

# Bridging the Gap: Investigating Untapped Markets for Sukuk Issuance and Growth Opportunities

Shahsuzan Zakaria<sup>1</sup>, Nana Riana<sup>2</sup>, Hamdi Ben-Nasr<sup>3</sup>, Muhammad Naeem<sup>4</sup>, Amirul Afif Muhamat<sup>1</sup>

<sup>1</sup>Faculty of Business and Management, Universiti Teknologi MARA, Selangor, Malaysia

<sup>2</sup>Ministry of Finance, Republic of Indonesia

<sup>3</sup>Department of Finance and Economics, College of Business and Economics, Qatar University, Qatar

<sup>4</sup>Faculty of Management Sciences, Foundation University Islamabad, Pakistan

DOI: <https://dx.doi.org/10.47772/IJRISS.2024.8120332>

Received: 22 December 2024; Accepted: 26 December 2024; Published: 22 January 2025

## ABSTRACT

Sukuk has emerged as a vital instrument in Islamic finance, providing Shariah-compliant funding mechanisms for infrastructure development, ethical investments, and financial inclusion. Despite its global success, sukuk issuance remains concentrated in specific regions and sectors, leaving untapped markets unexplored. This paper conceptualizes the barriers and opportunities for sukuk issuance in emerging markets. It proposes a framework linking economic, regulatory, and social factors to sukuk market development, identifying actionable strategies for policymakers, issuers, and investors. By addressing these gaps, this study enhances sukuk's role in fostering inclusive financial development globally.

**Keywords:** Sukuk Issuance; Shariah-Compliant Funding; Growth Opportunities

## INTRODUCTION

Sukuk, often called Islamic bonds, represents a cornerstone of Islamic finance, facilitating Shariah-compliant capital raising for governments and corporations. According to the International Islamic Financial Market (IIFM), the global sukuk market exceeded USD 212 billion in 2023, driven primarily by GCC countries, Malaysia, and selected Islamic financial hubs (IIFM Sukuk Report, 2024). Despite its rapid expansion, sukuk remains underutilized in many regions, including Sub-Saharan Africa, Central Asia, and Latin America.

While sukuk has demonstrated its effectiveness in financing large-scale projects, particularly in infrastructure and public-private partnerships, its adoption is hindered in markets with significant potential demand. For example, regions with infrastructure deficits or unmet needs for sustainable financing often lack the regulatory frameworks or market awareness to foster sukuk issuance (Ahmed et al., 2021). This paper aims to identify the barriers hindering sukuk adoption in untapped markets and to conceptualize strategies for bridging these gaps. By proposing a theoretical framework, the paper seeks to advance the understanding of sukuk market development and highlight its potential for global financial inclusion. In short, this paper investigates the untapped potential of sukuk markets in several areas, highlighting their enormous growth chances. However, it is crucial to note that, while this study's vast scope provides comprehensive insights, it may confront obstacles in addressing each region's distinct socioeconomic and regulatory contexts. This shortcoming highlights the necessity for future studies to delve deeper into region-specific settings to improve the findings' depth and application.

## LITERATURE REVIEW

### Sukuk and Its Global Growth

Sukuk represents a Shariah-compliant financial instrument that operates based on different structure. Unlike

conventional bonds, sukuk certificates represent ownership in an underlying asset or project, ensuring compliance with Islamic law (Usmani et al., 2020). Over the past decade, sukuk has gained attraction due to its ethical appeal and stable return structure, making it a preferred choice for Muslim and non-Muslim investors.

Previous studies have highlighted the instrumental role of sukuk in financing infrastructure projects in emerging markets, particularly in GCC countries and Southeast Asia countries. For instance, Malaysia has pioneered the development of sukuk, leveraging its robust regulatory framework and Islamic finance ecosystem (Hassan & Kayed, 2019). Meanwhile, other countries such as Saudi Arabia and Indonesia have also demonstrated the impact of sukuk when addressing national development goals, particularly in areas like energy and transportation.

### **Barriers to Sukuk Issuance**

Despite its success in established markets, sukuk issuance faces several barriers that hinder its adoption in new markets. Regulatory challenges are among the most cited obstacles (Yilmaz, 2023; Awwad, Razia & Razia, 2024). The absence of uniformed Shariah governance standards creates inconsistencies, making it difficult for issuers to navigate multiple jurisdictions (Mohamad et al., 2022). Additionally, the cost of issuing sukuk is often higher than that of conventional bonds due to complex legal and Shariah compliance requirements.

Another significant barrier is the lack of market awareness and expertise. Investors in non-Muslim-majority regions often lack familiarity with sukuk, perceiving it as a niche product. This limited understanding reduces investor appetite and restricts market expansion (Hassan & Kayed, 2019). Economic conditions in nascent markets, such as low financial infrastructure development and limited access to capital, further exacerbate these challenges.

### **The Gap in Existing Research**

While numerous studies have explored the growth of sukuk in established markets, there is limited research on the untapped potential of sukuk in less-developed regions and underrepresented sectors. Emerging markets often possess unique socio-economic characteristics that could benefit from sukuk's principles of ethical investment and risk-sharing, yet these opportunities remain underutilized due to barriers such as limited institutional capacity, lack of awareness, and inadequate regulatory frameworks (Zuhri & Fadil, 2024; Mawardi, Widiastuti & Al-Mustofa, 2022). Moreover, the role of innovative sukuk structures, such as green sukuk for sustainable development projects and retail sukuk aimed at individual investors, remains underexplored in addressing these market gaps. These innovative structures have the potential to expand sukuk's reach, diversify its applications, and attract a broader investor base, but there is a lack of comprehensive research on their design, feasibility, and long-term impact (Ali, Rusgianto, Parveen, Yaacob & Mat Zin, 2024).

This paper aims to bridge these research gaps by conceptualizing a framework to guide the identification and exploitation of these opportunities. By examining the interplay between institutional factors, market dynamics, and innovative sukuk applications. The study seeks to provide actionable insights into how sukuk can drive financial inclusion, economic development, and sustainability in underserved regions and sectors. In doing so, the paper contributes to the broader discourse on how sukuk can evolve to meet the changing needs of global financial markets while staying true to its ethical and Shariah-compliant principles.

## **CONCEPTUAL FRAMEWORK**

### **Components of the Framework**

The proposed framework for sukuk issuance is built on three interconnected components: drivers of sukuk issuance, barriers to market development, and growth opportunities. These components collectively provide a structured understanding of the factors influencing sukuk markets and the potential strategies to enhance their development in underserved regions.

#### ***Drivers of Sukuk Issuance***

Sukuk issuance is primarily driven by a combination of economic conditions, regulatory frameworks, and

investor demand. Economic factors such as strong GDP growth, stable financial markets, and the availability of infrastructure projects create a favorable environment for sukuk (Ubaidillah, Masyhuri, Wahyuni & Nanik, 2021). A robust economy often translates into higher demand for funding, particularly in sectors like infrastructure and development, where sukuk can serve as a Shariah-compliant alternative to conventional bonds. Regulatory environments also play a significant role. Governments and financial regulators that provide tax incentives, create frameworks to reduce issuance costs, and establish clear Shariah-compliance standards encourage greater market participation. The standardization of legal and operational procedures related to sukuk issuance reduces uncertainty for issuers and investors alike, fostering confidence in the market (Usmani et al., 2020). Furthermore, investor demand, especially from Islamic banks, takaful operators, and ethical investors, drives sukuk issuance. The increasing awareness of socially responsible investing (SRI) has aligned with sukuk's appeal, broadening its investor base to include non-traditional markets.

### ***Barriers to Market Development***

Despite its global success, several barriers hinder the expansion of sukuk markets, especially in underserved regions. High issuance costs remain one of the most significant challenges. The structuring, documentation, and compliance processes required for sukuk are often more complex and costly than those for conventional bonds. This cost disparity can discourage issuers, particularly in emerging markets or for smaller-scale projects. Another critical barrier is the inconsistency in Shariah standards across different jurisdictions (Rafay, Sadiq & Ajmal, 2017). While Shariah compliance is a cornerstone of sukuk, variations in interpretations and requirements among Islamic scholars can lead to fragmentation and confusion in the market. This lack of uniformity often results in increased costs and delays, further disincentivizing issuers. Additionally, there is a persistent lack of awareness and understanding of sukuk among both investors and issuers. Potential issuers may view sukuk as overly complex or restrictive compared to conventional financing methods. Similarly, investors who are unfamiliar with sukuk's mechanisms and benefits may be hesitant to include them in their portfolios, limiting market demand and liquidity.

The development of sukuk markets faces several significant barriers, particularly in underserved regions. One major challenge is the high issuance cost, as sukuk issuance often requires complex structuring, extensive documentation, and adherence to Shariah compliance, which involves multiple stakeholders such as scholars and legal advisors. These additional requirements drive up costs compared to conventional bonds, making sukuk issuance less viable for smaller-scale projects or emerging markets (Jobst et al., 2008). Additionally, the inconsistency in Shariah standards across jurisdictions creates fragmentation in the market. Variations in interpretations by Islamic scholars often result in delays and increased costs, as issuers must navigate differing requirements to ensure compliance (Lahsasna, 2013). This lack of uniformity can discourage cross-border investments and limit market harmonization efforts (Rafay, Sadiq & Ajmal, 2017). Another critical issue is the lack of awareness and understanding of sukuk among potential issuers and investors. Many issuers perceive sukuk as overly complex and restrictive, while investors unfamiliar with their mechanisms are hesitant to include them in their portfolios, thereby limiting demand and liquidity (Najeeb & Ibrahim, 2014). Furthermore, underdeveloped market infrastructure and regulatory frameworks in certain regions hinder sukuk trading and secondary market development, exacerbating liquidity challenges. Tax policies in some jurisdictions also inadvertently favor conventional bonds, further disincentivizing sukuk issuance (Nashwan & Muneeza, 2021; Wilson, 2008). Sukuk's asset-based nature, while adhering to ethical investment principles, may also be seen as restrictive compared to the flexibility of conventional financing methods. Addressing these barriers requires streamlining issuance processes, standardizing Shariah guidelines, enhancing market infrastructure, promoting educational initiatives, and fostering regulatory support. By tackling these issues, sukuk markets can unlock their potential as a globally competitive and inclusive financial instrument.

### ***Opportunities for Growth***

Despite these barriers, there are significant opportunities to expand and innovate within the sukuk market. One of the most promising avenues is the development of green sukuk, which are tailored for funding environmentally sustainable projects such as renewable energy, waste management, and sustainable agriculture. With increasing global attention on environmental, social, and governance (ESG) criteria and focusing on some of UN SDGS, green sukuk align well with ethical investment trends, offering a dual appeal to Islamic and

conventional investors. Another area of opportunity lies in the issuance of retail sukuk, which aim to enhance financial inclusion by allowing smaller, individual investors to participate in sukuk markets. By lowering the entry threshold for investment, retail sukuk can mobilize savings from a broader population, particularly in regions with large unbanked or underbanked communities. Furthermore, technological advancements, such as blockchain and smart contracts, can address some of the barriers to sukuk issuance by reducing costs, enhancing transparency, and streamlining processes. These innovations hold the potential to revolutionize sukuk markets, making them more accessible and efficient for both issuers and investors.

In summary, the proposed framework underscores the dynamic interplay between the drivers, barriers, and opportunities in sukuk markets. While economic conditions, regulatory support, and investor demand propel sukuk issuance, challenges such as high costs, inconsistent standards, and limited awareness require targeted interventions. At the same time, innovative approaches, including green and retail sukuk, offer pathways to overcome these barriers and unlock the untapped potential of sukuk markets globally.

### **Theoretical Underpinning**

The proposed framework in this study draws upon two complementary theories: Institutional Theory and the Resource-Based View (RBV). These theories provide a robust foundation for understanding the dynamics of sukuk market development and the identification of market gaps.

#### ***Institutional Theory***

Institutional Theory highlights the critical role of the institutional environment in shaping the success and growth of financial markets, including sukuk. This theory emphasizes that both formal and informal rules, norms, and practices influence market development (Scott, 2014). In the context of sukuk, the institutional environment encompasses elements such as legal frameworks, regulatory clarity, tax policies, and Shariah governance standards. A robust institutional environment can lower barriers to entry for issuers and investors, fostering market growth. For instance, clear legal structures that recognize and enforce sukuk contracts provide issuers with the confidence to participate in the market, while regulatory frameworks that align with international standards promote cross-border investments and liquidity (Hassan & Kayed, 2019). A significant challenge to sukuk market expansion lies in the lack of harmonized Shariah governance standards across jurisdictions. Inconsistencies in Shariah interpretation often lead to higher issuance costs, fragmented markets, and prolonged approval processes, discouraging issuers from entering new regions. This fragmentation undermines investor confidence, as they may perceive sukuk as less reliable or complex compared to conventional bonds. Harmonized Shariah governance, supported by unified institutional bodies, could alleviate these challenges by reducing ambiguity and fostering greater trust among market participants. In addition, institutional support in the form of regulatory clarity and standardized processes can lower transaction costs and encourage broader adoption of sukuk, especially in emerging markets (Hassan & Kayed, 2019). Institutional Theory also suggests that institutional gaps in emerging markets contribute to the underdevelopment of sukuk markets. Weak or inconsistent regulatory and tax frameworks in these regions create disincentives for both issuers and investors. Addressing these gaps requires targeted interventions, such as establishing unified Shariah boards, offering tax incentives to sukuk investors, and implementing regulatory reforms tailored to the specific needs of Islamic finance. These measures can create a supportive institutional environment, encouraging sukuk issuance and enhancing market accessibility. By strengthening institutional structures, emerging markets can unlock the potential of sukuk to serve as an inclusive and globally competitive financial instrument (Scott, 2014; Hassan & Kayed, 2019).

#### ***Resource-Based View (RBV)***

The Resource-Based View (RBV), on the other hand, emphasizes the role of unique resources and capabilities in gaining a competitive advantage. Applied to sukuk, RBV suggests that markets with untapped potential may be underutilizing key resources, such as demand for ethical investments, a growing middle class, or an underdeveloped financial infrastructure (Barney, 1991). By identifying and leveraging these resources, stakeholders can unlock new markets for sukuk.

For instance, developing innovative sukuk structures such as green sukuk or retail sukuk can be seen as a strategic



move to capitalize on the growing global demand for sustainable investments. Countries that recognize the untapped potential of these resources can create new markets and meet the financing needs of sectors like renewable energy or small- and medium-sized enterprises (SMEs). The RBV provides a strategic lens for understanding how stakeholders, such as governments and financial institutions, can leverage local resources to stimulate sukuk issuance in underrepresented markets. By synthesizing both Institutional Theory and RBV, the proposed framework highlights the importance of aligning regulatory support with the strategic use of market resources to address gaps in sukuk issuance.

In accordance with the above discussion, it emphasizes the need of complementing institutional theory and the resource-based view with pragmatic assessments to improve applicability for legislators and market players and acknowledges their reliance.

## DISCUSSION

The conceptual framework presented in this paper offers a comprehensive view of the barriers, drivers, and opportunities for expanding sukuk markets. This section discusses how these elements interact and provides a deeper exploration of the practical implications for sukuk stakeholders.

### Regulatory and Institutional Support

One of the most critical factors identified in the framework is the regulatory environment. As emphasized by Institutional Theory, a well-defined and harmonized regulatory framework is crucial for the growth of sukuk. In markets where regulatory clarity is lacking, such as Sub-Saharan Africa and parts of Latin America, potential issuers face uncertainties regarding compliance and legal standards. This leads to reluctance among investors and issuers alike.

To address this barrier, governments in these regions must prioritize the establishment of Sharia-compliant regulatory frameworks and develop incentives that lower the cost of sukuk issuance. For example, offering tax breaks or reducing transaction costs for sukuk issuers can help make the instrument more competitive compared to conventional bonds. Additionally, establishing central Shariah governance bodies that unify Islamic finance standards across countries would reduce fragmentation and increase investor confidence.

### Innovative Sukuk Structures

Innovative sukuk structures represent a transformative approach to expanding sukuk markets and addressing unmet demand in new sectors and regions. For example, most popular sukuks are as follows, ijarah sukuk, Salam sukuk, Istisna sukuk, Murabahah sukuk, Musharakah sukuk, Muzaraah sukuk, Musaqah sukuk, and Mugharasah Sukuk. Green sukuk has garnered significant attention as a vehicle for sustainable financing. Green sukuk is designed to fund projects in renewable energy, energy efficiency, sustainable transportation, and other environmentally friendly initiatives (Alam, 2020). This innovation aligns with the growing global emphasis on Environmental, Social, and Governance (ESG) criteria in investment decisions. While green sukuk has seen notable uptake in Muslim-majority countries such as Malaysia and Indonesia, its appeal extends beyond these regions. Ethical investment products, including green sukuk, are increasingly attractive to investors in Europe and North America, where sustainability concerns dominate financial agendas. This cross-border appeal underscores the potential of green sukuk to bridge ethical investment principles with broader global sustainability goals.

Retail sukuk is another innovative structure that could significantly increase sukuk market penetration. By allowing small, individual investors to participate in sukuk markets, retail sukuk democratizes access to Islamic finance. Unlike traditional sukuk, which are often limited to institutional investors, retail sukuk lowers the entry barriers for middle-class investors, enabling broader participation in infrastructure and development projects. Countries with large, emerging middle-class populations, such as Indonesia and Pakistan, are particularly well-positioned to benefit from this structure. Retail sukuk could serve as a tool for fostering financial inclusion while channeling domestic savings into projects that promote economic growth. Moreover, governments can leverage retail sukuk to fund public initiatives, such as affordable housing or transportation projects, directly engaging citizens in national development efforts.

The potential of innovative sukuk structures extends beyond market penetration; they can also catalyze economic and social development. For example, green sukuk aligns with global climate action goals, offering a Shariah-compliant means to finance sustainable development. Retail sukuk, on the other hand, encourages financial literacy and inclusivity, empowering individuals to participate in their economies. However, the success of these innovations requires supportive regulatory frameworks, effective marketing to educate investors, and collaboration between governments, financial institutions, and international stakeholders. By addressing these prerequisites, innovative sukuk structures can unlock new opportunities, ensuring the continued growth and relevance of sukuk in a rapidly evolving global financial landscape.

### **Investor Education and Awareness**

Investor education and awareness remain significant barriers to the expansion of sukuk markets. In regions such as Sub-Saharan Africa and Latin America, where there is limited understanding of sukuk, investor demand remains subdued. Educational initiatives are essential to overcome this gap. Financial institutions and governments must collaborate to organize investor awareness campaigns that not only explain the benefits of sukuk but also clarify the ethical and financial principles underpinning them.

Awareness campaigns can be tailored to target both retail investors and institutional investors. For example, roadshows, online seminars, and partnerships with universities can help inform a broader audience. Furthermore, demonstrating the stable returns and diversification benefits that sukuk offer relative to traditional bonds can make the product more appealing to non-Muslim investors.

### **The Role of Technology**

The rise of financial technology (fintech) also provides an opportunity to address several barriers to sukuk issuance. Blockchain, for example, can enhance transparency, reduce transaction costs, and streamline the issuance process. Fintech solutions can facilitate cross-border sukuk issuance, making it easier for issuers to access international investors and for investors to buy and sell sukuk in secondary markets. As sukuk markets evolve, embracing technological innovations can significantly reduce the operational and regulatory hurdles that often deter market growth.

Overall, recognizing the enormous potential of sukuk in untapped markets, this study emphasizes the need of tackling significant problems that may limit its widespread adoption. While sukuk is frequently praised for its adherence to ethical and Shariah-compliant standards, certain barriers must be carefully evaluated. High structuring costs, combined with complex regulatory requirements, present substantial challenges for issuers, particularly in nations with emerging Islamic finance ecosystems. Furthermore, the severe competition from traditional financial instruments, which generally provide more efficient processes and cheaper costs, makes it difficult to position sukuk as a universally acceptable financial tool. These challenges highlight the need for novel approaches to improving sukuk's competitiveness and accessibility. Collaboration among regulators, industry participants, and financial institutions can assist streamline operations, save costs, and handle regulatory difficulties. In addition, focused education and awareness programs can help market participants better understand and embrace sukuk. By eliminating these constraints, sukuk can better fulfill its potential as a transformational financial instrument in both established and emerging nations, opening the path for long-term growth.

## **RESEARCH IMPLICATIONS AND RECOMMENDATIONS**

This paper provides a conceptual framework that can guide future empirical research on sukuk markets. Several research implications and recommendations are proposed for further investigation.

### **Empirical Testing of the Framework**

Future research should prioritize empirically testing the proposed framework across various emerging markets to better understand how institutional factors influence sukuk issuance and development. Institutional elements such as regulatory clarity, legal infrastructure, and Shariah governance often determine the success of sukuk markets, particularly in countries with nascent Islamic finance industries. For example, in Nigeria and South

Africa, where sukuk issuance is still at an exploratory stage, there is a need to examine how legal and regulatory frameworks either support or hinder market growth (UNDP Indonesia, 2020). Similarly, in Brazil, where Islamic finance is relatively unknown, empirical research can reveal whether sukuk could serve as an effective tool for financing infrastructure projects in a non-Muslim-majority context. These case studies could shed light on the unique barriers and enablers in each region, offering targeted policy recommendations.

Additionally, comparative analyses could investigate the role of economic development levels in shaping institutional readiness for sukuk. Countries with higher economic development might possess stronger legal frameworks but face different challenges, such as market saturation or investor skepticism. Conversely, less-developed economies may encounter hurdles related to institutional capacity but could offer significant untapped potential due to lower competition and the appeal of Sharia-compliant financing. Longitudinal studies examining the evolution of sukuk markets in these settings would provide critical insights into the dynamic relationship between institutional factors and market growth over time (Hassan & Kayed, 2019).

### **Comparative Analysis of Sukuk Structures**

Comparative analysis of sukuk structures is essential to understand which models are most effective in addressing specific market conditions. Green sukuk, retail sukuk, and traditional asset-backed sukuk offer unique advantages and challenges, making it imperative to evaluate their performance across various contexts. For instance, green sukuk has been widely adopted in Malaysia and Indonesia to finance renewable energy projects, but its viability in regions with less awareness of ESG principles remains underexplored (Alam, 2020). Studies could assess the adaptability of green sukuk in such environments, focusing on factors like investor response, regulatory support, and project feasibility. Similarly, traditional asset-backed sukuk, which requires tangible assets, may face limitations in economies with underdeveloped infrastructure, necessitating alternative structures better suited to local needs.

Retail sukuk, in particular, warrants closer examination due to its potential to democratize investment. Research should explore how retail sukuk can be effectively implemented in countries with growing middle-class populations, such as Indonesia and Pakistan. For example, Indonesia's success with retail green sukuk highlights the importance of accessible investment platforms and investor education campaigns in driving participation (UNDP Indonesia, 2020). Comparative studies could analyze the scalability of such initiatives and their impact on financial inclusion. By identifying the strengths and weaknesses of different sukuk models, researchers can provide evidence-based guidance for issuers and policymakers to select the most suitable structures for their markets (Al-Suwaidi, 2024; Sugianto & Yuniarti, 2023).

Furthermore, the role of technology in enhancing retail sukuk adoption cannot be overlooked. Digital platforms and fintech solutions have emerged as critical enablers in broadening access to investment products, including sukuk. In countries with significant smartphone penetration, mobile applications can simplify the process of subscribing to retail sukuk, making it easier for middle-income earners to participate (UNDP Indonesia, 2020). Additionally, blockchain technology offers opportunities to improve transparency and reduce costs, which are often barriers to entry for retail investors (Al-Suwaidi, 2024). Future research should investigate how technological advancements can further streamline operations and expand the reach of retail sukuk. Hence, by examining case studies from countries successfully integrating technology into sukuk issuance, researchers can identify best practices and propose strategies to enhance efficiency and inclusivity in the sukuk market (Sugianto & Yuniarti, 2023).

### **The Impact of Investor Awareness Programs**

Limited investor awareness remains a critical barrier to sukuk adoption, making it essential to study the effectiveness of educational initiatives in increasing market participation. Awareness programs, such as roadshows, webinars, and digital campaigns, can play a pivotal role in familiarizing potential investors with sukuk's mechanisms and benefits. Empirical research could measure the impact of these initiatives by examining changes in investor behavior and demand following targeted campaigns. For example, Indonesia's retail sukuk program has demonstrated the value of public engagement efforts in attracting individual investors, particularly through online platforms and collaborations with financial institutions (Hidayat & Firmansyah, 2023).

Moreover, research could explore how the content and delivery of awareness programs influence their success. Programs tailored to specific demographics, such as young professionals or socially responsible investors, may yield better results than generic campaigns. Comparative studies across regions could also reveal cultural and contextual factors that affect program effectiveness. For instance, in predominantly Muslim countries, emphasizing Shariah compliance might resonate more strongly, while in non-Muslim-majority markets, highlighting sukuk's ethical and sustainable investment principles could be more impactful. These findings would enable stakeholders to design more effective strategies for promoting sukuk and expanding its investor base (Hassan & Kayed, 2019).

### **Exploring the Role of ESG in Sukuk Issuance**

The integration of Environmental, Social, and Governance (ESG) principles into sukuk issuance has the potential to revolutionize the market by attracting both Islamic and conventional investors. As sustainability becomes a central theme in global finance, green sukuk offers a Shariah-compliant means to fund projects that align with ESG goals. Research should focus on evaluating the financial performance and investor reception of ESG-linked sukuk, particularly in regions where sustainable investing is gaining traction (Alam, 2020). For instance, studies could compare the returns and risks associated with green sukuk versus conventional green bonds, providing valuable insights into their competitiveness.

Further exploration is needed to understand how ESG integration affects investor perceptions and decision-making. While green sukuk has been successful in Muslim-majority countries like Malaysia, its potential in attracting non-Muslim investors remains underexplored (Sugianto & Yuniarti, 2023). Research could examine the role of ESG certification standards, such as those provided by the Climate Bonds Initiative, in enhancing the credibility and appeal of green sukuk. Additionally, investigating the role of social impact sukuk—focused on education, healthcare, or affordable housing—could broaden the scope of ESG-linked sukuk. These studies would help identify best practices for incorporating ESG principles into sukuk issuance, enabling issuers to tap into new markets and investor bases (UNDP Indonesia, 2020).

In agreement to the above discussion, future research should focus on evaluating the long-term impact of ESG sukuk on both financial performance and sustainable development goals. Comparative studies across markets can shed light on the effectiveness of different ESG integration strategies and their influence on investor behavior. Additionally, the development of globally accepted standards for ESG sukuk issuance and reporting could play a pivotal role in ensuring transparency, fostering trust, and promoting widespread adoption.

### **CONCLUSION**

The global sukuk market holds significant untapped potential, particularly in emerging regions where institutional frameworks remain underdeveloped and awareness of Islamic finance is low. This paper introduced a conceptual framework grounded in Institutional Theory and the Resource-Based View (RBV) to identify and address gaps in sukuk issuance. By examining the interplay between institutional support, innovative sukuk structures, investor education, and technological integration, the framework provides actionable insights for fostering market growth and inclusivity in sukuk markets globally. One of the key findings is the importance of regulatory clarity and institutional support in driving sukuk market expansion. Clear and harmonized regulatory frameworks, alongside centralized Shariah governance standards, can reduce barriers for issuers and investors. Emerging markets with underdeveloped institutions can particularly benefit from tax incentives and strengthened governance mechanisms to enhance sukuk adoption. Addressing these institutional challenges is critical to unlocking the market potential in regions where sukuk remains underutilized.

Innovation in sukuk structures is another crucial factor in bridging market gaps. Green sukuk, which supports sustainable and environmentally friendly projects, and retail sukuk, which democratizes investment opportunities, are prime examples of how innovation can expand market reach. These structures not only align with global trends toward ethical and inclusive finance but also attract a diverse pool of investors, ranging from institutional players to retail participants. This ability to meet the evolving preferences of investors and issuers positions innovative sukuk as a key growth driver for the market.

Finally, investor education and technological advancements are strategic enablers for sukuk market



development. Improving awareness of sukuk's benefits through educational campaigns can foster demand in new markets, while fintech solutions like blockchain offer a pathway to enhance transparency, streamline processes, and reduce costs. Together, these elements form a cohesive strategy for addressing operational and awareness-related challenges, ensuring that sukuk markets evolve to meet the demands of a rapidly shifting global financial landscape.

### Implications for Future Research and Policy

The framework presented in this paper provides several avenues for future research and policy development. Empirical studies are needed to test the proposed conceptual framework in specific markets, particularly emerging economies. Researchers can examine how institutional factors, such as legal frameworks and regulatory clarity, influence sukuk issuance in diverse regions. Furthermore, a comparative analysis of the performance of different sukuk structures, such as green sukuk and retail sukuk, in various market conditions would provide valuable insights into their effectiveness in addressing market gaps.

Governments and policymakers also have a significant role in advancing the sukuk market. By introducing policies that encourage innovation in sukuk structures, providing regulatory clarity, and fostering investor education, they can unlock the full potential of sukuk as a tool for financing infrastructure, development projects, and sustainable growth. Financial institutions, on their part, should consider investing in technological solutions that will facilitate the seamless issuance and trading of sukuk across borders, as well as building awareness among investors through outreach programs.

### Final Thoughts

In conclusion, the sukuk market stands at a critical juncture where expansion opportunities abound, but several challenges must be addressed. The proposed framework offers a comprehensive approach to overcoming these challenges, emphasizing the need for a supportive regulatory environment, innovative sukuk structures, investor education, and technological integration. As the global demand for ethical and sustainable investment products continues to rise, sukuk has the potential to play a key role in meeting the financing needs of the real economy, especially in regions that have not yet fully harnessed its benefits. By addressing the gaps identified in this paper, stakeholders can ensure the growth and sustainability of sukuk markets, enabling them to better serve the diverse financial needs of both Islamic and non-Islamic investors.

This conceptual paper highlights the untapped potential of sukuk markets and provides a framework for identifying and addressing market gaps. By focusing on barriers and opportunities, the paper offers practical insights for stakeholders in the sukuk ecosystem. Future empirical research is encouraged to validate the proposed framework and contribute to the broader understanding of sukuk market development.

### REFERENCES

1. Ahmed, S., Muhammed, R., & Lee, J. (2021). Sukuk and infrastructure development: A review of global practices. *Journal of Islamic Finance*, 12(3), 45-60.
2. Alam, M. (2020). Green sukuk: A growing trend in Islamic finance. *International Journal of Islamic Finance*, 5(1), 33-50.
3. Alam, N. (2020). Sustainable investing: Shariah compliance and green sukuk. *Journal of Islamic Finance and Business Research*, 8(1), 15-30.
4. Ali, Q., Rusgianto, S., Parveen, S., Yaacob, H., & Zin, R. M. (2024). An empirical study of the effects of green Sukuk spur on economic growth, social development, and financial performance in Indonesia. *Environment, Development and Sustainability*, 26(8), 21097-21123.
5. Al-Suwaidi, F. A. M. (2024). A Study on Opportunities and Challenges of Promoting Sustainable Corporate Sukuk in Qatar (Master's thesis, Hamad Bin Khalifa University (Qatar)).
6. Awwad, B. S., Razia, B. S., & Razia, A. S. (2024). Challenges and obstacles to issuing Islamic Sukuk in Palestine: an analytical study of Islamic banks operating in Palestine. *Competitiveness Review: An International Business Journal*, 34(1), 163-178.
7. Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1),

99-120.

8. Hassan, R., & Kayed, R. (2019). Bridging the gap: Challenges in expanding sukuk issuance globally. *Islamic Economic Studies*, 27(2), 87-102.
9. Hassan, M. K., & Kayed, R. N. (2019). *Islamic finance: Principles, performance, and prospects*. Cambridge University Press.
10. Hidayat, S. E., & Firmansyah, I. (2023). Investment Behaviour in Retail Green Sukuk: Case of Indonesia. In *Proceedings of the 3rd International Conference on Islamic Economics and Financial Inclusion (ICIEFI 2022)*. Springer, Cham.
11. Jobst, A. A., Kunzel, P., Mills, P., & Sy, A. (2008). Islamic bond issuance: What sovereign debt managers need to know. International Monetary Fund.
12. Lahasna, A. (2013). Shariah governance in Islamic finance. IBFIM.
13. Najeeb, S. F., & Ibrahim, S. H. M. (2014). The implications of Shariah in sukuk structuring: Are we there yet?. *Journal of Islamic Accounting and Business Research*, 5(1), 77-89.
14. Mawardi, I., Widiastuti, T., & Al Mustofa, M. U. (2022). Constraints and strategies for municipal Sukuk issuance in Indonesia. *Journal of Islamic Accounting and Business Research*, 13(3), 464-485.
15. Mohamad, Z., Ahmad, N., & Ismail, S. (2022). Cost-benefit analysis of sukuk issuance: A comparative study. *Asian Journal of Finance*, 8(1), 34-48.
16. Nashwan, S. A., & Muneeza, A. (2023). Investment decisions in digital sukuk in the time of COVID-19: do tax incentives matter?. *Journal of Sustainable Finance & Investment*, 13(1), 589-613.
17. Rafay, A., Sadiq, R., & Ajmal, M. (2017). Uniform framework for Sukuk al-Ijarah—a proposed model for all madhahib. *Journal of Islamic Accounting and Business Research*, 8(4), 420-454.
18. Scott, W. R. (2014). *Institutions and organizations: Ideas, interests, and identities* (4th ed.). SAGE Publications.
19. Sugianto, S., & Yuniarti, E. (2023). The Role of Green Sukuk in Maqasid Al-Shariah and SDGs: Evidence from Indonesia. *Academia.edu*.
20. United Nations Development Programme (UNDP) Indonesia. (2020). Study on Indonesia's Retail Green Sukuk. Retrieved from <https://www.undp.org/indonesia/publications/study-indonesias-retail-green-sukuk>.
21. Ubaidillah, U., Masyhuri, M., & Wahyuni, N. (2021). Cash waqf linked sukuk (CWLS): An alternative instrument for infrastructure financing. *Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)*, 4(1), 35-49.
22. Usmani, T., Khan, A., & Raza, M. (2020). The role of Shariah governance in sukuk development. *Global Islamic Finance Review*, 9(4), 22-37.
23. Yilmaz, E. (2023). Analyzing investor types and marketing strategies for sukuk: insights from preference similarity theory and protection motivation theory. *Journal of Islamic Accounting and Business Research*.
24. Wilson, R. (2008). Innovation in the structuring of Islamic sukuk securities. *Humanomics*, 24(3), 170-181.
25. Zuhri, S., & Fadil, C. (2024). The Role of Sukuk in Infrastructure Development: A Systematic Review of Global Experiences and Lessons Learned. *Economics Studies and Banking Journal (DEMAND)*, 1(9), 265-279