource depletion, and socio-economic inequalities. However, realising these opportunities requires addressing structural and operational shortcomings within the market. The study reveals a clear disconnect in Bangladesh: although government and corporate issuers are increasingly considering sustainability objectives when evaluating underlying projects, persistent gaps in awareness and appreciation among stakeholders continue to limit meaningful progress.

Moving forward, the establishment and adoption of robust sustainability frameworks will be critical. Aligning with international sustainability standards and integrating global best practices are equally important. Ensuring the integrity of sustainability-based issuances demands rigorous monitoring, verification, and transparent reporting. Issuances targeting multilateral organisations committed to sustainability, given their strict compliance expectations, can help establish stronger benchmarks for the domestic market. To bridge existing knowledge gaps, targeted awareness programmes should be designed to enhance stakeholder understanding. Continuous engagement among investors, issuers, policymakers, and Sharī‘ah experts is indispensable. Regulatory incentives, such as tax reductions for issuers that publish annual impact reports, can strengthen transparency, while investor-focused incentives may help drive demand during the sector’s early growth stage.

With supportive regulation and the implementation of these initiatives, Bangladesh’s *ṣukūk* market could emerge as a benchmark for other developing countries seeking to harness *ṣukūk* for sustainable development. However, the market must recognise that a Just Transition—defined by the International Labour Organization as greening the economy in a fair and inclusive manner that benefits all stakeholders and creates decent work opportunities without leaving anyone behind (UNDP, 2022)—requires balanced attention to all dimensions of ESG. This necessitates careful planning to ensure sustainable progress without disproportionately emphasising one dimension. The current discourse in Bangladesh remains heavily skewed towards environmental concerns, often overlooking pressing social and governance issues such as labour rights, social protection, and institutional integrity. Collaborative efforts with multilateral support entities to design context-specific frameworks tailored to Bangladesh’s legal, cultural, and economic realities are therefore essential.

Future research could focus on generating more empirical evidence on sustainability-based *ṣukūk* to deepen understanding of their economic implications, thereby providing stronger justification for governments to consider offering targeted incentives. Research may also examine the presence or absence of greenium and social premium, taking into account the full spectrum of costs associated with sustainability-aligned issuances. This includes compliance, verification, monitoring, and reporting expenses, enabling an assessment of whether an issuer’s net position remains positive after considering all related costs.

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DECLARATION

Credit Authorship Contribution Statement

- **Mezbah Uddin Ahmed:** Conceptualisation, writing, research administration, supervision, validation, interviews, analysis, review, and editing.
- **Md. Mahabbat Hossain:** Methodology, interviews, analysis, and validation.
- **Imene Tabet:** Conceptualisation, visualisation, review, and editing.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have influenced the work reported in this paper.

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The authors declare that they understand the Journal's Ethical Guidelines and have adhered to all ethical statements regarding publishing. The authors also confirm that this paper is original and has not been published in any other journal.

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The authors used AI and AI-assisted technologies only to improve readability and language, and not to replace key authoring tasks such as generating research insights, analysis, or conclusion.

Data Availability

The BGIS prospectuses and auction notices are available on the Bangladesh Bank website. The information memorandum for the two corporate *ṣukūk* can be obtained from the respective *ṣukūk* trustees.

Disclaimer

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of any affiliated entity of the authors.