



**CENTRAL BANK**  
OF THE REPUBLIC OF AZERBAIJAN

# Evaluation of Sukuk Market Development and the Assessment of Green Sukuk Initiatives

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# CENTRAL BANK

OF THE REPUBLIC OF AZERBAIJAN

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# Overview Of The Economy And Finance Sector In Azerbaijan

- **Resource-rich:** Azerbaijan is an upper-middle-income country, primarily dependent on oil and gas, accounting for a large portion of GDP and export earnings.
- **Diversification Efforts:** Focus on non-oil sectors such as agriculture, tourism, and information technology to reduce dependency.
- **Strategic Location:** Positioned as a hub for trade and investment with access to regional markets.
- **GDP Stability:** GDP reached USD 73 billion in 2023, supported by ongoing reforms to improve the investment climate.





# Financial Sector Overview



## Predominantly Banks

The financial sector is bank-dominated, with capital markets still developing.



## Capital Markets Focus

Limited corporate bond issuances and a developing equity market.



## Reforms in Capital Markets

The Central Bank of Azerbaijan (CBA) has initiated steps to enhance the financial infrastructure and attract more participants.



# Capital Markets Growth (2023)



## Securities Turnover

Grew by 80% year-over-year to AZN 28.1 billion, driven by repo/reverse repo transactions.



## Government Securities

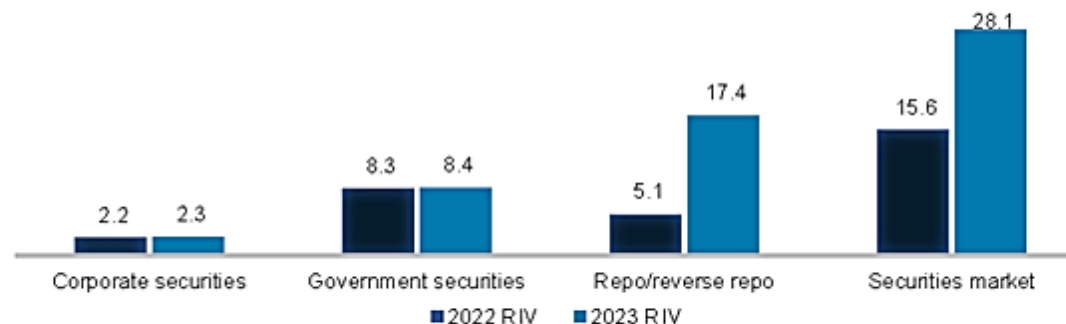
Volume increased by 40% to AZN 7.7 billion, with long-term government bonds rising by 53%, reaching AZN 6.4 billion.



## Corporate Securities

Primary market turnover up by 32% to AZN 1.3 billion; secondary market for government securities up by 49% to AZN 1.5 billion.

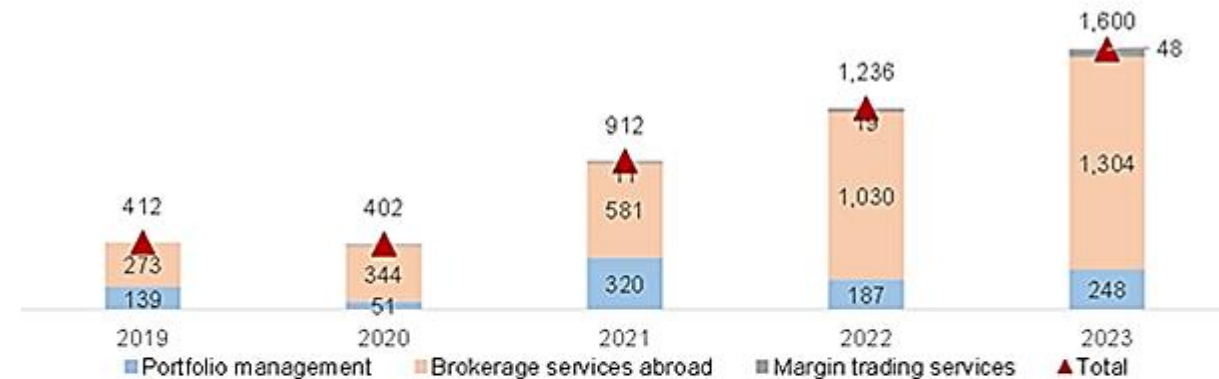
Capital market turnover, billion manats



# Demand in Azerbaijan's Capital Markets

- **Weak Demand:** Limited demand for financial instruments; capital markets are underutilized.
- **Institutional Investor Role:** Institutional investors play a minor role, and retail participation is low.
- **Positive Trends:** Investment companies reported a 29% growth in customer assets in 2023, reaching AZN 1.6 billion, mainly driven by foreign market broker services.

*Dynamics of customer assets of investment companies, million manats*



Source: CBA

# Supply of Securities in Azerbaijan

- **Government Bonds:** Primarily supported by government bond issuances, with limited corporate bond participation.
- **Equity Market:** A developing equity market with a select number of companies listed on the Baku Stock Exchange (BSE) and limited daily trading volumes.
- **Future Growth Drivers:** Green bonds, sukuk, and green sukuk present growth potential, aligning with Azerbaijan's focus on renewable energy.
- **Strong Capital Position:** Investment companies reported regulatory capital of AZN 42.6 million in 2023, providing a solid and stable foundation for growth.



Photo by Javid Bunyadzade on Unsplash

# Infrastructure and Capacity



## Improved Infrastructure

The Baku Stock Exchange (BSE) and National Depository Center (NDC) are key to trading and settlement operations



## FinTech and Human Capital Development

Azerbaijan is actively working to enhance its fintech capabilities and invest in human capital to effectively manage advanced financial instruments like sukuk.

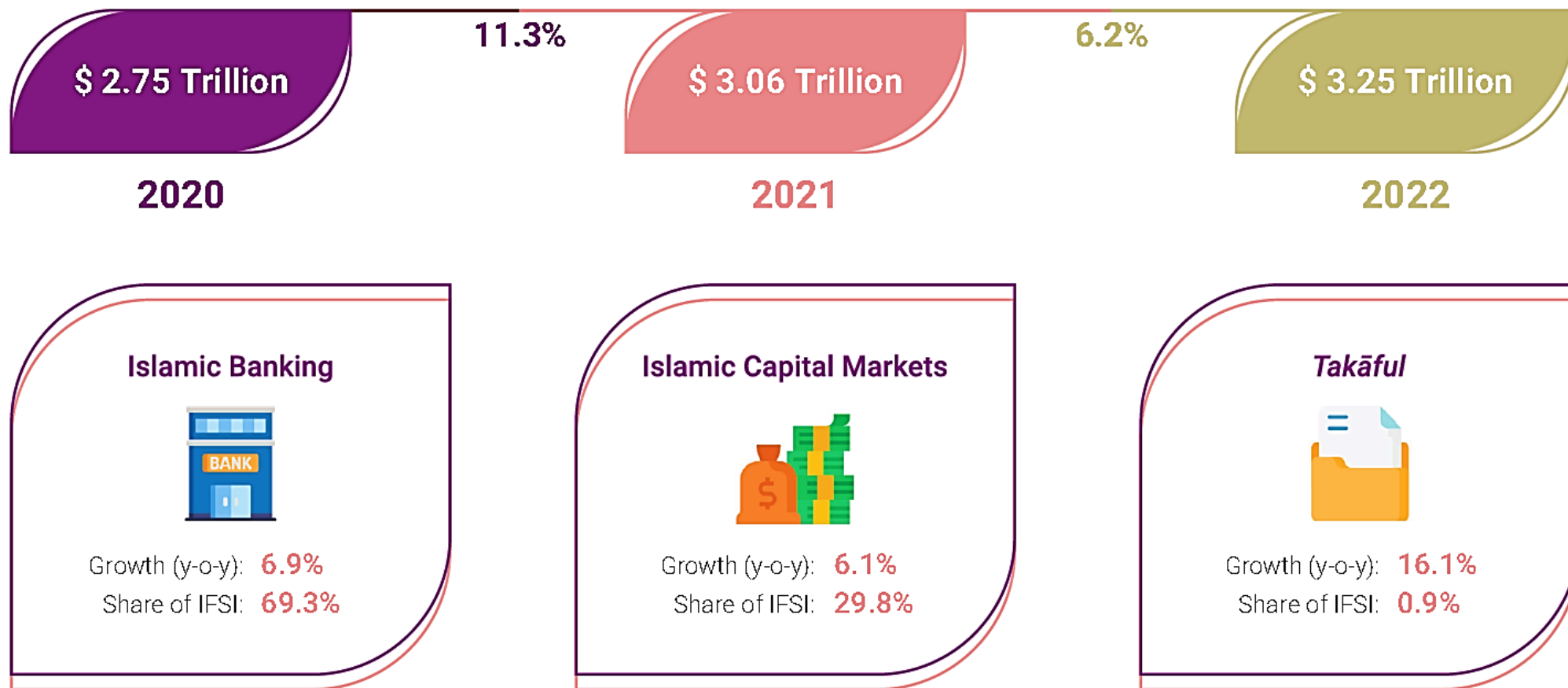


## Market Expansion

Investment companies' total assets grew by 12% in 2023, positioning the market for green sukuk and other innovations



# Global Outlook for Islamic Finance and Capital Markets



# Global Growth of Sukuk Markets

## GLOBAL GROWTH OF THE ISLAMIC CAPITAL MARKETS



2.3% growth in  
Şukūk Issuances

Primary market  
issuances rose to  
USD 190 billion in 2022



USD 830 billion  
Şukūk Outstanding

Outstanding şukūk  
rose by only 7%



1% Growth in  
Islamic Funds

Growth moderated  
in the Islamic Funds  
Market



Market corrections in  
Equity Markets

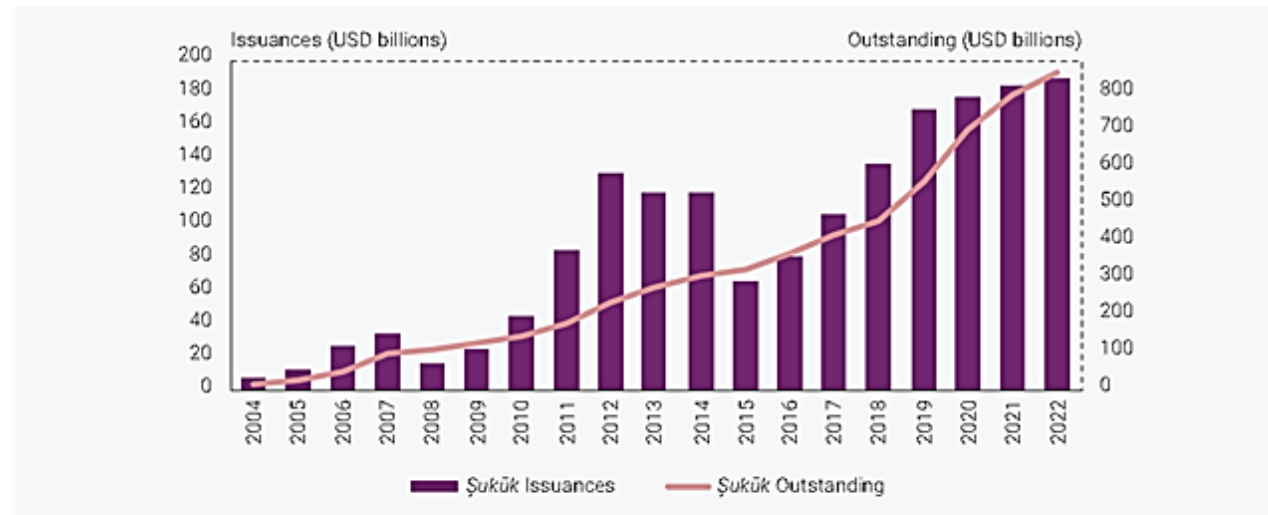
Islamic indices, like their  
counterparts, experienced  
volatility, and negative returns

ISLAMIC FINANCIAL SERVICES INDUSTRY STABILITY REPORT 2023

# Key Drivers of Sukuk Issuance

- **Investor Demand:** Rising Muslim populations in the GCC, Southeast Asia, and Sub-Saharan Africa are driving demand for Shariah-compliant products. Sukuk is favored for ethical, risk-sharing investments.
- **Sovereign Financing:** Governments increasingly use Sukuk to fund large-scale infrastructure and social projects, diversifying funding and attracting Islamic and conventional investors.
- **Corporate Participation:** Corporates in energy, real estate, and telecoms turn to Sukuk for long-term financing, enhancing ethical reputations and accessing a broad investor pool.

Global *Şukūk* Issuances and *Şukūk* Outstanding Trends (2004–22) USD billions



Source: IFSB estimates based on data from Refinitiv and regulators

# Impact of Inflation and Rate Hikes on Sukuk Market



## Global Inflationary Pressures

Inflation in 2022-2023, driven by rising energy prices, impacted global markets, including Sukuk. Higher interest rates increased borrowing costs for Sukuk issuers.



## Sukuk Resilience

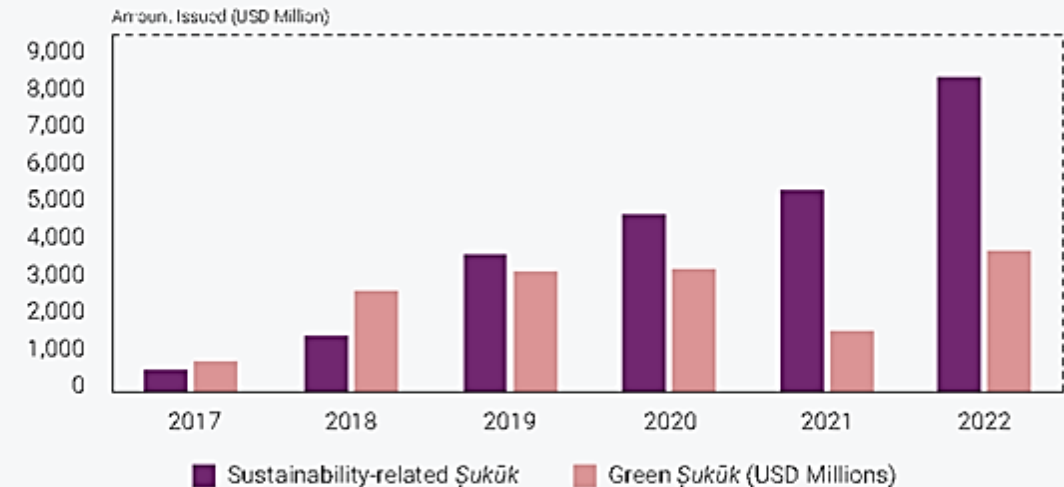
Despite challenges, the Sukuk market remained stable, with sovereign issuers continuing to finance infrastructure and energy projects.



# Green Sukuk – Financing and Success

- **Islamic Finance and Sustainability:** Green Sukuk merges Shariah compliance with sustainable finance for projects like climate change mitigation and renewable energy.
- **Growth in Green Sukuk:** In 2022, green and sustainability-linked Sukuk issuance reached USD 8.4 billion, with USD 3.7 billion specifically in green Sukuk.
- **First Green Sukuk:** In 2017, Tadau Energy in Malaysia issued the first green Sukuk, raising USD 64 million for a solar power plant.
- **Leading Issuers:** Indonesia issued a sovereign green Sukuk in 2018, raising USD 1.25 billion for renewable energy and sustainable projects.

Sustainability-related and Green *Şukūk* Issuances (2017–22)



Source: IFSB Estimates based on data from Refinitiv

# The Role and Importance of Sukuk and Green Sukuk

**Economic Diversification**



**Infrastructure Financing**



**Aligns with SDG**










**Adds sustainability**



**Financial Innovation  
and Global Appeal**

**Enhancing Financial  
Inclusion**



Comprehensive Country-Based Assessment of Sukuk and Green Sukuk Development							
Country	Regulatory Framework	Types of Sukuk Issued	Sectoral Distribution	Market Size (USD)	Growth Rate	Green Sukuk Status	Challenges
Türkiye 	Aligned with AAOIFI, ICMA; 2022 Green Sukuk guidelines in place	Ijarah, Musharakah, Murabaha, Wakalah, Hybrid	Infrastructure, real estate, energy, sustainable finance	\$1 - 10 billion	Less than 5%	Guidelines in place, early-stage Green Sukuk market	Market liquidity, awareness, standardized certification for Green Sukuk
Kazakhstan 	Nascent, aligned with AAOIFI, inactive market, tax neutral	None actively issued yet	None, no active issuances	Negligible	Negligible	No framework or issuance	Market awareness, liquidity, lack of Shariah governance
Pakistan 	Well-developed, aligned with AAOIFI and IFSB, tax neutral	Ijarah, Musharakah, Murabaha, Wakalah, Istisna, Hybrid	Infrastructure, energy, telecommunications, real estate	\$10 - 50 billion	More than 20%	Framework in progress, no issuances yet	Market liquidity, low Green Sukuk demand
UAE 	Highly developed, aligned with AAOIFI, ICMA Green Bond Principles	Ijarah, Musharakah, Hybrid	Urban development, real estate, energy	\$1 - 10 billion	5 - 10%	Pioneer in the GCC, aligned with ICMA principles	Market liquidity, investor education for Green Sukuk
Morocco 	Developing, aligned with Islamic finance principles	Ijarah Sukuk for government projects	Government infrastructure, real estate	Less than \$1 billion	Less than 5%	No issuance, potential for renewable energy projects	Market liquidity, investor awareness, no Green Sukuk framework
Oman 	Developing, government-focused market, Green Sukuk regulations being developed	Ijarah, Mudarabah, Murabaha, Wakalah	Infrastructure, energy, real estate, sustainable finance	Less than \$1 billion	5 - 10%	No issuance yet, exploring options for Green Sukuk	Market liquidity, low awareness, no secondary market for Green Sukuk
Indonesia 	Advanced, aligned with AAOIFI, IFSB; strong Green Sukuk framework	Ijarah, Musharakah, Hybrid, Green Sukuk	Infrastructure, renewable energy, public services, green projects	Over \$50 billion	10% or more	Global leader, over \$1 billion issued, strong ESG alignment	Liquidity management, Green Sukuk verification and certification, illiquid market

# Comprehensive Country-Based Assessment of Sukuk and Green Sukuk Development *cont*

- **Leading Markets:** Indonesia, Türkiye, and UAE lead in Sukuk issuance, with strong regulatory frameworks, Shariah governance, and diverse investor bases.
- **Emerging Markets:** Kazakhstan, Morocco, and Oman face challenges like low liquidity but have significant potential in Green Sukuk for renewable energy.
- **Asset-Based vs. Asset-Backed Sukuk:** Indonesia and UAE leverage asset-backed Sukuk for infrastructure and green projects, attracting both Islamic and conventional investors.
- **Opportunity in Green Sukuk:** Green Sukuk allows countries to align with global sustainability goals, attracting ESG-focused investors and addressing climate change.
- **Key for Growth:** Addressing liquidity, investor education, and regulatory standardization will further market development in Islamic and sustainable finance.



# Challenges in the Development of Sukuk and Green Sukuk



## Regulatory and Legal Barriers

Many countries, like Kazakhstan, Morocco, and Azerbaijan, lack robust frameworks for Islamic finance and Sukuk. In Azerbaijan, legislative and tax frameworks hinder Sukuk issuance, while Türkiye faces challenges in streamlining Green Sukuk certifications.



## Market Awareness and Education

Limited awareness of Sukuk and Green Sukuk among investors, issuers, and regulators affects early-stage markets like Kazakhstan and Azerbaijan. Even in leading markets like Indonesia and Türkiye, more public awareness and capacity-building initiatives are needed.



## Costs and Risks of Green Sukuk

Green Sukuk involves higher costs for certification, monitoring, and reporting. Countries like Morocco and Oman face challenges balancing the high cost and risks of financing capital-intensive green projects with the need to attract ESG investors.



## Liquidity and Market Infrastructure

Limited secondary market activity, as investors hold Sukuk until maturity, affects liquidity. Countries like Pakistan, Morocco, and Oman face liquidity constraints, while Türkiye and Indonesia are working to improve market infrastructure for Sukuk trading and liquidity management.

# Opportunities in the Sukuk and Green Sukuk Markets

## International Partnerships

International Financial Institutions (IFIs) like IsDB and ADB support developing countries by providing technical assistance and funding for green projects, helping nations like Azerbaijan navigate sustainable finance.



## Collaboration on Shariah Standards

Global Shariah standards, such as ICMA Green Bond Principles, enhance collaboration among stakeholders. This boosts investor confidence and simplifies Green Sukuk issuance, attracting more investment.



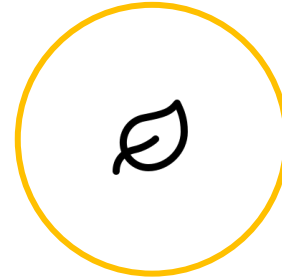
## Promoting Financial Inclusion

Sukuk and Green Sukuk bridge financial inclusion gaps by offering Shariah-compliant products in countries with large unbanked populations, like Azerbaijan, Pakistan, and Morocco, empowering communities.

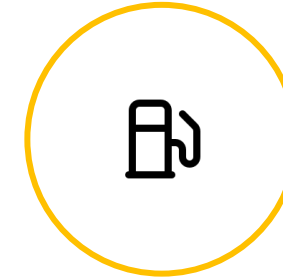
# Financing Green Infrastructure and Renewable Energy



Green Sukuk provide innovative financing solutions for green infrastructure and renewable energy projects, enabling countries to attract international investment while promoting sustainability.



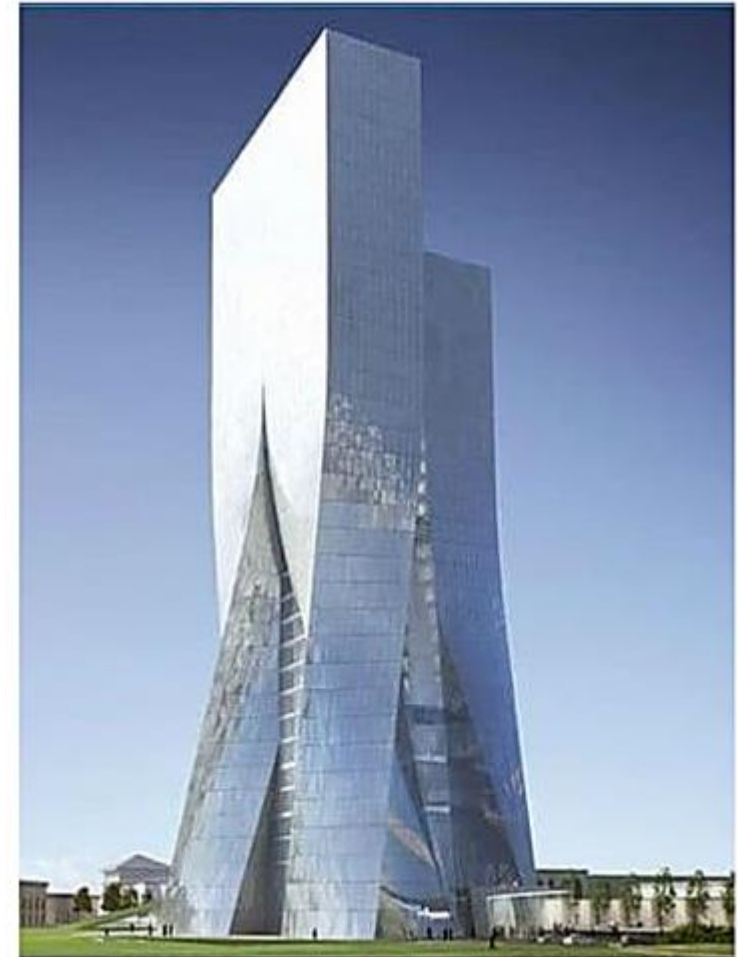
Indonesia has successfully utilized Green Sukuk to fund renewable energy plants, sustainable transportation initiatives, and climate adaptation projects, raising millions to power its green transition.



Countries like Türkiye, Kazakhstan, and Oman have the potential to leverage Green Sukuk to support their climate action plans, aligning with global ESG investment trends and meeting renewable energy targets.

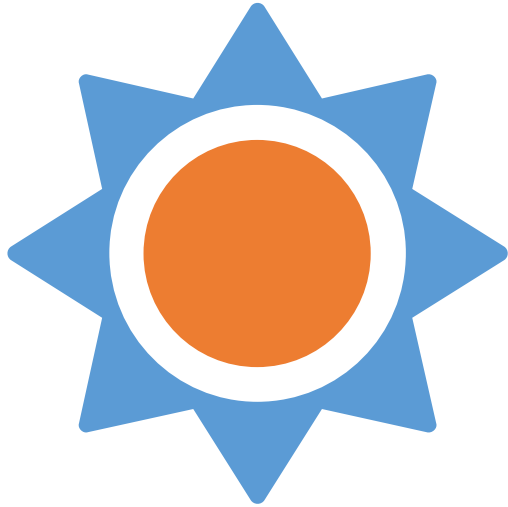
# Legal, Regulatory, and Tax Framework

- **Improved Framework:** Azerbaijan's legal framework for capital markets has improved but needs further elaboration.
- **Tax Incentives:** Tax incentives for sukuk and Islamic finance could boost market growth, especially for green sukuk.
- **Regulatory Focus:** Aligning with international standards will help attract more investors to Islamic finance instruments.



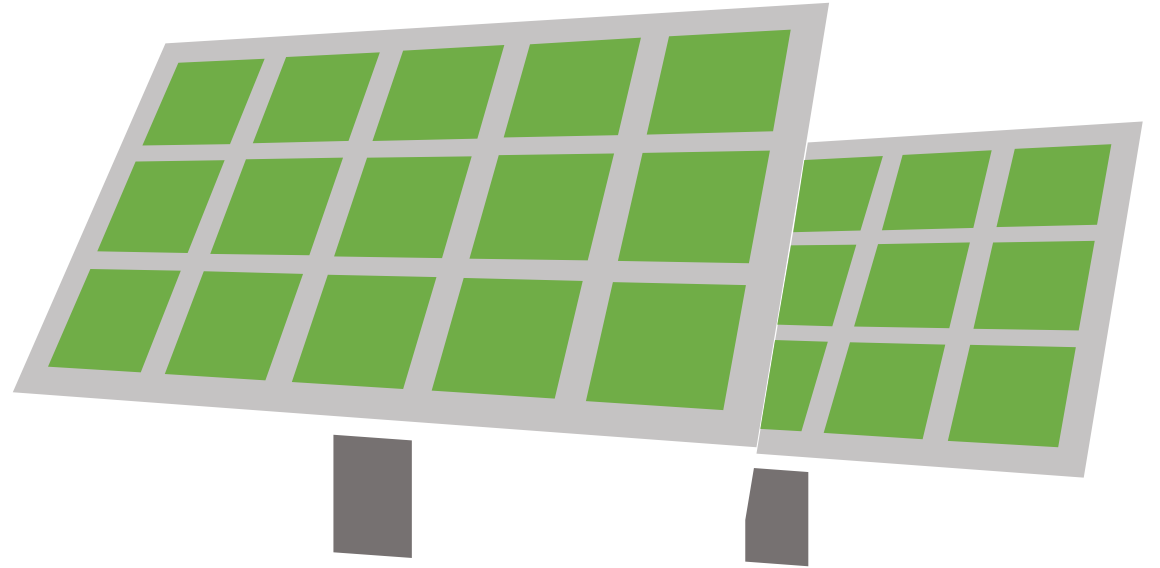


# Building a Pipeline of Green Projects



## Renewable Energy Projects

Focus on solar, wind, and hydropower projects to attract Green Sukuk investors.



## Sustainable Infrastructure

Finance energy-efficient buildings and public transportation systems, aligned with SDGs.

# Recommendations for All Countries



## Standardization of Shariah Governance

Develop unified Shariah compliance frameworks to avoid fragmented regulations.



## Promote Financial Inclusion

Use Sukuk and Green Sukuk to target unbanked populations with Shariah-compliant products.



## Encourage Innovation in Sukuk

Develop new Sukuk structures (e.g., hybrid Sukuk) to meet the needs of both Islamic and conventional investors.



## Green Finance Taxonomies

Establish green finance taxonomies to ensure consistent reporting and impact assessment for Green Sukuk.



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**Thank You!**