

Sovereign Sukuk for Inclusive Debt Reform: A Comparison with IMF and World Bank Financing

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Abstract

The sovereign debt architecture built around the International Monetary Fund (IMF), the World Bank and interest-bearing market debt offers developing countries few inclusive alternatives. This article asks whether sovereign sukuk can function as a sovereign debt reform mechanism, rather than only as an Islamic finance instrument, and under what conditions. The study uses a qualitative comparative design. It combines systematic document analysis of official, market and peer-reviewed sources (2002–2025), a structured, focused comparison of sovereign sukuk with IMF and World Bank instruments across six theoretically derived dimensions scored with an explicit rubric, and a diverse-case analysis of eight sovereign sukuk transactions issued between 2014 and 2023. Sovereign sukuk outperform multilateral lending on policy autonomy and creditor-base diversification, and they can be priced competitively even by sub-investment-grade issuers. They do not, however, reduce debt vulnerability in their dominant form: asset-based *ijarah* and *wakalah* sukuk with par purchase undertakings replicate the payoff of conventional bonds, are pro-cyclical in market access and lack a tested sovereign restructuring regime. The reform potential of sukuk is therefore conditional rather than intrinsic. It rises along a risk-sharing continuum, from asset-based to asset-backed, project-linked and state-contingent structures, and depends on enabling legal infrastructure, Shariah-standard convergence and multilateral credit enhancement. The article formalises these results as four reform channels and five testable propositions. The article reconceptualises sovereign sukuk as a debt-architecture instrument whose risk-sharing features connect them to the state-contingent debt agenda. It offers a replicable evaluation framework and specifies when sukuk complement, and when they cannot replace, official crisis finance. The findings are analytical and document-based; the propositions are designed for subsequent econometric and comparative testing.

Keywords: Sovereign sukuk; sovereign debt architecture; IMF conditionality; World Bank; risk sharing; state-contingent debt; debt sustainability; Islamic finance

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1. Introduction

Sovereign debt has again become a binding constraint on development. In 2023 low- and middle-income countries (LMICs) paid a record USD 1.4 trillion to service their external debt; interest payments rose by nearly one-third to USD 406 billion, a twenty-year high, and the external debt stock reached USD 8.8 trillion (World Bank, 2024a; 2024b). The burden is heaviest for the poorest borrowers. Interest paid by countries eligible for the International Development Association (IDA) reached an all-time high of USD 34.6 billion, four times its level a decade earlier, and averaged nearly 6% of export earnings, the highest share since 1999 (World Bank, 2024b). UNCTAD (2024) reports that 54 developing countries devoted 10% or more of government revenue to net interest payments in 2023, and that 3.3 billion people live in countries that spend more on interest than on either health or education. As of September 2025, 33 of the 67 Poverty Reduction and Growth Trust (PRGT) eligible low-income countries with a published debt sustainability analysis were assessed by the IMF as either in debt distress or at high risk of it (IMF, 2025).

The institutional response to this pressure remains anchored in the Bretton Woods settlement. The IMF provides balance-of-payments finance conditional on policy adjustment. The World Bank provides project and development-policy lending, and since 2022 multilateral lenders have become what the Bank's own chief economist calls the "last lifeline" for poor economies: they disbursed nearly USD 51 billion more than they collected in debt service in 2022–2023, while private creditors took out nearly USD 13 billion more than they lent to public borrowers in IDA countries (World Bank, 2024b). This counter-cyclical role is valuable, but it is bought at a price. A large body of research documents how IMF conditionality narrows the policy space of borrowing governments (Babb & Carruthers, 2008; Kentikelenis et al., 2016) and is associated with lower health spending (Stubbs et al., 2017) and higher income inequality (Forster et al., 2019). Of 26 IMF programmes approved in 2016–2017, 23 were conditional on fiscal consolidation (Brunswijck, 2018). Debt-resolution mechanisms such as the G20 Common Framework have been slow and complex. Zambia, its first test case, took about four years to restructure (Chen & Hart, 2025), echoing earlier diagnoses that sovereign debt crises are resolved "too little, too late" (Guzman et al., 2016).

These pressures have produced calls to reform the international financial architecture. The United Nations Secretary-General has proposed changes to multilateral governance, lending capacity and debt workouts (United Nations, 2023), and scholars have made the case for a "new Bretton Woods" (Gallagher and Kozul-Wright, 2022). Yet the reform debate has concentrated on adjusting existing institutions: more concessional lending, better restructuring coordination and climate-resilient debt clauses. It has paid less attention to alternative *instrument architectures* that change who lends to sovereigns, on what terms and with what distribution of risk. This is the research gap the article addresses: **the existing sovereign debt architecture lacks inclusive alternatives**, meaning instruments that widen the creditor base beyond the official sector and conventional bondholders, preserve the policy autonomy of borrowers and allocate risk more equitably between debtor and creditor.

Sovereign sukuk are an obvious but under-theorised candidate. Sukuk are certificates representing undivided ownership shares in tangible assets, usufructs, services or the assets of specific projects (AAOIFI, 2017). The market is now systemically relevant. S&P Global (2025) records USD 193.4 billion of issuance in 2024, and the International Islamic Financial Market reports USD 902.8 billion outstanding by end-2024 (IIFM, 2025). Sovereign issuers now include not only Gulf and Southeast Asian states but also the United Kingdom, Hong

Kong, Nigeria, Egypt and the Philippines. However, the academic literature has mostly studied sukuk within Islamic finance. It examines their Shariah structure (Wilson, 2008; El-Gamal, 2006), their market determinants (Smaoui and Khawaja, 2017; Nagano, 2016), issuer choice (Azmat et al., 2014; Klein and Weill, 2016) and stock-market reactions (Godlewski et al., 2013, 2016). A bibliometric review of the field identifies three dominant streams, namely sukuk overview and growth, finance theory and stock-market behaviour (Paltrinieri et al., 2023). None of them treats sukuk as an object of sovereign debt architecture. Conversely, the sovereign debt literature (Panizza et al., 2009; Reinhart and Trebesch, 2016; Buchheit et al., 2019) has hardly engaged with Islamic finance. The partial exceptions are proposals for GDP-linked sukuk (Diaw et al., 2014) and political-economy accounts of sukuk diffusion (Lai et al., 2017; Rethel, 2011).

This article bridges the two literatures. It makes three contributions. First, conceptually, it reframes sovereign sukuk from a faith-based product into a *debt-architecture instrument*, and it identifies four channels through which sukuk could contribute to reform: creditor-base diversification, policy autonomy, asset-linkage discipline and counter-cyclical risk sharing. Second, methodologically, it offers a transparent, replicable framework for comparing heterogeneous sovereign financing instruments that are usually discussed in isolation. Third, analytically, it shows that the reform potential of sukuk is *conditional*. The dominant asset-based sukuk structures deliver the first two channels but not the last two. Realising the full potential requires moving along a risk-sharing continuum and building specific enabling institutions. The analysis is condensed into five propositions that can be tested empirically.

The remainder of the article is organised as follows. Section 2 states the problem and the research objectives. Section 3 reviews the literature and develops the theoretical framework. Section 4 sets out the methodology. Section 5 presents the market and institutional context. Section 6 reports the structured comparison and the case analysis. Section 7 develops the analytical findings and propositions. Section 8 discusses policy implications, and Section 9 concludes.

2. Problem Statement, Research Questions and Objectives

2.1. Problem statement

The problem has three linked parts. The first is *institutional dominance*. Crisis and development finance for developing countries is concentrated in two institutions whose governance gives borrowing countries limited voice (Woods, 2006). Their lending is tied to policy conditions that borrowers often experience as externally imposed (Kentikelenis et al., 2016; Stiglitz, 2002). The IMF's own 2018 conditionality review acknowledges the political sensitivity of structural conditions and the importance of programme ownership (IMF, 2019). The second is *debt-sustainability fragility*. The prevailing instrument mix of fixed-obligation debt owed to official and private creditors places all macroeconomic risk on the borrower. Debt-service obligations do not adjust when growth, commodity prices or climate shocks turn adverse, and this is a central mechanism behind recurrent waves of debt distress (Kose et al., 2021; Reinhart and Rogoff, 2009). The IMF has itself recognised the theoretical case for state-contingent debt instruments that share such risk with creditors (IMF, 2017; Borensztein and Mauro, 2004). The scale of unmet need sharpens all three: UNCTAD (2023) estimates that the annual SDG investment gap in developing countries has widened from USD 2.5 trillion in 2015 to about USD 4 trillion. The third is *exclusion from capital pools*. Sovereigns that issue only conventional debt cannot reach the investors who are required, or who prefer,

to hold Shariah-compliant assets. The Islamic financial services industry held USD 3.38 trillion in assets in 2023 (IFSB, 2024), so this is not a niche pool. It also includes domestic retail savers in Muslim-majority countries who are otherwise excluded from public finance. Sovereign sukuk appear to answer all three parts of the problem, but whether they actually do is an open and contested question. Critics argue that most sukuk replicate the economics of conventional bonds through purchase undertakings and asset-based rather than asset-backed structures and so offer "form over substance" (El-Gamal, 2006; Godlewski et al., 2013). If that is true, sukuk diversify the creditor base without changing the distribution of risk. The proposed AAOIFI Shariah Standard 62, which would require effective transfer of asset ownership to sukuk holders, has made this question a live policy issue (S&P Global, 2024b).

2.2. Research questions

The study is guided by one overarching question: *Under what conditions can sovereign sukuk function as a mechanism of inclusive sovereign debt reform, and how do they compare with IMF and World Bank financing?* It is broken down into four sub-questions:

- RQ1. Through which mechanisms could sovereign sukuk alter the creditor composition, policy conditionality and risk allocation of sovereign borrowing?
- RQ2. How do sovereign sukuk perform relative to IMF and World Bank instruments on policy autonomy, creditor inclusiveness, cost and tenor, crisis availability, debt-sustainability properties and developmental alignment?
- RQ3. What does the recent experience of sovereign sukuk issuers across different credit, religious and regional profiles reveal about these mechanisms in practice?
- RQ4. Which institutional conditions determine whether the reform potential of sukuk is realised?

2.3. Research objectives

Corresponding to these questions, the study pursues five objectives (Table 1):

- RO1. To develop a theoretical framework that conceptualises sovereign sukuk as a sovereign debt-architecture instrument and specifies its reform channels.
- RO2. To construct and apply a transparent, multi-dimensional framework for evaluating sovereign sukuk against IMF and World Bank financing.
- RO3. To analyse a diverse set of sovereign sukuk transactions and identify which reform channels operate in practice.
- RO4. To identify the legal, Shariah-governance, market and multilateral conditions under which sukuk can complement official finance, and those under which they cannot.
- RO5. To derive testable propositions and policy recommendations for sovereign issuers, multilateral institutions and standard-setters.

Table 1: Alignment of research questions, objectives, methods and sections

Question	Objective	Method / evidence	Section
RQ1	RO1	Theory synthesis (sovereign debt, conditionality, risk sharing, state-contingent debt)	3, 7.1
RQ2	RO2	Structured, focused comparison; rubric-based assessment	4.3, 6.1
RQ3	RO3	Diverse-case analysis of eight sovereign sukuk (2014–2023)	4.4, 6.2

Question	Objective	Method / evidence	Section
RQ4	RO4	Cross-case synthesis; negative-case search (defaults, costly issuance)	6.3, 7.2
—	RO5	Analytical generalisation into propositions; policy analysis	7.3, 8

3. Literature Review and Theoretical Framework

3.1. The sovereign debt architecture and its critics

Because sovereign debt cannot be enforced through domestic bankruptcy courts, its sustainability depends on market discipline, reputation, domestic default costs and institutional arrangements for crisis resolution (Panizza et al., 2009). In the post-war architecture the IMF performs three functions: it acts as a quasi-lender of last resort, certifies policy credibility and coordinates creditors. Its role has been repeatedly "reinvented" with changes in the nature of capital flows (Reinhart and Trebesch, 2016). Repeated debt crises, from the Latin American 1980s through the Heavily Indebted Poor Countries (HIPC) initiative to the post-COVID distress cycle, show that the architecture tends to defer rather than resolve insolvency (Easterly, 2002; Guzman et al., 2016). Analyses of four decades of restructurings show that delayed, insufficient debt relief carries large economic costs (Buchheit et al., 2019). The G20 Common Framework, intended to fix coordination failures, has produced long negotiations and disputes over comparability of treatment (Chen and Hart, 2025).

A second strand concerns conditionality. Babb and Carruthers (2008) trace how conditionality evolved from a technical repayment safeguard into a broad instrument of policy reform. Using a dataset of IMF conditions from 1985 to 2014, Kentikelenis et al. (2016) show that the number of structural conditions rebounded after the reforms of the 2000s. Their analysis demonstrates a persistent narrowing of borrowers' "development policy space". Effects on outcomes are also documented. Programmes are associated with weaker growth when compliance is high (Dreher, 2006), reduced government health expenditure in West Africa (Stubbs et al., 2017) and higher income inequality (Forster et al., 2019). Civil-society monitoring reports similar patterns (Brunswijck, 2018; Bretton Woods Project, 2019). These findings are not uncontested, and the IMF argues that conditionality protects both borrowers and the Fund's resources (IMF, 2019). Still, they establish *conditionality cost* as a legitimate dimension of comparison between financing sources.

3.2 Risk sharing and state-contingent debt

A third strand asks whether sovereign debt contracts allocate risk efficiently. Standard debt contracts fix the debtor's obligations regardless of the state of the world. Borensztein and Mauro (2004) argue that GDP-indexed bonds would stabilise debt ratios and reduce default probabilities by making debt service fall in bad times. After a period of scepticism, the IMF (2017) concluded that state-contingent debt instruments (SCDIs) offer real benefits but face obstacles of novelty premia, data integrity, liquidity and investor familiarity. The theory of Islamic finance arrives at a closely related prescription from different premises. By prohibiting *riba* (predetermined return on money) and *gharar* (excessive contractual uncertainty), it favours contracts in which returns are linked to the performance of real assets or ventures, with risk shared between financier and entrepreneur (Askari et al., 2012). Diaw et al. (2014) make the connection explicit and propose a GDP-linked sukuk for public infrastructure whose return varies with national output. Ebrahim et al. (2016) argue that

Islamic injunctions on asset ownership and risk sharing can correct agency problems that make conventional securitised debt fragile. The two literatures have developed largely in parallel. This article argues that their convergence is the conceptual foundation for treating sukuk as a debt-reform mechanism.

3.3. Sukuk: structure, substance and markets

The sukuk literature distinguishes between asset-backed sukuk, in which holders have recourse to legally transferred assets, and asset-based sukuk, in which assets underpin the Shariah structure but holders rely on the obligor's undertaking to repurchase them, typically at face value (Wilson, 2008; Jobst, 2007). The great majority of sovereign issuance is asset-based. The economic consequence is that *ijarah* and *wakalah* sovereign sukuk usually carry the same credit risk as the sovereign's senior unsecured bonds (Jobst et al., 2008). This explains why El-Gamal (2006) characterises much of the industry as "Shariah arbitrage". It also matches evidence that markets do not price sukuk as fundamentally different from conventional bonds (Cakir and Raei, 2007; Godlewski et al., 2013), although structure and scholar reputation do matter (Godlewski et al., 2016). Market-development studies find that sukuk issuance depends on the size of the Muslim population, institutional quality, economic size and trade openness (Smaoui and Khawaja, 2017). At the firm level, issuers use sukuk when funding needs are large and information asymmetries high (Nagano, 2016, 2017; Klein and Weill, 2016).

The policy literature from the multilateral institutions treats sukuk mainly as a debt-management and financial-deepening tool. It covers the legal mandates, special purpose vehicles (SPVs) and tax neutrality that sovereign issuance requires (World Bank, 2017; Kusuma and Silva, 2014), the potential of Islamic finance for the Sustainable Development Goals (Ahmed et al., 2015) and the regulatory and macro-financial issues that Islamic finance raises (Kammer et al., 2015). Political-economy work shows how sukuk have been "grafted" onto conventional legal and financial systems, which constrains their substantive distinctiveness (Lai et al., 2017), and how the legitimacy of Islamic finance in the global order is negotiated (Rethel, 2011). On distress, the record is thin and almost entirely corporate. Zaheer and van Wijnbergen (2025) examine three major sukuk defaults and find that resolution difficulties stemmed from features that made sukuk resemble conventional bonds, and that closer adherence to Shariah ownership rules would have simplified restructuring.

3.4. Synthesis: the gap and the framework

Two gaps emerge. Substantively, no study systematically compares sovereign sukuk with the dominant multilateral financing mechanisms on the dimensions that matter for debt reform. Conceptually, sukuk research has not used the sovereign-debt and SCDI literatures to ask how sukuk change the allocation of sovereign risk. The framework developed here (Figure 1) addresses both gaps. It places sukuk structures on a continuum from debt-like to equity-like and maps four reform channels onto that continuum:

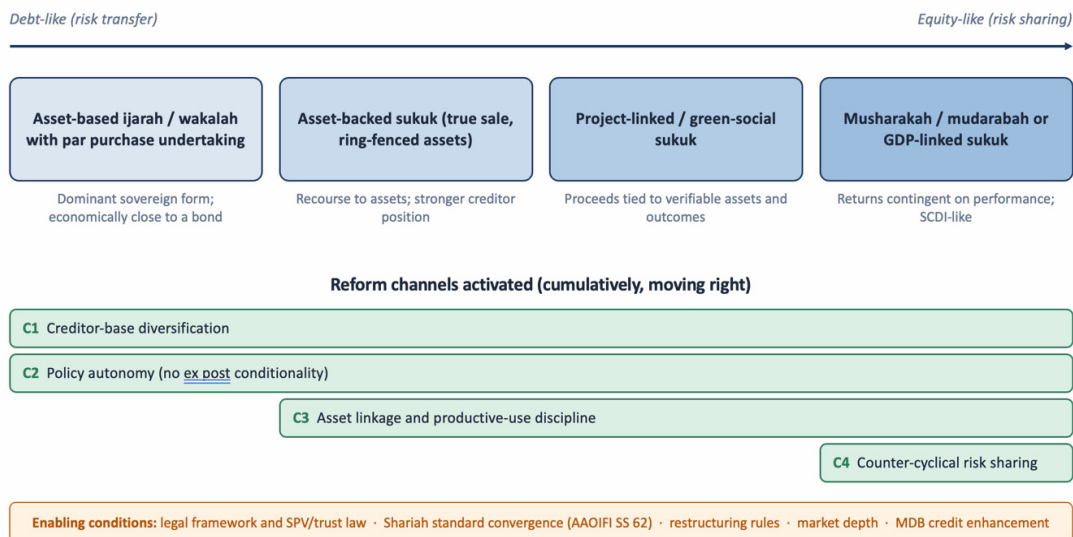
- **C1 Creditor-base diversification.** Access to Shariah-constrained and conventional investors, including domestic retail savers, reduces dependence on official creditors and on any single investor class (Kammer et al., 2015; Jobst et al., 2008).

- **C2 Policy autonomy.** As market instruments, sukuk carry disclosure obligations but no ex post policy conditionality, in contrast with IMF and Development Policy Financing (Babb and Carruthers, 2008; Kentikelenis et al., 2016).
- **C3 Asset-linkage discipline.** The requirement to identify assets or projects ties borrowing to real economic activity and can improve the traceability of public spending (Raeni et al., 2022; ICMA et al., 2024).
- **C4 Counter-cyclical risk sharing.** Where returns are contingent on asset or macroeconomic performance (musharakah, mudarabah, GDP-linked sukuk), debt service falls in bad states, in line with the logic of SCDIs (Diaw et al., 2014; IMF, 2017).

The framework predicts that C1 and C2 operate across all sukuk forms, C3 requires at least project-linked or asset-backed structures, and C4 requires genuinely risk-sharing structures. Because sovereign practice is concentrated at the debt-like end of the continuum, the framework expects a gap between the potential and the realised reform contribution of sukuk. This expectation is examined empirically below.

Figure 1: Sovereign sukuk as a debt-reform mechanism: the risk-sharing continuum and reform channels

Sovereign sukuk design spectrum and reform channels



Source: Author's elaboration, building on Wilson (2008), Diaw et al. (2014), IMF (2017) and Zaheer and van Wijnbergen (2025). SCDI = state-contingent debt instrument; MDB = multilateral development bank.

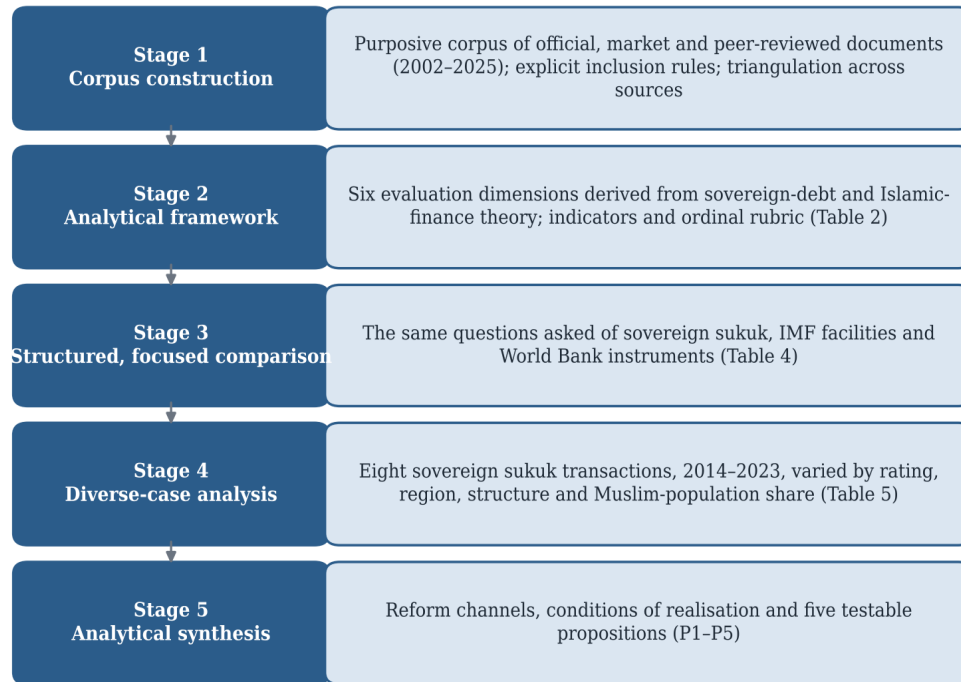
4. Methodology

4.1. Research design and philosophical stance

The study adopts a qualitative comparative design within a critical-realist orientation: it seeks to identify causal mechanisms (reform channels) and the conditions under which they are activated, rather than to estimate average effects. This design suits the research questions for three reasons. First, the units of comparison (a capital-market instrument and two multilateral

lending regimes) are institutionally heterogeneous, and a common quantitative metric would obscure rather than reveal their differences. Second, sovereign sukuk issuance by developing countries is too recent and too sparse for credible econometric identification of debt-sustainability effects. Third, the aim is analytical rather than statistical generalisation, that is, theory-building that yields propositions for later testing (George and Bennett, 2005; Yin, 2018). The design has five stages (Figure 2).

Figure 2: Research design



Validity safeguards: triangulation · explicit rubric · document audit trail · negative-case search (defaults, failed or costly issuance)

Source: Author's elaboration

4.2. Data and corpus construction

Evidence was assembled through systematic document analysis (Bowen, 2009). The corpus comprises four categories of source: (i) official statistical and policy documents of the World Bank, IMF, UNCTAD, the United Nations and the Islamic Financial Services Board (IFSB); (ii) primary transaction documents and official releases by sovereign issuers and debt management offices (e.g., the Hong Kong Monetary Authority, the UK Debt Management Office and HM Treasury, the Philippine Bureau of the Treasury, Nigeria's Debt Management Office and the Indonesian Ministry of Finance); (iii) market data and analysis from rating agencies and industry bodies (S&P Global, IIFM, the International Capital Market Association); and (iv) peer-reviewed literature in economics, finance and international political economy. Inclusion required that a document (a) is publicly available, (b) has an identifiable institutional or academic author and (c) reports data or analysis relevant to at least one evaluation dimension. Advocacy and consultancy sources (e.g., Eurodad, the Bretton Woods Project, Alvarez and Marsal) were retained only where they report verifiable primary data, and are flagged as such in the text. Where sources disagreed, the most primary source was preferred and the divergence is reported (Table 3).

4.3. Analytical framework and structured, focused comparison

Following the method of structured, focused comparison (George and Bennett, 2005), the same set of questions was asked of each financing instrument. Six evaluation dimensions were derived deductively from the literature reviewed in Section 3. For each dimension, observable indicators and a three-level ordinal rubric (High / Medium / Low) were specified before the assessment (Table 2), and each assignment is justified against documented evidence (Table 4). The rubric is intended to make the judgement auditable rather than to imply cardinal measurement. To limit confirmation bias, the analysis deliberately searched for disconfirming evidence: costly issuance, low cover ratios and sukuk distress episodes.

Table 2: Evaluation dimensions, indicators and rubric

Dimension	Indicators	Rubric: High / Medium / Low
D1 Policy autonomy	Presence and scope of ex ante and ex post policy conditions; prior actions; structural benchmarks	High = no policy conditions beyond disclosure; Medium = sector-specific or prior-action conditions; Low = macro-fiscal and structural conditionality
D2 Creditor-base inclusiveness	Types of creditor mobilised (official, institutional, retail, Shariah-constrained); private-capital mobilisation	High = multiple private investor classes, including retail/Islamic; Medium = one private class; Low = official sector only
D3 Cost and tenor	Pricing relative to the issuer's alternatives; concessionality; maturity; fixed transaction costs	High = concessional or below-curve and long tenor; Medium = market-equivalent; Low = above-market or short tenor
D4 Crisis availability	Ability to disburse when market access is lost; speed	High = available in crisis by design; Medium = available with delay; Low = depends on market access
D5 Debt-sustainability properties	State-contingency of payments; seniority; restructuring certainty	High = payments contingent and restructuring framework clear; Medium = one of the two; Low = neither
D6 Developmental alignment and transparency	Link of proceeds to identifiable assets or projects; impact reporting	High = ring-fenced proceeds with impact reporting; Medium = asset identification only; Low = general budget support

Source: Author's elaboration, drawing on Babb and Carruthers (2008), Kentikelenis et al. (2016), IMF (2017), Jobst et al. (2008) and ICMA et al. (2024)

4.4. Case selection

Eight sovereign sukuk transactions were selected using a diverse-case strategy (Seawright and Gerring, 2008), so as to maximise variation on four characteristics that the literature identifies as relevant to sukuk outcomes: credit quality (AAA to sub-investment grade), the Muslim share of the population (from a small minority to a large majority), market (international hard currency versus domestic local currency) and structure (Ijarah, hybrid Ijarah–Wakalah–Murabaha, project-linked and green). The cases are Hong Kong (2014), the United Kingdom (2014 and 2021), Nigeria (2017), Indonesia (2018 green sukuk), Pakistan (2022), Egypt (2023) and the Philippines (2023). Transaction data were taken from official releases where available and otherwise from established financial media; values that could

not be verified from at least one primary or reputable secondary source are reported as "n.r." rather than estimated.

4.5. Validity, Reliability, Credibility and Limitations

Construct validity is supported by deriving the analytical dimensions from established literature and applying them consistently across the cases. Reliability is enhanced through an explicit assessment rubric and a documented source trail, facilitating transparency and replication. Credibility, as a key criterion in qualitative comparative research, is strengthened through triangulation of official, market and academic sources, cross-case comparison, and the systematic search for negative or contradictory evidence. These procedures help ensure that the findings reflect the available evidence rather than predetermined assumptions.

The analysis has three principal limitations. First, ordinal assessments inevitably involve researcher judgement, and alternative weightings of the analytical dimensions could produce different comparative interpretations. Accordingly, the study avoids aggregating the dimensions into a single composite score. Second, transaction-level evidence is primarily descriptive and does not, in itself, establish causal effects on debt sustainability or demonstrate the long-term effectiveness of sovereign sukuk in debt management. Third, sovereign sukuk market statistics vary considerably across data providers because of differences in coverage and reporting methodologies (Table 3), which may affect cross-case comparability.

These limitations provide a basis for further empirical investigation and inform the formulation of testable propositions. Future research could examine how sovereign sukuk interact with conventional sovereign debt instruments within national and international debt architectures, particularly in relation to debt restructuring, refinancing, fiscal sustainability and sovereign debt resolution. Longitudinal and cross-country studies, supported by transaction-level data and comparative analysis of restructuring outcomes, could further establish the conditions under which sovereign sukuk contribute to debt sustainability and the development of a more diversified and resilient sovereign debt architecture.

5. Market and Institutional Context

5.1. The sovereign sukuk market: scale, concentration and measurement

The sukuk market has grown into a significant segment of global fixed income, but the data must be read with caution. Estimates of annual issuance differ by tens of billions of dollars depending on the provider's treatment of short-term instruments, local-currency issuance and supranational issuers (Table 3). For 2023 alone, published figures range from USD 108.0 billion (Kamco Invest, reported in Times of Oman, 2024) to USD 168.4 billion in S&P's initial estimate (S&P Global, 2024a) and USD 197.8 billion in its later, revised series (S&P Global, 2025). This dispersion is an analytical finding in its own right. Fragmented and non-comparable data impede price discovery, benchmark formation and the integration of sukuk into sovereign debt statistics, and so weaken the case for treating sukuk as an architecture-level instrument until reporting is harmonised.

Table 3: Divergence in reported global sukuk issuance

Source	2023 (USD bn)	2024 (USD bn)	Note
Kamco Invest (Times of Oman, 2024)	108.0	—	Excludes much short-term issuance
S&P Global (2024a)	168.4	—	Initial estimate, January 2024
S&P Global (2025)	197.8	193.4	Revised series, January 2025
IIFM (2025)	—	205.0	Outstanding USD 902.8 bn, end-2024

Source: As listed. Figures are reported as published and are not adjusted for differences in coverage.

Foreign-currency sukuk, the segment most relevant to external sovereign financing, grew from USD 56.5 billion in 2023 to USD 72.7 billion in 2024 (S&P Global, 2025). Issuance remains concentrated in the Gulf Cooperation Council (GCC) and in Southeast Asia, with Saudi Arabia, Malaysia, Indonesia and the United Arab Emirates as the leading issuers (S&P Global, 2024a). Sustainability-labelled sukuk reached USD 13.4 billion in 2023, a 42% increase on 2022, and cumulative issuance since 2017 has exceeded USD 47 billion (ICMA et al., 2024). Because of this concentration, the investor base that sukuk can tap is real but regionally anchored, which conditions channel C1.

5.2. IMF and World Bank financing instruments

IMF financing is delivered through facilities that differ in concessionality and conditionality. The General Resources Account (GRA) includes the Stand-By Arrangement, the Extended Fund Facility and precautionary lines such as the Flexible Credit Line, which relies on ex ante qualification rather than ex post conditions. The PRGT provides concessional finance to low-income members, and the Resilience and Sustainability Trust (RST) provides longer-term finance for climate and pandemic preparedness. Conditionality combines quantitative performance criteria, prior actions and structural benchmarks (IMF, 2019). World Bank financing comprises Investment Project Financing, Development Policy Financing (DPF) conditional on prior policy actions, and Program-for-Results operations, delivered through the IBRD at near-market rates for middle-income countries and through IDA on concessional terms for the poorest. Both institutions enjoy de facto preferred-creditor status. This seniority protects their balance sheets, but in a restructuring it raises the share of relief that other creditors must bear.

6. Comparative Analysis

6.1. Structured comparison across six dimensions

Table 4 reports the assessment. The pattern is complementary rather than hierarchical. No instrument dominates on all dimensions, and the strengths of sukuk mirror the weaknesses of multilateral lending, and vice versa.

Table 4: Structured comparison of sovereign sukuk, IMF facilities and World Bank instruments

Dimension	Sovereign sukuk (dominant asset-based form)	IMF facilities	World Bank instruments
D1 Policy autonomy	High.	Low.	Medium.

Dimension	Sovereign sukuk (dominant asset-based form)	IMF facilities	World Bank instruments
	Prospectus disclosure and Shariah certification only; no policy conditions (World Bank, 2017).	Fiscal and structural conditionality; 23 of 26 programmes (2016–17) required fiscal consolidation (Brunswijck, 2018; Kentikelenis et al., 2016).	DPF prior actions; investment lending tied to project terms and safeguards.
D2 Creditor-base inclusiveness	High. Dual Islamic and conventional investor base; retail tranches (e.g., Nigeria 2017, Indonesia retail green sukuk).	Low. Official sector; catalytic signalling effect only.	Low. Official sector; limited private mobilisation.
D3 Cost and tenor	Medium. Market pricing: from 0.333% (UK 2021) to 10.875% (Egypt 2023); fixed legal and structuring costs; typically 3–10 years.	High (PRGT) / Medium (GRA). Concessional for low-income countries; GRA charges rise with access.	High. IDA concessional; IBRD near-market with long maturities.
D4 Crisis availability	Low. Requires market access, which tends to close during crises.	High. Designed for balance-of-payments crises; emergency instruments.	Medium. Crisis response is available but disbursement is slower.
D5 Debt-sustainability properties	Low (realised) / High (potential). Par purchase undertakings replicate bond payoffs; sovereign restructuring regime untested (Zaheer and van Wijnbergen, 2025). Risk-sharing variants could be state-contingent (Diaw et al., 2014).	Medium. Anchored in debt sustainability analysis; but fixed obligations and preferred-creditor status.	Medium. Concessional terms ease the burden; obligations not state-contingent.
D6 Developmental alignment and transparency	Medium–High. Asset identification required; green sukuk add allocation and impact reporting (Government of Indonesia, 2023; ICMA et al., 2024).	Low–Medium. General balance-of-payments support; RST targets climate resilience.	High. Project appraisal, results frameworks and safeguards.

Source: Author's assessment applying the rubric in Table 2 to the cited evidence.

Three observations stand out. First, sukuk and multilateral loans are functional complements. Sukuk score highest where the Bretton Woods institutions score lowest (D1, D2) and lowest where those institutions are strongest (D4). Second, on cost (D3) sukuk are neither

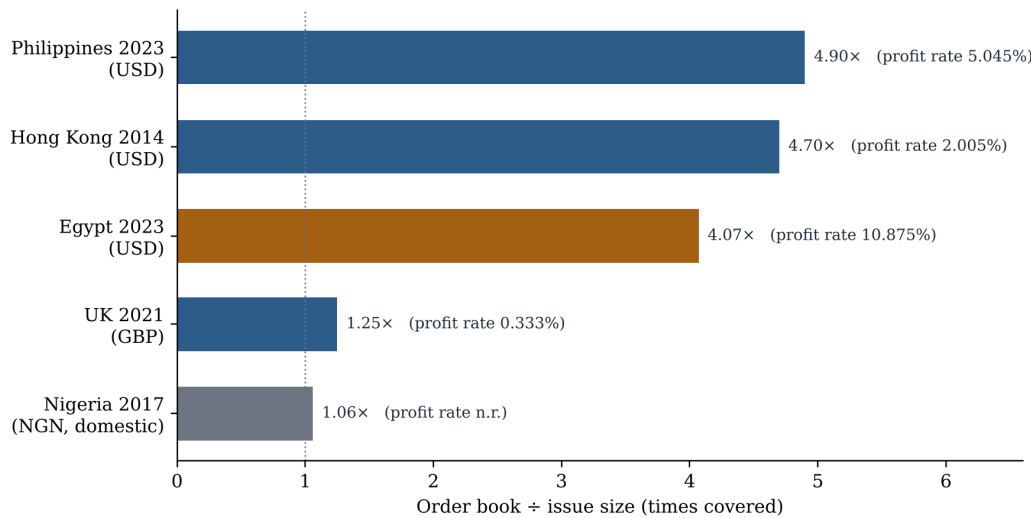
intrinsically cheap nor intrinsically expensive: they are priced off the sovereign's credit. There is suggestive evidence that sukuk can be marginally cheaper than conventional bonds for lower-rated issuers. One consultancy analysis of a limited sample reports the largest implied savings for issuers rated in the CCC range (Baqir and Hakim, 2024). That sample is small, however, and the effect should be treated as a hypothesis. Third, and most importantly, the gap between realised and potential performance on D5 is the analytical crux. In its dominant form, sovereign sukuk do not change the state-contingency of debt service. They change who holds the debt, not how risk is shared.

6.2. Evidence from eight sovereign sukuk transactions

Table 5 summarises the transactions, and Figure 3 compares order-book cover for the five transactions with verified demand data.

Table 5: Selected sovereign sukuk transactions, 2014–2023

Issuer (year)	Size	Tenor	Profit rate	Structure	Analytical relevance
Hong Kong (2014)	USD 1.0 bn	5 yrs	2.005% (UST+23bp)	Ijarah; commercial property	AAA issuer, non-Muslim jurisdiction; 4.7× cover; 36% placed in Middle East (HKMA, 2014). Demonstrates C1.
United Kingdom (2014)	GBP 200 m	5 yrs	n.r. (2.036%)	Ijarah	First Western sovereign; market-building rather than financing motive (HM Treasury, 2014).
United Kingdom (2021)	GBP 500 m	5 yrs	0.333% (flat to gilt)	Ijarah	Priced at 0 bp to the reference gilt; orders above GBP 625 m (HM Treasury, 2021; HM Treasury, 2021). Cost parity.
Nigeria (2017)	NGN 100 bn	7 yrs	n.r. (16.47%)	Ijarah; project-tied (25 roads)	Domestic, local currency; 1.06× cover; more than 1,000 retail investors (ThisDay, 2017). Demonstrates C1 (inclusion) and C3.
Indonesia (2018)	USD 1.25 bn	5 yrs	3.75%	Green wakalah	First sovereign green sukuk; earmarked for renewables and waste (Gulf Times, 2018; Government of Indonesia, 2023). Demonstrates C3.
Pakistan (2022)	USD 1.0 bn	7 yrs	7.95%	Ijarah	Highest profit rate Pakistan had paid on a sukuk; issued under acute external pressure (Gulf News, 2022). Limits of C4.
Egypt (2023)	USD 1.5 bn	3 yrs	10.875%	Ijarah (usufruct)	Debut under a USD 5 bn programme; about 4× cover; 59% to MENA Shariah investors (Enterprise, 2023; Euromoney, 2024a). C1 works, cost does not fall.
Philippines (2023)	USD 1.0 bn	5.5 yrs	5.045% (UST+80bp)	Ijarah–wakalah + commodity murabaha; trust	Priced inside the sovereign's conventional curve; 4.9× cover; trust vehicle under local law (Bureau of the Treasury, 2023; Euromoney, 2024b).

Figure 3: Order-book cover and profit rate of selected sovereign sukuk

Source: HKMA (2014); HM Treasury (2021); ThisDay (2017); Enterprise (2023); Bureau of the Treasury, Republic of the Philippines (2023); Euromoney (2024b).

The cases support four inferences. **First, the creditor-diversification channel (C1) operates robustly and across religious contexts.** Hong Kong placed 36% of its AAA-rated sukuk with Middle Eastern investors (HKMA, 2014). The Philippines, where Muslims are a small minority, drew a USD 4.9 billion order book and priced inside its own conventional curve (Euromoney, 2024b). Egypt allocated 59% of its debut sukuk to MENA Shariah-compliant investors (Euromoney, 2024a). These are investors that the issuers' conventional bonds reach only partly. Nigeria's domestic sukuk extended sovereign finance to more than 1,000 retail investors (ThisDay, 2017), an inclusion effect that multilateral lending cannot produce. However, Nigeria has been paying rentals at a rate of 16.47% on this bond every March 26 and September 26 as a form of debt service before its maturity date (Nairametrics, 2024).

Second, diversification does not by itself lower the cost of distress. Pakistan in 2022 and Egypt in 2023 paid 7.95% and 10.875% respectively. These rates reflect sovereign risk, not the instrument. Strong demand (Egypt's cover of about 4×) coexisted with high pricing. Sukuk therefore relieve the access constraint more than the price constraint. This is consistent with evidence that markets price sukuk off the obligor's credit (Cakir and Raei, 2007; Godlewski et al., 2013).

Third, the asset-linkage channel (C3) is activated by design choices, not by the sukuk label. Nigeria's project-tied sukuk, which financed 25 named road projects, and Indonesia's green sukuk, which earmarked proceeds for renewable energy and waste management and are backed by allocation and impact reporting, show that sukuk can tie sovereign borrowing to verifiable public investment (Government of Indonesia, 2023; Raeni et al., 2022). The UK, Hong Kong and Egyptian transactions used existing property or usufruct as Shariah underlying assets without linking proceeds to new investment.

Fourth, none of the eight transactions activates the risk-sharing channel (C4). All rely on fixed periodic distributions and on the sovereign's obligation to repurchase the assets at a predetermined price. In payoff terms they are fixed-income obligations. The innovation in the Philippine transaction, which used a trust structure administered by a state bank to work within local law (Euromoney, 2024b), was legal-institutional rather than risk-allocative.

6.3. *Negative cases and limits*

The negative-case search reinforces the conditional reading. First, sovereign sukuk are procyclical in access. They cannot be issued when market confidence has collapsed, which is precisely when IMF finance is most needed. Second, the restructuring of sukuk is legally uncertain. The major defaults to date have been corporate or quasi-sovereign, and their resolution was complicated by bond-like features and contested ownership of the underlying assets (Zaheer and van Wijnbergen, 2025). Third, Shariah standards are fragmented. The proposed AAOIFI Shariah Standard 62 would require effective transfer of asset ownership and associated risks to sukuk holders. S&P expects it to have "a significant effect on the sukuk market in the medium term" (S&P Global, 2024b), and uneven adoption across jurisdictions could increase fragmentation (Salaam Gateway, 2024). Fourth, fixed costs are high. Enabling legislation, SPV or trust structures, tax neutrality and the identification of eligible public assets require up-front investment (World Bank, 2017), which is a barrier for small and frontier issuers.

7. Analytical Findings and Propositions

7.1. *From Islamic finance product to debt-architecture instrument*

The central finding is that the reform potential of sovereign sukuk is conditional, not intrinsic. Figure 1 summarises the argument. The sukuk label guarantees only the first two reform channels: a wider creditor base and freedom from policy conditionality. These matter for inclusiveness and sovereignty. They respond directly to the critique of IMF and World Bank dominance, because they allow a sovereign to finance itself from private, faith-aligned and retail investors without negotiating policy conditions. They do not, however, alter the risk architecture of sovereign debt. That depends on where an instrument sits on the continuum from asset-based to genuinely risk-sharing structures.

This reframing changes how sukuk should be understood. Read as an Islamic finance product, the relevant question is whether a sukuk is Shariah-compliant. Read as a debt-architecture instrument, the question is which reform channels a sukuk structure activates and for whom. The second reading reveals a paradox. The features that critics of "form over substance" condemn, namely *par purchase* undertakings and asset-based recourse, are the same features that make sukuk acceptable to conventional investors and rating agencies. They are therefore what currently enables channel C1. Moving toward risk sharing (C4) would strengthen debt sustainability but would raise novelty premia and narrow the investor base. This is the same trade-off that has stalled GDP-linked bonds (IMF, 2017). Islamic finance does not escape this trade-off. It brings a constituency, made up of Shariah-constrained investors, Shariah boards and standard-setters, that has normative reasons to bear it.

7.2. *Conditions of realisation*

The cross-case analysis identifies four enabling conditions that determine how far along the continuum a sovereign can move:

- **Legal infrastructure.** This includes a statutory mandate to issue sukuk and use public assets, SPV or trust law and tax neutrality (World Bank, 2017). The Philippine trust solution shows that local legal constraints can be overcome, but only through deliberate legal engineering.

- **Shariah-standard convergence.** Divergent standards, now sharpened by AAOIFI Standard 62, determine whether asset-backed structures become the norm. Convergence would raise the substance of sukuk but could raise costs in the short run (S&P Global, 2024b).
- **A credible restructuring framework.** Ex ante clarity on holders' rights over assets, collective-action mechanisms and the interaction with the preferred-creditor status of multilateral lenders is a precondition for using sukuk at scale by vulnerable sovereigns (Zaheer and van Wijnbergen, 2025; Buchheit et al., 2019).
- **Multilateral credit enhancement and market infrastructure.** Partial guarantees, anchor investment by multilateral development banks and harmonised data reporting (Table 3) can lower the novelty premium on risk-sharing structures and connect sukuk to the official safety net rather than placing them in competition with it.

7.3. Testable propositions

The findings are formalised as five propositions for future empirical research:

- **P1 (Diversification).** All else equal, sovereigns that issue sukuk will exhibit a higher share of non-official and Shariah-constrained creditors in their external debt than comparable non-issuers, without a systematic difference in yield after controlling for credit rating.
- **P2 (Autonomy–access trade-off).** Sukuk issuance substitutes for IMF financing only in non-crisis states. Once market access is lost, the probability of an IMF programme will not differ significantly between sukuk issuers and non-issuers.
- **P3 (Structure matters for sustainability).** The debt-sustainability benefits of sukuk will be observable only for asset-backed, project-linked or state-contingent structures, not for asset-based sukuk with par purchase undertakings.
- **P4 (Asset-linkage discipline).** Project-linked and green sovereign sukuk will be associated with higher traceability of public investment spending than general-purpose sovereign bonds of similar size.
- **P5 (Institutional conditionality).** The adoption of risk-sharing sukuk structures will be more likely where enabling legislation, Shariah-standard convergence and multilateral credit enhancement are all present.

8. Policy Implications

For sovereign issuers, the analysis implies a sequenced strategy. The first step is to enact enabling legislation and integrate sukuk into the medium-term debt management strategy as a creditor-diversification tool (C1–C2). The second is to prioritise project-linked, green and social sukuk with allocation and impact reporting (C3), building on Indonesia's practice (Government of Indonesia, 2023; ICMA et al., 2024). The third is to pilot risk-sharing tranches, such as GDP-linked or revenue-linked sukuk (Diaw et al., 2014), in amounts small enough to contain the novelty premium. Domestic retail sukuk deserve particular attention as an inclusion instrument that also deepens local-currency markets and reduces currency mismatch.

For the IMF and the World Bank, the analysis suggests treating sukuk as a complement to the official safety net rather than as a competitor. In practice this means incorporating sukuk explicitly into debt sustainability and debt-management technical assistance, and extending their work on state-contingent instruments (IMF, 2017) to Shariah-compliant designs. It also means using partial guarantees or anchor participation, jointly with the Islamic Development Bank, to lower the cost of risk-sharing structures for vulnerable issuers. More fundamentally, the persistent costs associated with conditionality (Kentikelenis et al., 2016; Stubbs et al., 2017) strengthen the case for a financing mix in which market-based, condition-free instruments carry a larger share of non-crisis financing.

For standard-setters and market bodies, the priorities are to converge Shariah standards around asset-backed and risk-sharing principles while managing transition costs, to develop a model sovereign sukuk restructuring framework with collective-action provisions, and to harmonise market statistics so that sukuk can be integrated into international debt reporting.

9. Conclusion

This article examined whether sovereign sukuk can address gaps in a sovereign debt architecture dominated by conditional multilateral lending and fixed-obligation debt instruments. Our findings suggest a qualified affirmative answer. Sovereign sukuk broaden creditor participation by attracting retail investors and Shariah-constrained capital while offering an additional financing channel without the policy conditionality typically associated with IMF lending programmes. Evidence from Hong Kong, Nigeria, Egypt and the Philippines demonstrates their applicability across diverse institutional and regional contexts. However, wider participation does not necessarily transform sovereign risk allocation. Market access remains sensitive to financial conditions, and sukuk restructuring mechanisms remain insufficiently tested. We therefore regard sovereign sukuk as complementary to, rather than substitutes for, the IMF's crisis-lending function and the World Bank's development-financing role.

Our principal contribution is to reposition sovereign sukuk within the broader debate on debt architecture rather than focusing exclusively on Shariah compliance. Through a structured comparison with IMF and World Bank financing, we assess their implications for inclusiveness, policy autonomy, risk allocation and restructuring capacity. The credibility of our qualitative comparative design is strengthened by an explicit analytical framework, a documented source trail and triangulation across official publications, market evidence and academic literature. Nevertheless, our findings establish comparative institutional potential rather than definitive causal effects on borrowing costs, debt sustainability or restructuring outcomes.

We conceptualise sovereign sukuk along a risk-allocation continuum, linking Islamic finance's risk-sharing principles with the broader sovereign debt literature on state-contingent instruments. Realising this potential requires enforceable legal frameworks, greater convergence in Shariah standards, transparent disclosure and credible creditor-coordination mechanisms. Multilateral institutions could support these developments through technical assistance and appropriate credit enhancement.

Future research should test our propositions using issuer-level panel data on creditor composition, issuance pricing and debt sustainability; evaluate pilot risk-sharing sukuk under adverse economic conditions; and examine the implications of AAOIFI Shariah Standard No.

62 once finalised and implemented. Ultimately, sovereign sukuk alone cannot resolve structural weaknesses in sovereign debt architecture. Their contribution depends on integrating financing inclusiveness and meaningful risk sharing within a credible framework that balances sovereign autonomy, creditor rights and resilience to debt distress.

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