

**GOVERNMENT OF PAKISTAN
FINANCE DIVISION
DEBT MANAGEMENT OFFICE**

Press Release

Islamabad, Pakistan— The Government of Pakistan is proud to announce a major milestone in the nation's sustainable finance journey with the launch of its first Green Sukuk. This pioneering financial instrument is set to revolutionize Pakistan's sukuk market by channeling investments into environmentally sustainable projects while fostering economic growth.

The Green Sukuk marks a pivotal step in aligning Pakistan's financial markets with global best practices in green financing. The inaugural issuance, ranging between PKR 20 billion and PKR 30 billion, will be conducted through an auction process, with the Pakistan Stock Exchange (PSX) playing a central role in listing and promoting this innovative instrument to investors. The Green Sukuk Program has been structured with the support of the Joint Financial Advisors: Meezan Bank Limited, Bank Alfalah Limited, Dubai Islamic Bank Pakistan Limited, and Bank Islami Pakistan Limited.

The Sustainable Investment Sukuk Framework, approved by the Cabinet, lays the foundation for the landmark debut of the Green Sukuk. This initiative is closely aligned with Pakistan's Vision 2028, particularly its goal of transitioning to an interest-free economy. It reflects the government's strong commitment to leveraging financial markets in support of sustainable development.

The Green Sukuk is a beacon of innovation and a testament to our unwavering commitment to fostering sustainable development and reducing our environmental impact. The Green Sukuk offers investors a unique opportunity to support environmentally friendly projects while promoting economic growth.

This is a historic step toward integrating sustainable finance into the core of Pakistan's development strategy. The Green Sukuk will attract a broader investor base, deepen our financial markets, and accelerate the country's transition to a green and resilient economy.

SUSTAINABLE INVESTMENT SUKUK
FRAMEWORK
for
Domestic Government Securities

2025

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Introduction

As Pakistan grapples with pressing social and environmental challenges, the need for robust development of green, social, and sustainable projects has never been more critical than now. Rapid urbanization, population growth, and the adverse effects of climate change have created a pressing demand for initiatives that address not only environmental sustainability but also social equity and economic resilience. In this context, the issuance of **Green Sukuk, Social Sukuk and Sustainability Sukuk** collectively known as **Sustainable Investment Sukuk (SI Sukuk)** offers a unique and viable financing mechanism that aligns with Islamic finance principles while mobilizing necessary capital for impactful projects. By establishing a Sustainable Investment Sukuk Framework ("**The Framework**"), the government can attract both domestic and international investors, facilitating the funding of projects that promote renewable energy, improve public health, and enhance infrastructure in underserved communities. This strategic alignment of financial instruments with sustainable development goals not only fosters economic growth but also contributes to the well-being of the nation's citizens. Therefore, integrating Sukuk into Pakistan's financing strategy is essential for advancing a holistic approach to sustainable development, ensuring that economic progress goes hand in hand with social and environmental responsibility.

Concept and Objectives of Sukuk

Sukuk is the plural of the Arabic word "Sak," which means certificates. Sukuk are common Shariah-compliant instruments used for raising funds for budgetary and project financing. They adhere to Islamic Shariah law, which prohibits interest, uncertainty, gambling, short selling, and unethical business activities and generates halal/permissible returns for investors.

Available Regulatory Framework for Sukuk Issuance

Pakistan's existing regulatory environment provides a foundation for issuing SI Sukuk with the GOP actively working to enhance its Domestic Green and Sustainable Finance portfolio. Government of Pakistan Ijara Sukuk Rules, 2008 serve as a regulatory guideline for sukuk issuance that allows for flexible asset selection under a Shariah compliant structure. The Asset Light Sukuk (ALS) Framework¹ of Government of Pakistan can also be used as a reference guide for use of Asset Light Shariah Structures for issuance of Sukuk. The GOP also recognizes the importance of diversifying funding sources for sustainable infrastructure projects. Also, as part of climate budget tagging of public investment projects and the Medium-Term Fiscal Framework (MTFF), the

¹https://www.finance.gov.pk/dpco/GoP_Asset_Light_Structure_Framework.pdf

government will determine the short to medium-term borrowing requirements under the Medium-Term Debt Management Strategy (MTDS) and allocation of proceeds from SI Sukuk issuances.

Government of Pakistan's Sustainable Investment Sukuk Framework

The government of Pakistan has developed 'Sustainable Investment Sukuk Framework for Domestic Government Securities' (the Framework) under which it plans to issue a series of SI Sukuk including **Green Sukuk**, **Social Sukuk**, and **Sustainability Sukuk** to fund its green, social, environmentally friendly and sustainable projects/ initiatives, which are in line with the National Adaptation Plan, National Climate Change Policy, Nationally Determined Contributions and National climate Finance Strategy of Government of Pakistan.

Proceeds under SI sukuk will be used to finance or re-finance (up to a certain extent under specific conditions) the expenditure directly related to "Eligible Green, Sustainable and Social Projects".

Possible Shariah Structures of SI Sukuk

SI Sukuk leverages the inherent asset-backed nature of Sukuk and will enable the financing of tangible projects with measurable Sustainable Development Goals (SDGs) and Environmental, Social, and Governance (ESGs) impact. Several structures can be used for SI Sukuk in line with the Government of Pakistan Ijara Sukuk Rules, 2008.

Depending on the underlying shariah mode adopted for the structuring of the sukuk, the underlying assets (which have been used for sukuk structuring), do not necessarily need to be from a Green, Sustainable, Social project. However, it needs to be ensured for all SI Sukuk, the funds raised through Sukuk are utilized directly or through refinance in the identified Eligible Green, Sustainable or Social projects.

Eligible Assets

The proceeds raised against the SI Sukuk have to be utilized for funding or refinancing of Green, Sustainable, and Social projects falling within the following broad categories. These categories are not exhaustive and SI Sukuk may also be issued for utilization on projects falling outside these categories provided the same has been approved by the **Project Evaluation and Selection Committee** on the basis of assessed environmental benefits and the objective of this Framework.

Green Projects for Green Sukuk and Sustainable Sukuk

Renewable Energy:

- Solar, wind, hydroelectric, and biomass energy projects that significantly reduce carbon emissions.
- Projects that enhance energy storage capabilities and grid integration.

Energy Efficiency:

- Upgrading infrastructure in industrial, commercial, and residential sectors to reduce energy consumption.
- Initiatives promoting energy-efficient technologies and practices.

Pollution Prevention and Control:

- Projects aimed at reducing waste and emissions, including air and water quality improvement initiatives.
- Cleaner Transport Solutions aimed at reducing carbon emissions and use of fossil fuels.
- Development of technologies for waste management and recycling.

Sustainable Water and Wastewater Management:

- Investments in water conservation, treatment facilities, and efficient irrigation systems.
- Projects focused on improving access to clean water and sanitation.

Biodiversity Conservation:

- Initiatives aimed at protecting ecosystems, wildlife habitats, and endangered species.
- Projects supporting reforestation and sustainable land use practices.

Climate Change Adaptation:

- Infrastructure projects designed to enhance resilience to climate impacts, such as flood defenses and drought-resistant agriculture.

Sustainable Management of Living Natural Resources and Land use:

- Initiative aimed at environmentally sustainable agriculture, environmentally sustainable animal husbandry etc.
- Projects supporting use of climate smart farm inputs such as biological crop protection or drip irrigation.

Clean Transportation:

- Projects aimed at development of infrastructure for clean energy vehicles (including electric, hybrid and public transport) and reduction of harmful emissions.

Green Buildings:

- Project aimed at development of green buildings that meet regional, national or internationally recognized standards or certifications for environmental performance.

Climate-Resilient and Low-Carbon Infrastructure:

- Climate-resilient urban infrastructure
- Circular economy initiatives
- Carbon emission reduction projects

Projects for Social Sukuk

Affordable Housing and Infrastructure:

- Development of low-cost housing solutions and essential infrastructure such as roads and schools in underserved areas.

Access to Essential Services:

- Quality healthcare and education projects that improve access for marginalized communities in order to achieve the common objective of SDGs.

Food Security Programs:

- Initiatives that enhance agricultural productivity and improve food distribution networks.

Socioeconomic Empowerment:

- Programs aimed at uplifting marginalized populations, including vocational training and access to financial services.

Employment Generation:

- Programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, climate transition projects, and/or other considerations for a “just transition” (such provision and/or promotion could include Shariah-compliant SME financing and microfinance);

The Government of Pakistan may include additional green and/or social/sustainable investing eligible categories from time to time.

Intended objectives of Green/ Social/ Sustainable Project

The following is the list of broad objectives that could be driven from the selected green/ social/ sustainable project identified for the issuance of SI Sukuk. The Project Evaluation Committee may quantify the assessed objectives (where feasible) for the project selection process. These objectives are not exhaustive and can further be elaborated, amended, and updated from time to time by the Project Evaluation Committee at the time of selection of any eligible project.

- i. Mitigation
- ii. Adaptations

- iii. Improving energy efficiency in industrial processes, buildings, transport etc.
- iv. Promoting renewable energy projects
- v. Environmentally sustainable management of natural resources and land use
- vi. Pollution prevention and control
- vii. Climate Smart Agriculture
- viii. Sustainable Water Security
- ix. Green Growth Programs including Green Businesses, Green Technologies, Decarbonization of value chains
- x. Terrestrial and aquatic biodiversity conservation
- xi. Sustainable land use and forestry
- xii. Disaster risk management reduction and response
- xiii. Low carbon transport and mass transit assets
- xiv. Access to essential services
- xv. Access to affordable infrastructure

Project Evaluation and Selection Process

- i. The Planning Commission of Pakistan shall propose the potential green/ sustainable/ social project intended to be financed through SI Sukuk. The proposed project must fulfill the following criteria:
 - a. The Project should fall within the broad categories of green/ sustainable/ social Projects as identified in the Framework.
 - b. The potential benefits to be driven from the project should also be aligned with The Framework.
 - c. The project completion timeline should be within the tenor of the applicable Sukuk.
 - d. The outstanding funding requirement (net off any internal or external financing already taken), of the project should be at least equal to or higher than the proposed sukuk issuance value.
 - e. In case there is no outstanding funding requirement for the project, but GOP intends to refinance the project by settling the currently availed funding from any other internal or external creditor.
- ii. The proposed projects will be evaluated and selected by a joint committee, referred to as the "**Project Evaluation and Selection Committee**" This committee will comprise of Ministry of Finance, Debt Management Office, Budget Wing of Finance Division, Ministry

of Planning, Development and Special Initiatives, Ministry of Climate Change & Environmental Coordination, Ministry of Economic Affairs, and State Bank of Pakistan. Each ministry will nominate its respective members to the committee.

- iii. The **Project Evaluation and Selection Committee** would evaluate the proposed projects in accordance with its approved Terms of Reference. The committee may develop internal criteria and quantify the assessed benefits of the proposed projects for the purpose of project evaluation.

Management and Utilization of Proceeds

Tracking and Allocation:

- i. Under the supervision of the Ministry of Finance (MOF), the funds raised against the sukuk will be tracked in an appropriate manner.
- ii. In case the funds are to be transferred to a profit-bearing account of a commercial bank then it needs to be ensured that it is maintained with either an Islamic bank or Islamic window of a conventional bank.
- iii. Funds will be released for utilization on the selected projects upon written recommendation from the Ministry of Planning, Development & Special Initiatives, with formal intimation to the Ministry of Finance.
- iv. The Funds would be utilized in a Shariah Compliant manner and it would be ensured that the funds are not utilized for any activity and service that is contrary to the Shariah guidelines.
- v. The Ministry of Planning, Development & Special Initiatives shall establish a comprehensive tracking system to monitor fund allocation and ensure transparent and efficient utilization across the selected projects.

Utilization Guidelines / Eligible Expenditures

Eligible Expenditures may include

- i. Investment expenditures directly related to the identified Green/ Sustainable/ Social Projects
- ii. Operating expenditures directly associated with the identified Green/ Sustainable/ Social Projects
- iii. Fiscal expenditures directly associated with identified Green/ Sustainable/ Social Projects
- iv. Intangible assets (research and innovation)
- v. Refinancing of existing loan/debt on the identified Green/ Sustainable/ Social project.*
- vi. Any other utilization under approved project (s)

*In the case of Refinancing, proper disclosure needs to be provided with respect to what percentage of the Sukuk proceeds would be utilized for refinancing of the green/ sustainable/ social project. Proceeds obtained from the SI Sukuk issue can be allocated to the eligible projects on a per-issue basis (i.e. for a single sukuk issue) or be aggregated for multiple SI Sukuk issues (portfolio approach).

External Review

Ministry of Finance may (if required) engage an independent third party as per the agreed terms of engagement approved by the Project Evaluation and Selection Committee, to provide assurance on its annual SI Sukuk and the compliance of each SI Sukuk issued with this Framework.

Reporting of SI Sukuk

MOF will prepare and publish SI Sukuk report (the "Report") annually and initially on the date falling no more than one year after the inaugural SI Sukuk issuance in coordination with the Ministry of Planning, Development, and Special Initiatives. The Report will contain at least:

- i. A list and brief description of the projects to which SI Sukuk proceeds have been allocated;
- ii. The amount of SI Sukuk proceeds allocated to such projects.
- iii. Details of the unutilized amount and their current placement.
- iv. Expected date by which 100% proceeds would be utilized.
- v. The impact reporting on the expected beneficial impacts of the eligible Projects will be provided and will be made available on at least an annual basis, subject to the availability of the relevant data.
- vi. The External Reviewer's Assurance Report (if any).

The Report will be published on the official website of the Ministry of Finance and Pakistan Stock Exchange.

Amendments to the Framework

The Committee will review this Framework on a regular basis and such review may result in this Framework being updated and amended. The updates, if not minor or technical in nature, will be subject to the prior approval of the Ministry of Finance, in addition to that of the Ministry of Planning, Development, and Special Initiatives.