

# Sukuk in Nigeria: Lessons from Global Islamic Finance Markets

**OALP** Capital Markets Newsletter

## INTRODUCTION

With the growing demand for ethical and Shariah-compliant financial instruments as alternatives to conventional finance, Sukuk has emerged as a critical tool for raising capital in line with Islamic legal principles. These instruments appeal not only to Shariah-conscious investors but also to a broader pool of ethical investors seeking asset-backed, socially responsible options. Sukuk, the plural of 'Sak', are widely referred to today as "Islamic bonds".

They are 'certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity'.<sup>1</sup>

Over the past decade, Sukuk markets have recorded global exponential growth, driven by both sovereign and corporate issuances in the Middle East, Southeast Asia, and increasingly, parts of Africa. In 2024 alone, sukuk issuances totalled nearly \$200 billion globally<sup>2</sup>, with expectations for continued expansion in 2025 and beyond.

Leading Islamic finance jurisdictions such as Malaysia, Indonesia, the UAE, and Saudi Arabia have evolved toward more dynamic and thematically aligned Sukuk products - including retail Sukuk, green Sukuk, and sustainability-linked instruments - supported by agile regulatory environments and policies that encourage market innovation.

With a Muslim population of over 50%, Nigeria has more persons of Islamic faith than the combined total in major Sukuk markets like Malaysia, Saudi Arabia, the UAE, Kuwait, and Qatar. This demographic advantage positions Nigeria

uniquely to capture growth in the Islamic finance sector. Yet, despite recent sovereign issuances and suite of regulatory reforms - most notably the Securities and Exchange Commission's dedicated Rules on Sukuk, the Central Bank of Nigeria's creation of the Financial Regulation Advisory Council of Experts (**FRACE**) together with its requirement that every non-interest financial institution constitute an in-house Advisory Committee of Experts (**ACE**), and the tailored listing and quotation guidelines adopted by both the Nigerian Exchange Limited and FMDQ Exchange - the Nigerian Sukuk market remains relatively conservative in both structure and scope.

To fully unlock its potential, Nigeria must move beyond baseline issuances and adopt a forward-looking approach that fosters the development and deployment of innovative, market-responsive Sukuk products.

This Newsletter explores recent developments and emerging trends in global Sukuk markets, with a particular focus on the constraints impeding the development of Sukuk issuances in Nigeria and regulatory reforms that may be adopted from other leading Islamic finance jurisdictions.

It examines the drivers of market innovation, highlights regulatory and legal landscape for regulation of Sukuks in Nigeria, and draws actionable insights from established markets such as Indonesia and Malaysia.

The goal is to demonstrate how Nigeria can reposition itself, not merely as a participant, but as a pacesetter in the global Islamic finance landscape by embracing regulatory reforms and fostering creativity in Sukuk issuances.

1. According to the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Shariah Standard No. 17.

2. S & P Global, "Sukuk Market: Strong Performance Set To Continue In 2025", <https://www.spglobal.com/ratings/en/research/articles/250113-sukuk-market-strong-performance-set-to-continue-in-2025-13377916> accessed 07 May, 2025.

## MARKET GROWTH IN THE GLOBAL SUKUK MARKET

The global Sukuk market has witnessed sustained growth over the past decade, driven by increased demand for ethical and Shariah-compliant investment instruments, rising infrastructure financing needs, and deliberate efforts by Islamic-majority nations to deepen their domestic capital markets. According to S&P Global, Sukuk issuances in 2024 totalled \$193.4 billion, a slight dip from \$197.8 billion in 2023. However, a notable development was the 29% increase in foreign currency-denominated sukuk, which reached \$72.7 billion by the end of 2024<sup>3</sup>. According to S & P Global, the main contributors to this increase were issuers from Malaysia, GCC countries<sup>4</sup> led by Saudi Arabia, and Indonesia. The firm also expects global sukuk issuance to reach about \$190 billion to \$200 billion in 2025, with foreign currency-denominated issuance contributing \$70 billion to \$80 billion<sup>5</sup>.

In Nigeria, sukuk has become an increasingly important component of the Islamic finance ecosystem. According to the 2024 State of Enterprise (SOE) Report, Nigeria's Islamic finance industry reached a valuation of ₦2.5 trillion in 2023, with sukuk accounting for the second-largest share at ₦1.09 trillion<sup>6</sup>.

**Across global and Nigerian markets, this growth trajectory has been shaped by several key forces:**

### Infrastructure Development and Sovereign Participation

Government participation has been a major driver of sukuk market expansion. In the Middle East and Southeast Asia, governments increasingly issue sukuk to finance large-scale public infrastructure projects. For example:

- I. Saudi Arabia's Vision 2030 has been a catalyst for repeated sovereign sukuk issuances, with increased appetite from domestic and international investors. In May 2024, Saudi Arabia successfully issued \$5 billion in triple-tranche Sukuk attracting strong investor interest<sup>7</sup>.
- II. Indonesia has consistently led in innovative sovereign sukuk offerings. In June 2021, it issued a landmark \$30 billion sukuk, including a green sukuk tranche touted as the world's first 30-year green sukuk<sup>8</sup>.

- III. The Islamic Development Bank (IsDB) issued what was then its biggest US dollar public issuance of \$2.5 billion Sustainability Sukuk.

In Nigeria, the Federal and State Governments Sukuk is fast becoming a prominent financing tool. Issuances by the Federal Government have surged from ₦612 billion in 2021, to ₦742 billion in 2022, and ₦1.09 trillion in 2023, reflecting growing confidence in sukuk as a credible infrastructure financing mechanism at both federal and sub-national levels<sup>9</sup>.

### Diversification of Investor Base

The investor base for Sukuk has broadened beyond traditional institutional and high-net worth individual Shariah-compliant investors, to include a growing retail segment. Malaysia exemplifies this trend, embedding Sukuk within retail Islamic mutual funds<sup>10</sup> and facilitating direct retail participation through platforms such as Bursa Malaysia's Exchange Traded Bonds and Sukuk (ETBS). Environmental, Social, and Governance (ESG) linked Sukuk have also opened the market to a new class of investors. This interest can be attributed to the fact that ESG principles align with the Islamic finance's ethical foundations. In 2024, the issuance of ESG sukuk grew by 14% year-on-year, to \$15.2 billion<sup>12</sup>.



3. S & P Global, "Sukuk Market: Strong Performance Set To Continue In 2025", accessed 07 May, 2025.

4. The Gulf Cooperation Council (GCC) is a regional intergovernmental union comprising six countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

5. Ibid.

6. The State of Enterprise 2024 Report, "Insights into Nigeria's Financial and Professional Services Sector", accessed 07 May, 2025

7. "Saudi Arabia issues \$5bn sukuk in triple-tranche deal amid strong investor demand", accessed 07 May, 2025

8. Indonesia's US\$3 billion Sukuk issuance features landmark green tranche < accessed April 29, 2025

9. The State of Enterprise 2024 Report, "Insights into Nigeria's Financial and Professional Services Sector", accessed April 29, 2025

10. "Retail Sukuk in Malaysia: The market's next growth catalyst?", accessed on 09 May, 2025.

11. Siew Suet Ming, "Retail Sukuk in Malaysia: The market's next growth catalyst?" accessed on 07 May 2025.

12. 'Why ESG sukuk has the wind in its sails'

## Innovation in Sukuk Structures

The introduction of new asset classes and structures in the design of Sukuk issuance has also contributed significantly to its growth in recent years. Thus, sukuk issuances such as green sukuk, sustainability sukuk, and ESG-linked sukuk have emerged. These types of sukuk even though sometimes used interchangeably, have distinct focuses<sup>13</sup>. Together, these instruments have widened the scope of instruments available to issuers and investors, allowing alignment with both Shariah and global sustainability standards. In 2024, it was reported that Sustainable sukuk accounted for about 25%-30% of the Middle East's sustainable issuances<sup>14</sup>.

These innovations are not only attracting non-traditional investors but also helps to support broader national and international sustainability goals.

## Regulatory and Institutional Support

Robust regulatory frameworks have been instrumental in building investor confidence and reducing legal uncertainty. For example, Malaysia's Securities Commission has developed specific frameworks and guidelines for retail Sukuk, enhancing market accessibility and governance<sup>15</sup>. Moreover, initially, Indonesia's Sukuk issuances were governed by existing conventional finance regulations<sup>16</sup>. However, they later introduced dedicated legislations and specifically enacted Law No.19 of 2008 concerning State Sharia Securities (SBSN), commonly referred to as the "Sukuk Law." Following this, Indonesia issued its first sovereign Sukuk in August 2008, utilizing the Ijarah structure<sup>17</sup>. While sovereign Sukuk had a clear regulatory path post-2008, corporate Sukuk lacked specific guidelines until the Financial Services Authority (OJK) issued Regulation No. 18/POJK.04/2015 on November 10, 2015<sup>18</sup>.

In addition, the role of standard-setting bodies such as the Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB) has also grown in importance, particularly as markets seek convergence on best practices. Recently, the AAOIFI held a couple of public hearings on Sharia Standard 62, to ensure sukuk issuances globally adhere more rigorously to core Islamic finance tenets and also designed to eliminate lingering ambiguities and practices that have, over time, blurred the lines between sukuk and conventional interest-based debt instruments<sup>19</sup>.

## Cross-Border Issuances and Globalization

Issuers are increasingly exploring cross-border sukuk to tap into deeper pools of capital and enhance liquidity. This is evident from the rise of dollar-denominated Sukuk which reached \$32.7 billion by June 30, 2024, up from \$26.4 billion a year earlier<sup>20</sup>. The rise of dollar-denominated sukuk, particularly from GCC countries, has made the instruments more accessible to global investors, while listing on platforms like Nasdaq Dubai, London Stock Exchange, and Bursa Malaysia enhances global visibility, liquidity, and investor reach.



## NIGERIA'S SUKUK LANDSCAPE: STATUS AND GAPS

Nigeria's Sukuk market, while showing steady growth, remains in a developmental phase characterized by a sovereign-heavy approach and limited private sector participation. Although regulatory frameworks exist and several successful issuances have been recorded, the broader ecosystem has yet to evolve into a diversified, innovation-driven market comparable to jurisdictions like Malaysia, Indonesia, and UAE.

## Sukuk Issuances in Nigeria

In 2013, Osun State Government made the first Sukuk issuance in Nigeria for the construction of schools across Osun State, following which the Federal Government of Nigeria issued its first Sovereign Sukuk in September 2017, raising ₦100 billion through a seven-year instrument to fund road infrastructure projects across the country. While some State governments in Nigeria have explored Sukuk issuances, participation has been limited, with only a few states taking part. These issuances have been well received by both domestic and foreign investors, largely due to government guarantees, tax incentives, and the use of proceeds for visible infrastructure development such as road construction.

13. Green sukuk fund eco-friendly projects, sustainability sukuk support both environmental and social initiatives, while ESG-linked sukuk are tied to meeting specific ESG performance targets rather than particular projects 'S&P Global forecasts a strong 2025 for sukuk issuances', accessed on 08 May 2025

14. Siew Suet Ming, 'Retail Sukuk in Malaysia: The market's next growth catalyst?' accessed on 07 May 2025.

15. Ghezal, M., Hassan, R., & Lahsasna, A. (2022). Legal and regulatory approaches in sukuk issuance: A comparative analysis. *UUM Journal of Legal Studies*, 13(1), 249-281. at page 257.

16. A Discussion Paper prepared by the he Macroeconomics and Fiscal

Management (MFM) Global Practice of the World Bank titled 'Establishing a Legal Framework for Sovereign Sukuk Issuance: A Public Debt Management Perspective', accessed on 06 May 2025.

17. Ghezal, M., Hassan, R., & Lahsasna, A. (2022). Legal and regulatory approaches in sukuk issuance: A comparative analysis. *UUM Journal of Legal Studies*, 13(1), 249-281.

18. "What is the Likely Impact of AAOIFI's Standard 62 on the Sukuk Market?," accessed on April 30, 2025

19. "Sukuk Market: [The Calm Before The Storm?](#)", accessed on 08 May 2025.

20. [Nigeria's First Sovereign Sukuk: A Road is Made](#)

## Market Challenges and Structural Constraints

Despite the global rise of Sukuk as a viable alternative to conventional bonds, significant structural and operational challenges continue to constrain broader adoption, particularly in emerging markets like Nigeria. Addressing these challenges is essential for unlocking the full potential of Sukuk and positioning Nigeria as a competitive player in the global Islamic finance ecosystem.

This section highlights some of the key constraints limiting the growth of the Nigerian Sukuk market and how these challenges may be overcome towards having well developed and dynamic Islamic finance products.

### Regulatory Hurdles

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Although, there appears to be robust regulatory framework for Sukuk issuances in Nigeria, Nigeria's Sukuk market is still maturing, and its development has been influenced by various regulatory bodies. The Securities and Exchange Commission (**SEC**), Financial Markets Dealers Quotation (**FMDQ**) and Nigerian Exchange Limited (**NGX**) play significant roles in shaping the legal framework for Sukuk issuance in Nigeria. The SEC, as the apex capital market regulator, oversees issuances to ensure compliance with regulatory standards and Islamic finance principles, while NGX and FMDQ provide listing and trading platforms to enhance liquidity and transparency.

In addition to these, each licensed non-interest financial institution in Nigeria is required to establish an **ACE** to review and certify the compliance of its products with Shariah principles. At the national level, the **FRACE**, provides overarching guidance on Shariah matters and harmonizes interpretations across the financial system. Furthermore, Nigerian Sukuk issuances are benchmarked against global Islamic finance standards developed by bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (**AAOIFI**) and the Islamic Financial Services Board (**IFSB**), which serve as additional layers of assurance on compliance with Islamic principles.

Despite these frameworks, regulatory fragmentation and a lack of tailored legislations, especially for corporate, retail Sukuk remain barriers. Regulatory clarity and streamlined guidelines are necessary to enhance private sector confidence and unlock a more dynamic market.

Even though there are shariah governance frameworks as discussed above in relation to the requirement for establishment of the ACE by licensed non-interest financial institution and the supervisory role of the FRACE in providing guidance on Shariah matters and harmonization of

interpretations of Islamic principles across the financial system; however, the scope of ACE and FRACE's mandates are largely limited to non-interest financial institutions under the CBN's purview, while Sukuk issuances fall primarily under the authority of the SEC. With the absence of a centralized national Shariah advisory body, the split results in regulatory silos and a lack of standardization in sharia governance which leads to inconsistent interpretations across issuers. By contrast, Malaysia's success lies in its integrated regulatory framework. Both the Central Bank of Malaysia (Bank Negara Malaysia) and the Securities Commission Malaysia (SC) operate under the overarching authority of a single centralized Shariah Advisory Council (SAC), which is recognized in law as the final arbiter on Shariah matters across the financial system. This uniformity ensures synergy between oversight bodies, reduces regulatory and interpretive uncertainty, and boosts investor confidence in the consistency of Shariah rulings.

### Knowledge Gaps

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Limited understanding of Sukuk structures and Islamic finance principles among stakeholders remains a major barrier. This underscores the need for targeted capacity building and education initiatives to expand investor participation.

### Structuring Complexity

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Sukuk issuance involves complex legal, financial, and Shariah-compliant structuring: such as identifying underlying assets, creating special purpose vehicles (SPVs), and ensuring Shariah alignment. These intricacies increase costs, lengthen timelines, and require specialized expertise, deterring potential issuers.

### Increased Cost of Issuance

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Compared to conventional bonds, Sukuk issuance is costlier due to specialized legal documentation, asset transfers, and ongoing Shariah oversight. These factors reduce competitiveness and discourage issuers.

### Limited Retail Accessibility

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Sukuk products in Nigeria are largely designed for institutional investors, leaving retail participation minimal. High entry thresholds, complex documentation, and limited distribution channels restrict broader financial inclusion. Other markets, like Malaysia, have addressed this by adopting fintech solutions and retail-friendly models.

## CONCLUSION

As demonstrated above, Nigeria's Sukuk market - while showing early promise through sovereign issuances - remains constrained by regulatory fragmentation, limited product diversity, high issuance costs, and low retail participation.

These structural and market inefficiencies, if unaddressed, risk entrenching stagnation in a global context where jurisdictions like Malaysia, Indonesia, Saudi Arabia, and the UAE are rapidly innovating and expanding.

The examples from these markets illustrate that clear, coordinated regulatory frameworks, centralized Shariah oversight, targeted capacity development, and deliberate inclusion of retail and ESG-linked instruments are critical enablers of a vibrant Sukuk ecosystem.

For Nigeria to emerge as a credible player in the global Islamic finance landscape, it must commit to similar regulatory reforms and foster an environment that enables the development and issuance of contemporary, market-driven Islamic financial products.

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