



سلطة النقد الفلسطينية
PALESTINE MONETARY AUTHORITY

تعميم رقم (18 / 2024)

إلى كافة شركات خدمات الدفع العاملة في فلسطين

التاريخ: الإثنين، 12 آب، 2024

الموضوع: خارطة طريق التمويل المستدام

في إطار تعزيز دور النظام المالي في تحقيق أهداف التنمية المستدامة ودمج المعايير البيئية والاجتماعية والحوكمة في سياسات وممارسات القطاع المالي، مرفق لكم وثيقة خارطة طريق سلطة النقد في مجال التمويل المستدام التي تهدف إلى تعزيز الممارسات المالية المستدامة والتحول نحو اقتصاد منخفض الكربون، وزيادة تعبئة الاستثمارات الخضراء من خلال مراعاة المعايير البيئية والاجتماعية والحوكمة (ESG).

مجموعة الرقابة

سلطة النقد الفلسطينية

- المرفق: وثيقة خارطة طريق سلطة النقد في مجال التمويل المستدام.



سلطة النقد الفلسطينية
PALESTINE MONETARY AUTHORITY

PALESTINE MONETARY AUTHORITY's

SUSTAINABLE FINANCE ROADMAP AND ACTION PLAN

May, 2024



Acknowledgment

The PMA extends sincere appreciation to the Alliance for Financial Inclusion (AFI) for their unwavering support and commitment to advancing sustainable finance. We also acknowledge the diligent efforts of Noor Energy Company, whose expertise and dedication have been instrumental in the successful implementation of this project. Their collaborative efforts have significantly contributed to the achievement of our strategic objectives, and we look forward to continued partnership and progress.

We also express our gratitude for the valuable reviews and feedback provided by the AFI team, Bank Al-Maghrib, Bangladesh Bank, and Bank of Zambia. Their insights have enriched our roadmap, ensuring it is comprehensive and well-informed. The collaborative efforts of all these partners have been crucial in achieving our strategic objectives, and we anticipate continued cooperation and progress.



Contents

Forward	4
Introduction	5
The Mission	5
The Vision	5
I. Sustainable Finance in Palestine	6
II. Climate Related Risks and its Implications	6
III. Significance of Climate risks for the Palestinian financial system- Transformation into business and financial risks.	10
IV. Sustainable finance market potential in Palestine	11
V. Drivers of Sustainable Finance	12
VI. Objective of the PMA's Sustainable Finance Roadmap	13
VII. The Roadmap Structure	13
1. Pillar I: Creating awareness, offering guidance, and building market capacity in sustainable finance.	14
1.1 Develop Capacity and Raise Awareness at PMA and Financial Sector	15
1.2 Establish NSF-CRCC	16
1.3 Identify International Sustainable Finance Initiatives	17
1.4 Leading by Example –Practices from PMA	18
2. Pillar II: Enable Increase in Sustainable Flows	19
2.1 Introduction of Sustainable Finance Principles	19
2.2 National Taxonomy for Sustainable Finance	20
2.3 Designing Sustainable finance Instruments	21
2.4 Improve the Sustainable Finance Market Environment	23
2.5 Develop a Centralized Sustainable Finance Database	24
2.6 Enhance adoption Innovation and Digitalization	25
3. Pillar III: ESG Integration and Disclosures	26
3.1 ESG Risk Management and Integration of ESG in Supervisory Framework	26
3.2 Develop Guidance on ESG Integration and Risk Management	27
3.3 Aligning Corporate Governance of FIs with ESG	30
VIII. Monitoring and Control the Roadmap Implementation	31
IX. Roadmap for Sustainable Finance in Palestine – Action Plan	32

Forward

In today's world, sustainability is no longer a choice but a necessity. The challenges posed by climate change, resource depletion, and social inequities demand that we rethink and reorient our economic systems towards sustainability and Sustainable Finance. Sustainable finance includes integrates environmental, social, and governance (ESG) considerations into financial decision-making processes.

The Palestine Monetary Authority (PMA) is proud to present the PMA's Sustainable Finance Roadmap, a strategic framework designed to guide the financial sector towards a more sustainable and resilient future. This comprehensive Roadmap reflects our unwavering commitment to integrating sustainability into our financial system, promoting economic growth that is both inclusive and environmentally sound.

The development of Sustainable Finance Roadmap is firmly grounded in the insights gleaned from the Market Assessment and Gap Analysis Study. This foundational document has provided us with a clear understanding of the current financial landscape, allowing us to craft a roadmap that is both responsive to existing challenges and proactive in seizing new opportunities for sustainable growth.

The Roadmap is a strategic blueprint designed to guide our efforts in fostering a resilient and sustainable financial ecosystem. This roadmap underscores our dedication to supporting green investments, enhancing financial inclusion, and ensuring the stability and integrity of our financial sector.



Dr. Feras Milhem

Governor, Palestine Monetary Authority

Our vision is clear to position Palestine as a leader in sustainable finance, where economic development goes hand in hand with environmental stewardship and social equity. This vision is not merely aspirational; it is grounded in actionable steps and strategic initiatives that will drive real and lasting change.

The journey towards sustainable finance is a collaborative effort. It requires the concerted efforts of policymakers, financial institutions, businesses, and civil society. I am confident that, together, we can build a financial system that supports the well-being of current and future generations.

I extend my gratitude and appreciation to all stakeholders who have contributed to the development of this roadmap. Your insights, expertise, and commitment are invaluable as we strive to achieve our shared goals.

In conclusion, the Roadmap is not just a strategic document; it is a commitment to sustainable progress and economic resilience. It sets a clear path forward, equipped with the insights and tools needed to achieve our goals.



Introduction

The Palestinian Monetary Authority (PMA) has undertaken a comprehensive approach to foster sustainable finance within Palestine. This approach is encapsulated in two critical documents: the Market Assessment and Gap Analysis, and the Sustainable Finance Roadmap.

The Market Assessment and Gap Analysis provided a detailed examination of the current financial landscape, identifying key strengths, weaknesses, opportunities, and threats. These insights directly informed the development of the Sustainable Finance Roadmap. Specific actions in the Sustainable Finance Roadmap address the gaps identified in the Market Assessment and Gap Analysis.

The Sustainable Finance Roadmap is deeply rooted in the findings of the Market Assessment and Gap Analysis to ensure that the strategies outlined in the roadmap are informed by a thorough understanding of the current landscape, making them both relevant and effective in promoting sustainable economic growth and financial stability.

The Mission

The mission is to spearhead the integration of Sustainable Finance Principles into the financial sector, fostering economic resilience and equitable growth in Palestine.

Through strategic regulation, innovative policy measures and capacity development, and collaborative partnerships, PMA aims to mobilize financial resources towards environmentally sound and socially inclusive investments. This Roadmap prioritizes the development of robust ESG frameworks, the promotion of green finance initiatives, and the enhancement of financial system stability through proactive management of climate and environmental risks.

By empowering market participants, enhancing transparency, and fostering knowledge exchange, PMA will seek to catalyse a sustainable finance ecosystem that supports Palestine's long-term development goals while safeguarding our natural resources and fostering social progress.

The Vision

PMA's vision is of a thriving financial ecosystem in Palestine that serves as a catalyst for sustainable development, resilience and energy independence.

The PMA envisions a future where financial decision-making is guided by principles of environmental stewardship, social responsibility, and economic inclusivity, leading to the creation of a greener, fairer, and more prosperous society.

Through the present Sustainable Finance Roadmap, PMA aspires to position Palestine among the leaders in sustainable finance innovation across the MENA region, driving the transition to a low-carbon economy, fostering green investments, and empowering communities to participate in and benefit from sustainable economic growth.

By embracing this vision, PMA aims to build a legacy of financial stability and sustainability for current and future generations.

I. Sustainable Finance in Palestine

In 1987, the United Nations Brundtland Commission defined sustainability as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.” Sustainable development requires an integrated approach that takes into consideration environmental concerns along with economic development. Sustainable economic development within the context of this Sustainable Finance Roadmap for Palestine entails the conscientious integration of sustainability principles into financial practices, policies, and investments. It involves fostering economic resilience and equitable growth while prioritizing environmental preservation and social inclusivity. This approach emphasizes the development of robust Environmental, Social, and Governance (ESG) frameworks, the promotion of green finance initiatives, and the proactive management of climate and environmental risks. Sustainable economic development in Palestine requires mobilization of resources (economic, social, financial) towards environmentally sound and socially inclusive investments, empowering market participants, enhancing transparency, and fostering knowledge exchange. It aims to build an economy that supports Palestine’s long-term development goals, safeguards natural resources, and fosters social progress.

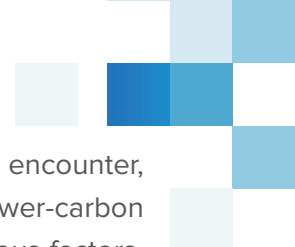
In Palestine, this approach aims to encourage more long-term investments in sustainable economic activities and projects. Environmental considerations within this framework encompass actions related to climate change mitigation and adaptation, biodiversity preservation, pollution prevention, and the promotion of a circular economy. Social considerations address issues of inequality, inclusivity, labor relations, investment in human capital and communities, and the protection of human rights.

Moreover, governance aspects, which focus on embedding sustainability into their corporate governance structures. This involves creating dedicated ESG committees or incorporating ESG responsibilities into existing governance frameworks, ensuring that decision-making processes reflect sustainable practices and ethical considerations. Financial institutions must implement comprehensive risk management strategies to identify and mitigate ESG-related risks, foster transparency through regular ESG reporting, and engage with stakeholders to address their concerns. By emphasizing ESG principles in financial decision-making, sustainable finance in Palestine will seek to advance economic resilience, equitable growth, environmental sustainability, and social inclusivity, as per the objectives delineated in this Sustainable Finance Roadmap.

II. Climate Related Risks and Their Implications on the Palestinian Economy and Financial Sector

Climate change and environmental degradation serve as catalysts for structural transformation that significantly impact economic activities and, in turn, the financial system. There are generally two acknowledged primary drivers linked to climate-related and environmental risks:

- 1. Physical risk:** This involves the financial implications of a changing climate, encompassing both more frequent extreme weather events and gradual climate changes. It also encompasses environmental degradation, including air, water, and land pollution, water stress, biodiversity loss, and deforestation. Physical risk can be further categorized into two main sub-types: i) «acute» when triggered by sudden and extreme events like droughts, floods, and storms, and ii) «chronic» when resulting from gradual shifts such as rising temperatures, sea-level increases, water stress, reduced farmland productivity, biodiversity loss, land use changes, habitat destruction, and resource scarcity.



2. Transition risk: This refers to the potential financial losses that an institution may encounter, either directly or indirectly, as it undergoes the process of transitioning toward a lower-carbon and environmentally sustainable economy. This adjustment can be instigated by various factors, including the abrupt implementation of climate and environmental policies, technological advancements, or shifts in market sentiment and preferences.

The drivers of physical and transition risks exert a cascading influence on economic activities, subsequently shaping the financial system. This impact can be direct, such as diminished corporate profitability or asset devaluation, or indirect, leading to broader macro-financial changes. Institutions, especially those heavily reliant on sectors vulnerable to climate-related and environmental risks, face threats to the resilience of their business models. Moreover, these risks can result in additional losses, either directly or indirectly through legal claims (e.g., «liability risk») and reputational damage when the public, counterparties, or investors associate the institution with adverse environmental impacts (reputational risk).

Consequently, physical and transition risks act as driving forces for various pre-existing risks, including credit risk, operational risk, market risk, and liquidity risk. They also contribute to secondary types of risks like migration risk, credit spread risk in the banking book, real estate risk, and strategic risk. Climate-related and environmental risks may concurrently impact multiple risk categories and sub-categories, highlighting their interconnected nature.

Present estimates indicate that the adverse long-term macroeconomic consequences resulting from climate change are leading to significant and enduring wealth losses. These losses can be attributed to a slowdown in investment, reduced factor productivity across diverse sectors, and a decline in potential GDP growth. Climate-related and environmental risks possess distinct characteristics that warrant specific attention from both supervisory bodies and institutions globally. These unique attributes include a wide-reaching impact in terms of breadth and magnitude, an uncertain and extended time horizon, and a dependency on short-term actions.



Climate change has a pervasive impact on various business activities and geographic regions. Economic sectors prone to physical impacts encompass agriculture, forestry, fisheries, human health, energy, mining, transport, infrastructure, and tourism. Those vulnerable to the transition to a low-carbon economy include energy, transport, manufacturing, construction, and agriculture. Notably, assets associated with the extraction, processing, combustion, or inefficient use of fossil fuels may witness a sudden and substantial decrease in value, potentially becoming «stranded assets».

The figure below illustrates how climate-related risk drivers are transmitted and impact various types of risks considered within the financial sector:

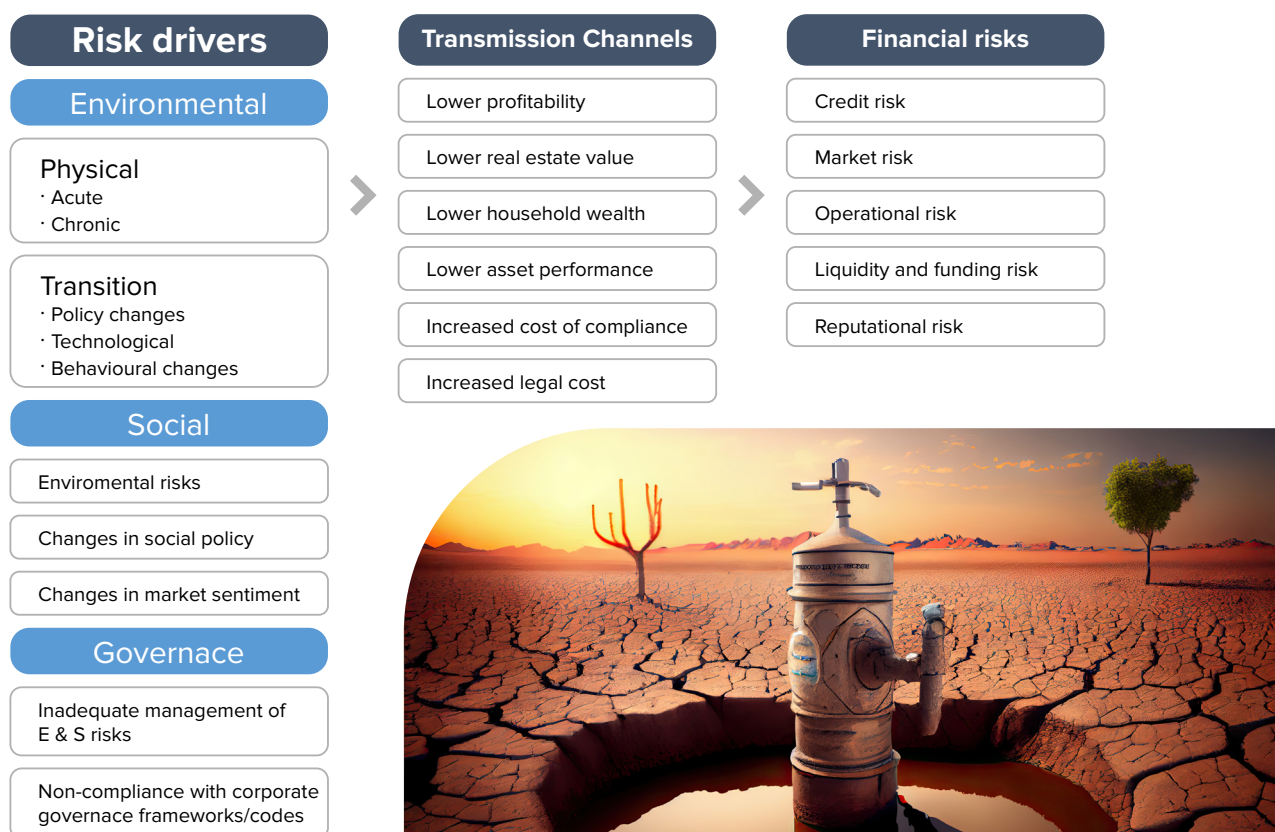


Figure 1 Climate related Risk Drivers and anticipated impacts thereof

Palestine faces particular vulnerability to three primary types of climate risks:

1. **Climate Risks from Drought and Low Water:** This risk, often associated with heat, poses a significant threat to all water-using and water-dependent systems. It is particularly relevant to the operations of two key sectors in the country – Agriculture and Stone and Marble.
2. **Climate Risks from Heavy Rainfall, Flash Floods, and Flooding:** This type of risk can be especially acute for infrastructure and buildings, particularly business facilities located near or in narrow valleys and in the low mountain ranges of the West Bank, which may experience severe impacts.
3. **Climate Risks from Gradual Temperature Rise:** This includes challenges such as sea level rise, particularly impactful for Gaza, affecting natural and nature-using systems, including smallholder farmers.



Addressing these specific climate risks is crucial for developing targeted strategies to enhance resilience and sustainability in vulnerable sectors and regions within Palestine.

According to the World Bank's Country and Climate Development Report 2023, spatial disparities in the West Bank and Gaza will result in varying impacts and susceptibilities to climate change with high vulnerability to both flooding and drought in these regions. The Gaza Strip is anticipated to face heightened water scarcity, whereas the eastern part of the West Bank is expected to witness increased incidents of flooding. Summers are expected to become hotter with new spikes in peak temperatures, affecting labor productivity and straining public health systems with more heat-related diseases.

The impact of climate change will extend to the accessibility of water resources, escalating energy demands, and adversely influencing exports, pivotal sectors for economic growth, and food security. The diminished precipitation levels and heightened temperatures will curtail the annual recharge rate of aquifers, intensifying the strain on groundwater resources, which serve as the primary water source for numerous Palestinians. In the West Bank and Gaza, where small-scale family farming prevails as the predominant form of agriculture, nearly 90 percent of households derive at least part of their livelihoods from this sector. Consequently, climate change-induced water scarcity will directly impinge on the livelihoods of a significant portion of the Palestinian population. The proportion of water-dependent sectors in the economy is approximated to be close to 30 percent in the West Bank and Gaza.

The energy system will face heightened challenges attributed to the growing need for electricity, particularly for air conditioning and water desalination plants. The prolonged summer months and elevated temperatures in the West Bank and Gaza are anticipated to lead to an increased demand for cooling.

The ramifications of climate change will intensify the repercussions of climatic shocks and persistent stresses in major urban centers, posing substantial risks to densely populated communities, livelihoods, and valuable assets. Urban areas, in particular, are highly vulnerable to various hazards such as floods, heat waves, water scarcity, landslides, and coastal erosions. A noteworthy concern is the disproportionate impact on economically disadvantaged Palestinians, given the considerable overlap between areas prone to climate-related shocks and stresses and those characterized by high concentrations of poverty.

Firms and businesses in Palestine will face notable challenges from physical climate hazards, particularly drought, flooding, and escalating water scarcity. These challenges not only impact individual enterprises but also jeopardize the overall resilience of the Palestinian economy. Approximately 10 percent of businesses in the West Bank and Gaza have reported financial losses attributable to extreme weather events, including storms, floods, droughts, and landslides. Notably, medium and large companies experienced disproportionate losses at 15 and 14 percent, respectively, in contrast to smaller enterprises, both micro and small, which reported lower percentages of 9 and 10 percent, respectively¹.

¹ City Resilience Program: Urban Climate Risk Analysis (UCRA) for West Bank and Gaza, GFDRR, World Bank, [2022]

III. Significance of Climate risks for the Palestinian financial system- Transformation into business and financial risks.

The significance of both physical and transition risks is becoming increasingly evident, underscoring the growing necessity for financial institutions (FIs) to assess and incorporate climate-related and environmental risks into their risk management procedures. The lack of well-developed and detailed sustainability policies in the majority of Palestinian financial institutions, coupled with a dearth of tools for evaluating the impact of climate-related and environmental risks on their balance sheets, is apparent. Currently, no banks or non-bank financial institutions in the country have fully integrated these risks into their risk management frameworks. Integration would entail adopting risk measurement approaches, defining risk appetite, conducting stress tests and scenario analyses, and evaluating the impact on capital adequacy.

FIs must delve into understanding how various economic channels, at both micro and macro levels, transmit the effects of transition and physical climate risks, contaminating the financial system in the country. The climate risk transmission channels can be categorized into two sub-groups:

1. Micro-level channels (affecting individual economy operators):

- Property damage and business operation disruptions due to severe weather conditions.
- Changing market demand and supply chains.
- Additional strain on companies' cash flows due to increased capital expenditure (CAPEX) requirements.
- Loss of income for households, and more.

2. Macro-level channels (aggregated impacts on the national economy):

- Substantial inflation processes due to supply chain shocks.
- Higher market interest rates to reflect the heightened risk perception of international investors.
- Socio-economic shifts and profound changes in consumer patterns, among other factors.

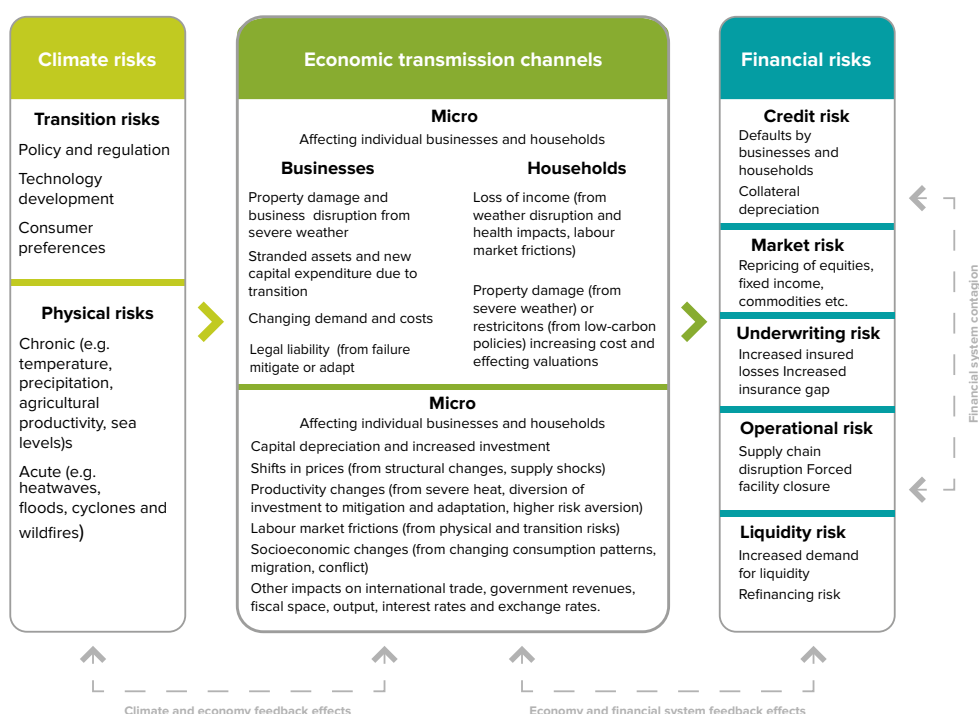


Figure 2 Transmission of climate related risks to financial system

IV. Sustainable finance market potential in Palestine- Readiness of the Financial Sector

The Palestine Authority has projected the indicative cost of attaining the outlined objectives in the Nationally Determined Contributions (NDC) to be a total of 6 billion USD. A significant portion of this cost is expected to be covered by the private sector and individuals, with varying percentages allocated across different sectors. Notably, sectors such as Energy, Transport, and Energy to Waste may rely entirely on private financing. In contrast, other sectors, including Agriculture and Waste, are anticipated to receive support from public funds to facilitate and incentivize private investments.

According to the 2023 World Bank Country and Climate Report in the West Bank and Gaza, the banking sector's lending capacity alone is deemed sufficient to meet the climate financing requirements of the country. This indicates that banks, on their own, can emerge as a formidable source of climate finance in the West Bank and Gaza, contingent upon the implementation of robust climate policies for both the financial and private sectors. The transition toward a carbon-neutral and climate-resilient economy offers banks opportunities for green finance. Private and financial sector stakeholders in Palestine emphasize that the adoption of a national strategy or policy focused on greening the financial sector, as well as green finance more broadly, would play a crucial role in providing guidance to financial institutions and the private sector in the realm of green finance. The Palestine Monetary Authority (PMA) has been actively involved in advancing sustainable finance and climate action within the banking sector.

While the adoption of green finance remains limited in the West Bank and Gaza, some successful sustainable finance initiatives highlight the effectiveness of combining financing with targeted technical assistance. The lack of technical capacity within financial institutions to assess and monitor green projects remains a major barrier in Palestine. The other primary challenges faced by financial institutions in integrating climate-related and environmental risks include the lack of technical tools and models, absence of official guidelines from financial regulators, and data gaps

Notwithstanding the existing barriers, as part of the CCDD development in 2023, a significant proportion of financial institutions in Palestine are actively engaged in financing green initiatives. 44% of Microfinance Institutions (MFIs) and 62% of banks declared their involvement in funding purposes such as solar energy, climate-smart agriculture, and transport. Furthermore, over half of the banks express openness to considering green bonds as part of their funding instruments.

Over 60% of the local financial institutions anticipate a high or moderate potential impact of climate change physical and transition risks on their clients. While more than half of these institutions believe that climate-related and environmental risk factors should be considered in setting prudential requirements, a significant portion (67% of MFIs and 54% of banks) do not include these risks in their regular strategic planning activities. Furthermore, almost none of the surveyed institutions incorporate climate-related and environmental risks in stress-testing and sensitivity analysis.

The progress towards integrating sustainable finance into Palestinian financial sector has been slow but steady with four banks declaring having some staff that (at least partially) covers green finance and climate related risks, while one of the local banks has established a dedicated sustainability department.



V. Drivers of Sustainable Finance

The Sustainable Banking and Finance Network (SBFN) outlines sustainable finance as the set of policies, regulations, and practices undertaken by regulators, supervisors, industry associations, and financial institutions (FIs). These efforts are aimed at two primary objectives: (i) mitigating and managing environmental, social, and governance (ESG) risks associated with financial sector activities, encompassing climate change and nature-related risks; and (ii) promoting the allocation of capital towards assets, projects, sectors, and businesses that yield environmental and social benefits, including those related to climate change mitigation and adaptation. Meanwhile, the European Commission characterizes sustainable finance as the process of duly considering ESG considerations in financial sector investment decisions. This approach seeks to drive increased long-term investments into sustainable economic activities and projects.

Until recently, sustainable finance, as a facet of financial services, was often viewed as a niche subject. Financial institutions typically offered «green products» upon client request rather than incorporating them into a comprehensive range available to the entire client base. There was a prevailing belief that green finance would be a transient trend rather than a fundamental shift in the trajectory of the financial system. However, a broader understanding of the climate change agenda and an increasing recognition among policymakers regarding the imperative to decarbonize have prompted a substantial reassessment of the financial system's role in the global economy. Internationally, there is a pressing need to sever the link between energy production and carbon emissions, precipitating a rapid transition to renewable energy with its attendant challenges and opportunities.

These shifts in perspective by policymakers and regulators align with the growing trend of financial services clients to consider ESG factors when making investment decisions. The repercussions of the climate change agenda and the ensuing alterations in how financial services are intermediated in the future economy will reverberate across diverse sectors, including banks, insurers, pension funds, stock exchanges, debt markets, rating agencies, central banks, and regulators.

Presently, the sustainable finance agenda permeates every aspect of financial services, leaving no segment of the financial or capital markets untouched. Several pivotal factors contribute to this widespread adoption. Firstly, there is a pronounced and rapidly intensifying concern regarding the threats posed by climate change, encompassing its detrimental impact on biodiversity and the anticipated social consequences arising from these changes. Meeting the internationally agreed-upon objectives outlined in the Paris Agreement necessitates a comprehensive transition across the entire economy, facilitated by substantial financial flows. However, despite the imperative, the portion of financial assets contributing to sustainability remains below 5% of global financial assets, underscoring the considerable challenge in scaling up sustainable finance.



Addressing this challenge, significant efforts have been directed towards devising tools and approaches to align financial investments with sustainability goals. Examples include taxonomies and portfolio alignment tools. Importantly, evidence indicates that investments aligned with sustainable development objectives do not entail a sacrifice in earnings. Furthermore, customers in the financial services sector are increasingly insisting that investments adhere to fundamental sustainability criteria.



VI. Objective of the PMA's Sustainable Finance Roadmap

This Sustainable Finance Roadmap outlines the planned initiatives by the PMA concerning the development of sustainable finance in the country. This comprehensive roadmap encapsulates all anticipated interventions that the PMA aims to introduce in the near future, complete with corresponding timeframes. The overall objective of this document is to establish a credible, predictable, and stable regulatory framework, thereby preparing the financial market in Palestine for a seamless transition to sustainable finance. It seeks to facilitate the integration of sustainability considerations into decision-making processes by offering coherent and consistent actions and allowing ample time for the system to adapt. The roadmap serves as a comprehensive framework delineating the medium-term strategic direction aimed at facilitating and expediting Palestine's overall capacity to achieve its climate and sustainable development objectives. It also endeavors to enhance the competitiveness of the financial sector and bolster economic resilience. This document is strategically crafted to foster the alignment of sustainability practices among various financial entities, including banks and non-bank financial institutions.

Recognizing the pivotal role of sustainable finance in contributing to overall sustainable development, the roadmap addresses environmental concerns, with a particular focus on challenges arising from climate change, as well as social and governance issues. Importantly, the roadmap is designed to be a living document, subject to periodic review and adjustments in harmony with the evolving market landscape. Through these planned actions, the PMA aims to foster a financial environment that actively promotes sustainability and aligns with broader government efforts in this realm. Focused on banks and non-bank financial institutions under the regulatory purview of the PMA, this Roadmap embodies the dedication and goals of the overall financial sector to embrace sustainability. Additional financial entities have the opportunity to consult this Roadmap and formulate strategic initiatives tailored to their respective operations.

VII. The Roadmap Structure – Pillars and Initiatives

Customized frameworks for sustainable finance roadmaps are designed to encapsulate the sustainable development aspirations, unique needs, and opportunities specific to a country or region. While the details of each roadmap may vary from one country to another, common reforms and activities have been identified among by the Sustainable Banking and Finance Network and have been taken into account during the development of the Palestinian Roadmap.

The present Sustainable Finance Roadmap comprises three primary pillars:

1. Directing increased capital flows towards sustainable sectors and investments with the aim of achieving an environmentally friendly and socially inclusive economy.
2. Integrating ESG management into the risk assessment frameworks and decision-making processes of financial institutions and corporations and guaranteeing heightened transparency and market accountability by implementing minimum ESG disclosure requirements.
3. Enhancing awareness, offering guidance, and enhancing the market's capacity in sustainable finance to channel more capital towards environmentally and socially beneficial sectors, fostering a green and socially inclusive economy.

The activities under each of the three primary pillars of the roadmap can be further classified into three sub-categories depending on their emphasis and key implementing party as follows:

1. Actions at the National Level (Government roles).
2. PMA's actions for promoting the sustainable finance/ greening the financial sector.
3. Additional activities aimed at greening PMA's own operations.



Figure 3 Sustainable Roadmap Structure

1. Pillar I: Creating awareness, offering guidance, and building market capacity in sustainable finance.

The pillar devoted to creating awareness, capacity, and offering guidance, educate, inform and build knowledge regarding sustainability risks and opportunities in Palestine. The emphasis is on accumulating local experience, creating dialogue mechanisms and platforms for knowledge-sharing to improve coordination among the Palestinian financial market and all stakeholders. The central focus of this pillar involves initiatives targeted at strengthening the internal capacities of the PMA, ensuring effective implementation, management, and monitoring of its supervisory functions. This, in turn, will support the transformation of the Palestinian financial sector towards sustainable finance. Creating fruitful partnerships with private sector experts and academia will additionally underpin these efforts and ensure quick success.



1.1 Develop Capacity and Raise Awareness at PMA and Financial Sector

Objective of the activity: To overcome the existing knowledge gap at PMA and financial institutions with ultimate goal to improve access to financing for various sustainable development projects.

Importance and expected impact: Improving the capacity at PMA and FIs to identify and assess sustainable projects will unlock additional streams of capital for such projects. It will lower the risk aversity of FIs, thus removing a key supply side barrier. These activities will ensure that PMA and FIs possesses sufficient capacity to design and implement various regulatory and promotional programs to enhance the sustainable finance market evolution in Palestine.

Limited uptake of sustainable finance in Palestine can be attributed, in part, to a lack of comprehension regarding the risks associated with short-term thinking and the advantages of cultivating sustainable finance practices. As a result, one crucial task moving forward is the imperative to build capacity and enhance understanding in this domain. This entails providing education and training to various stakeholders, including financial institutions, policymakers, and the broader public, to foster a deeper appreciation of the risks posed by short-term perspectives and the tangible benefits associated with the development of sustainable finance. Through capacity-building initiatives, PMA can work towards creating a more informed and engaged community that recognizes the value and long-term impact of sustainable financial practices.

The primary focus within this pillar is the continuous improvement of the PMA's internal sustainable finance capacity. This is aimed at ensuring the efficient implementation, management, and monitoring of supervisory functions in support of the transformation of the Palestinian financial sector towards sustainable finance. The emphasis on enhancing internal capacities underscores the importance of having well-equipped and skilled personnel within the PMA as well as a strong network of local professionals and consultants to effectively steer and oversee the sustainable finance initiatives, contributing to the broader goals of financial sector sustainability in Palestine.

Moreover, recognizing the pivotal role of sustainability within supervision frameworks, the PMA will be allocating resources to enhance and fortify its capacity for integrating sustainability into supervision practices. This commitment will extend to building the necessary capacity for effectively coordinating and leading the implementation of this Sustainable Finance Roadmap, encompassing its constituent pillars and associated actions. The dedicated capacity building within the PMA will undertake a variety of measures, including but not limited to:

1. Facilitating awareness-raising and upskilling initiatives for both external and internal stakeholders, which may involve the development of guidelines and analytical tools.
2. Providing strategic advice to the PMA Management on all matters related to Authority's efforts in sustainable finance, including climate-related and environmental risks.
3. Steering, coordinating, supporting, and streamlining internal efforts on sustainability issues, as well as overseeing the PMA's engagement with relevant international forums.
4. Contributing to the further development of this Sustainable Finance Roadmap, as well as the formulation of supervisory policies, actions, regulations, and tools related to sustainable finance.

This multifaceted approach underscores the PMA's commitment to developing a robust and sustainable financial sector in Palestine. In addition to introducing a dedicated capacity building program, the PMA will formulate a clear internal policy/ strategy outlining its commitment to sustainable finance, identifying the main milestones and their role towards the financial sector. A specialized function dedicated to sustainable finance will be created within the PMA to lead the overall process.

The National Strategy for Financial Inclusion and its action plan will be updated to incorporate sustainable finance and Environmental, Social, and Governance (ESG) factors.

1.2 Establish National Sustainable Finance and Climate Risk Coordination Committee NSF-CRCC

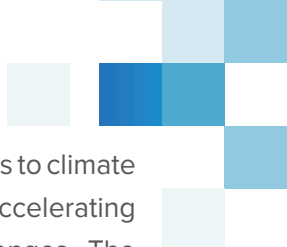
Objective of the activity: To coordinate the efforts of various sustainable finance market stakeholders and professionals towards addressing the identified market development barriers.

Importance and expected impact: Creating a national hub is very important to ensure that all stakeholders are involved in the market development activities.

Achieving Palestine's sustainable development goals necessitate a coordinated and all-encompassing approach that integrates initiatives across the identified Pillars. This calls for collective commitments from all financial industry stakeholders and their clients, well-crafted policies and regulations, an educated populace, and a risk-based strategy to guide capital flows towards sustainable economic trajectories. Merely having investment determination is not enough. A comprehensive understanding of sustainability risks, especially concerning the physical and transition impacts of climate change, demands access to sustainable finance skills, talent, and tools. It is imperative that the financial sector is well-informed and aware of the various sustainability challenges to effectively contribute to Palestine's sustainable development ambitions. This underscores the importance of integrating sustainability considerations into every facet of the financial landscape, fostering a more resilient and responsible economic environment.

The PMA will lead the establishment a National Sustainable Finance Climate Risk Coordination Committee to effectively address identified needs in the realm of sustainable finance. Collaborating with all relevant market stakeholders, the PMA, through the Committee, will assume a prominent role in closing capacity gaps. It will do so by organizing and facilitating workshops and training sessions in areas related to sustainable finance and its various components. The Committee will be strategically designed to strengthen the pillars outlined in this Sustainable Finance Roadmap and foster interconnected activities across all of its pillars. Through these concerted efforts, the Committee will aim to enhance awareness, knowledge, and expertise in sustainable finance, contributing to the successful implementation of the broader sustainable finance agenda in Palestine.

The Committee will be dedicated to driving practical advancements in the sustainable finance agenda at the policy, regulatory, and market levels. It will take the lead in research and development activities aimed at facilitating the design, creation, and launch of innovative financial mechanisms to facilitate the transition to a sustainable economy. This approach will support the realization of commitments under various climate and sustainability related international treaties and initiatives.



The Committee will play a role in assisting Palestinian financial institutions in overcoming barriers to climate alignment and addressing broader issues in the sustainable finance agenda. This will include accelerating the integration of ESG factors, addressing nature-related and biodiversity financing challenges. The Committee's activities will also extend to contributing to specialized training in sustainable finance and supporting financial institutions as they navigate the organizational and talent development challenges associated with transforming into climate-aligned financial institutions. Through these multifaceted efforts, the Centre will aim to drive meaningful and practical change in the realm of sustainable finance.

The Committee will be established as a partnership between the PMA and prominent local professionals and consultants to achieve effective synergies between the public sector leadership and private sector market knowledge.

The Committee will go beyond mere workshops and training sessions by actively contributing to research endeavors that support the development, testing, and demonstration of sustainable finance policies. This research will serve as the foundation for sector guidance, involve the analysis, validation, and calibration of ongoing initiatives and policies, and advocate for practical solutions aimed at directing capital towards an inclusive, net-zero, and resilient economy.

Additionally, the Committee will play a facilitating role in forging relationships between domestic and international financial institutions to cultivate practical and scalable solutions, particularly in addressing barriers to climate alignment and broader sustainable finance goals. Collaborative efforts will be sought with the private sector, government agencies, and international organizations in the coming years. Throughout this journey, the PMA will assimilate lessons learned from workshops and knowledge exchanges, using these insights to refine sustainable finance policies and corresponding rollout plans.

1.3 Identify International Sustainable Finance Initiatives and Strengthen Cooperation

Objective of the activity: To tap into most relevant sources of international knowledge in the realm of Sustainable finance.

Importance and expected impact: Being able to cooperate with international sustainable finance leading organizations is of high importance, allowing transfer of knowledge and good practices and building of local capacity.

To strengthen Palestinian policy, regulatory, and market expertise in sustainable finance and to foster international collaborations, PMA will be actively participating in various leading public sector global sustainable finance initiatives. A comprehensive stocktake and analysis will be conducted to identify the complete range of such initiatives and platforms, ensuring PMA's engagement with the most relevant ones. This strategic approach aims to enhance PMA's involvement in international initiatives and maximize participation in those already aligned with the Palestinian ambitions.





2. Pillar II: Enable Increase in Sustainable Flows

2.1 Introduction of Sustainable Finance Principles

Objective of the activity: Preparation of the local financial market to embrace sustainable practices.

Importance and expected impact: This is a key early-stage step towards developing a fully-fledged sustainable finance regulatory and market framework in Palestine.

The PMA will establish a dedicated committee to formulate sustainable finance principles – a set of guidelines aiming to aid banks and non-bank financing institutions across Palestine in addressing the evolving global megatrend issues, including but not limited to human security, anti-money laundering, socially responsible stewardship, information communication transparency and disclosure, corporate integrity, as well as environmental and climate change concerns. Sustainability entails fulfilling current needs without jeopardizing the ability of future generations to meet their own requirements. The essence of sustainability lies in safeguarding natural resources, maintaining a stable climate, and ensuring the preservation of these assets for the well-being of forthcoming generations. Moreover, it involves the assurance of human rights and the provision of a life marked by dignity, free from poverty and deprivation for all.

In this context, the core of sustainable finance lies in actively advancing the objectives of sustainability. This active participation is translated through the development of financial products, models, marketing services, and business operations by FIs. Acknowledging the imperative for an approach that harmonizes with the envisioned role of the financial industry in addressing economic, social, and environmental development challenges in Palestine, PMA's sustainable finance approach will be strategically crafted to effectively address these critical nexus issues.

The responsibilities of the PMA dedicated sustainable finance committee will encompass aligning the banking and non-bank finance business with the evolving paradigm, as well as selecting and formulating a set of principles and sector-specific guidance notes. These efforts will be aimed to systematically map the risks associated with sustainable finance, considering both potential impacts and financially viable opportunities in an integrated manner. The application of Sustainable Finance Principles will be directed towards economy sectors identified as particularly sensitive to environmental and social (E&S) standards, while simultaneously constituting a substantial proportion of portfolio exposure for FIs. Such sectors may include: agriculture, construction and real estate, manufacturing, stone and marble, food processing and production, etc.

In fulfilling its mandate, the dedicated Sustainable committee at PMA will conduct series of stakeholder consultations to gather insights that would guide the anticipated outcomes. Additionally, it will draw upon best practices from globally recognized Environmental, Social, and Governance (ESG) frameworks, including but not limited to the IFC Performance Standards, the United Nations Global Compact, the United Nations Environment Program Finance Initiative (UNEPFI), and the Equator Principles, among others. Such an approach will allow the designated committee to integrate valuable perspectives and align PMA initiatives with established global standards in sustainable finance.

The Palestine sustainable finance principles and sectoral guidance will be developed as a result of a process-oriented initiative aimed at integrating environmental considerations, social inclusion, and good governance into the lending decision-making processes of LFs in Palestine. Such a framework would serve as a guide to embed the fundamental tenets of sustainability into their business and operations, ultimately fostering heightened growth and increased returns. These guidelines will be expected to depict sustainable finance as a mutually interconnected imperative. They will strive to achieve two primary objectives:

1. Improving the contribution of finance to sustainable and inclusive growth by supporting society's long-term needs.
2. Strengthening financial stability by incorporating ESG factors in the decision-making processes related to lending.

The themes of the sustainable finance principles may be rather diverse and will encompass at least the following domains:

3. Environmental and Social Risk Management.
4. Internal ESG in FIs operations.
5. Corporate Governance and Ethical Standard.
6. Gender Equality and Financial inclusion.
7. Resource efficiency, Sustainable Production and Consumption; Circular economy.
8. Non-financial disclosures and Reporting.

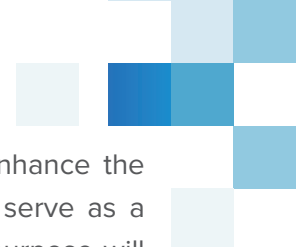
2.2 National Taxonomy for Sustainable Finance

Objective of the activity: Developing a framework and guidelines that will allow local FIs easily identify and classify sustainable investments across various sectors.

Importance and expected impact: This is one of the most important activities towards developing a robust sustainable finance market. By implementing the National Taxonomy the local FIs will easily identify, assess and report on financed sustainable projects, which will substantially increase the funding streams towards such projects.

The PMA is poised to consider and benchmark against both international and national taxonomies. The alignment with global definitions in these taxonomies is crucial as it facilitates cross-border investments. Notably, the EU Taxonomy is regarded as one of the most advanced and comprehensive frameworks, encompassing various sectors such as cross-sector businesses, capital markets, and financial products. The EU Taxonomy plays a pivotal role by offering precise definitions to companies, investors, and policymakers, outlining which economic activities can be deemed environmentally sustainable. This not only safeguards private investors from greenwashing but also aids companies in planning their sustainable transition. Furthermore, the EU Taxonomy works towards mitigating market fragmentation and redirecting capital flows towards sustainable economic activities.

Other pertinent taxonomies include the China Green Taxonomy, South African Green Finance Taxonomy, the Green Taxonomy of Colombia and the MDB-IDFC Principles for Common Tracking on Mitigation and Adaptation Finance.



The development of a national taxonomy on sustainable activities will undoubtedly enhance the uniformity and guidance in identifying sustainable investments. Such a taxonomy will serve as a classification tool, clearly defining which economic activities qualify as sustainable. Its purpose will be to enhance market clarity, enabling lenders, investors and companies to make well-informed investment decisions. The potential impact of a national sustainable finance taxonomy will extend beyond just classification - it can serve as the foundation for additional regulations, similar to the EU's Sustainable Finance Disclosure Regulation (SFDR) and Corporate Sustainability Reporting Directive (CSRD). These regulations set the stage for a sustainable finance product framework.

The formulation of the national taxonomy for sustainable activities in Palestine will be led by the PMA but will be conducted in close cooperation and partnership with key stakeholders such as the Environment Quality Authority, the Ministry of Economy and the Ministry of Finance. The PMA leadership will extend to evaluating the suitability and flexibility of different established international and national taxonomies, considering the influence of international capital providers and relationships. The collaborative initiative will drive by the overarching goal of ensuring that the Palestinian national taxonomy harmonizes with best global standards and practices within the realm of sustainable finance. By aligning with international benchmarks, the intention is to foster coherence and compatibility, thereby enhancing the effectiveness and recognition of Palestine's sustainable finance framework on a global scale.

2.3 Develop a Comprehensive Program to Support the PMA and Financial Sector in Designing Sustainable finance Instruments

Objective of the activity: Create internal capacity at PMA and FIs and enhance the development of dedicated financial instruments, tailored to meet the specific needs of sustainable investment projects.

Importance and expected impact: A highly important activity which will align the supply side to the demand side market requirements. The ability to develop tailored financial products will overcome a major market barrier – the mismatch between the requirements of the supply side financial products and the actual needs of the demand side sustainable projects.

As the number of FIs interested in the development of new instruments, products, and services — such as green, social, and sustainability loans is expected to grow in the short term, it will be of essential importance to establish a framework that actively supports and accelerates these endeavors. This framework will play a crucial role in realizing Palestine's aspirations for excellence in sustainable finance, facilitating the mobilization of additional funding streams to support both the climate action agenda and the Sustainable Development Goals.

Created in collaboration with industry partners and key public sector stakeholders, a support framework may encompass a set of activities aimed at identifying emerging and well established international best practices. These support activities will also extend to include initiatives related to nature-related and biodiversity financing. An interconnected approach will foster a collaborative environment, encouraging innovation and entrepreneurship in the sustainable finance space.

Aligning the sustainable finance products of the FIs to the national or adopted international taxonomy is of utmost importance. To achieve a proper, impactful, and transparent labeling of financial products it is imperative to establish a clear and transparent standard and policy framework. Internationally recognized standards such as the EU Sustainable Finance Disclosure Regulation (SFDR) provide guidance on categorizing instruments as «light» or «dark» green based on alignment with the EU Taxonomy and other specified criteria. SFDR also mandates the consideration of sustainability factors in investment decision-making and the reporting of sustainability indicators. Such initiatives will contribute to shaping standardized and recognized frameworks that enhance the clarity and transparency of sustainable finance products in the market.

Green, Social and Sustainability loans, leasing products and bonds constitute a novel asset class with the potential to address the financing gap for sustainable development. However, in emerging markets like Palestine, the size of this market remains rather limited. Establishing a sustainable finance product framework can play a pivotal role in aligning with investor sustainability preferences and fostering the development of the market. The potential benefits from such a framework encompass:

1. Offering an additional source of financing for SDG-related projects: green and sustainable bonds can serve as an avenue for issuers, including Palestinian financial institutions, to diversify their funding sources. This provides an alternative to conventional financing, which can often be more expensive, thereby supporting a broader range of projects related to Sustainable Development Goals.
2. Facilitating long-term financing: long-term green infrastructure projects often necessitate extended financing durations, making sustainable bonds issuance a fitting option. Green and sustainable bonds can be particularly attractive to institutional investors and can contribute to the decarbonization of investment portfolios.
3. Contributing to mitigating climate change risks in emerging markets: with the tangible impacts of climate change, investors are growing more cautious about lending to vulnerable countries. Green and sustainable finance presents an opportunity for the Palestinian financial sector to actively address and mitigate climate change risks. This not only aligns with global sustainability efforts but also safeguards the financial standing of the nation in the face of climate-induced risks.

The PMA will conduct an analysis of various measures and regulations to foster the creation and adoption of sustainable financial products, concurrently with the development of the national taxonomy. This analysis will involve an examination of the applicability and relevance of diverse sustainable finance product frameworks and labeling schemes that could be adapted to the Palestinian context. The frameworks under consideration include the EU taxonomy, SFDR, CSRD, a selection of country-specific approaches, and market-led initiatives. Establishing clear definitions, regulations, and principles will enhance local financial institutions' understanding of the sustainable finance market. This, in turn, will enable the financial sector to capitalize on investor enthusiasm and potentially increase the issuance of sustainable debt, both domestically and internationally.

2.4 Improve the Sustainable Finance Market Environment Through Enhancing Policies

Objective of the activity: Aligning the policies and initiatives of various entities and agencies in order to enhance the development of sustainable finance in Palestine.

Importance and expected impact: Well-coordinated, predictable policy development on national level is of utmost importance for planning and implementation of sustainable investments. Communication of the policy initiatives to the private sector investors and FIs is equally important for the market ecosystem.

Various measures and incentives will be examined and may be considered in the future. These incentives will be designed to uphold the environmental integrity of financial products and their underlying assets, diminish compliance and assurance costs, and implement other effective measures. For instance, one approach involves the utilization and reporting of funding allocated to assets under sustainable product labels, or the imposition of more stringent reporting regulations for non-sustainable investments.

Additionally, in cooperation with the Ministry of Finance, the PMA might explore tax or other fiscal incentives for engagement with government-sponsored instruments. These incentives hold the potential to positively impact both the demand side (with investors benefiting from the incentive) and the supply side (with issuers reaping the advantages of the incentive) of sustainable finance products. Timely reviews, and where necessary, amendments to relevant regulations will be undertaken as innovations in sustainable finance legislation emerges on the international scene. This process will encompass an assessment of the feasibility and implications of provisions related to sustainable finance.

The PMA, in partnership with other relevant government entities will maintain regular monitoring of developments and will consider potential policy measures in the sustainable finance domain, aligning with the initiatives outlined in this roadmap. This approach will ensure a proactive response to evolving regulatory frameworks and supports the ongoing commitment to advancing sustainable finance initiatives in Palestine.

As part of this line of activities, the PMA will also update the existing supervisory manual/ framework (Risk Based Supervision RBS) and tools to incorporate sustainable finance and climate-related financial risk considerations into supervision and risk and risk management practice. This will include creating an internal team from supervision group to update the Risk-Based Supervision (RBS) Manual involving assembling a group of skilled in risk management, supervision, policy development, and sustainable finance.



2.5 Develop a Centralized Sustainable Finance Database and Progress Tracking Framework

Objective of the activity: To enhance the programming and planning of sustainable finance policies and initiatives, allow for benchmarking of project performance indicators which is needed by FIs to easily assess sustainable investments.

Importance and expected impact: Highly important for decision making on national and sectoral policy level, as well as for enhancing local FI abilities to assess the financial performance of sustainable projects through benchmarking.

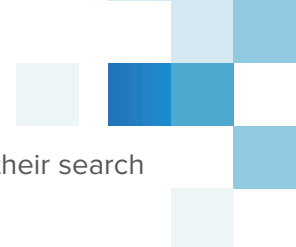
Palestine lacks an integrated and shared data collection mechanism for tracking sustainable finance flows. However, some of the existing database systems can be upgraded and further utilized for this purpose with the support of international partners involved in past, current, and future sustainable finance programs in the country. Leveraging the existing databases and collaborating with international and local partners can offer valuable insights into sustainable finance activities within Palestine. Establishing a comprehensive and shared data collection mechanism, incorporating both public and private sectors, could enhance the monitoring and assessment of sustainable finance initiatives in Palestine. This could be instrumental in evaluating the impact of such initiatives and guiding future strategies for sustainable economic development.

Undoubtedly, sustainable finance information and data plays a crucial role in informed decision-making, policy formulation, and accurate predictions. For sustainable market transformation purposes, it is imperative that sustainable finance data meet certain criteria—they should be accurate, reliable, relevant, complete, and timely. These qualities are essential for effectively aligning proposed incentives, measuring outcomes, and valuing assets appropriately. Tracking sustainable finance flows is instrumental in addressing information gaps and preventing the mismanagement of data, fostering transparency in the sustainable ecosystem. This transparency is vital for building trust among stakeholders and ensuring that sustainable finance initiatives are accountable and impactful. Moreover, having accurate and comprehensive data enables the financial sector to innovate further, exploring new opportunities and solutions that contribute to the overall growth and effectiveness of sustainable finance initiatives.

The PMA will take a proactive role in establishing a central sustainable finance information database. This initiative will involve leveraging existing datasets and reporting structures, augmenting them where necessary, and introducing new streamlined templates for ESG reporting within the financial sector with the ultimate objective of creating a comprehensive and centralized repository of sustainable finance information. Recognizing the importance of collaboration and synergies, the PMA will actively seek partnerships with various industry associations and market stakeholders. A collaborative approach will ensure that the database reflects the input and perspectives of diverse stakeholders within the financial sector, fostering a more inclusive and comprehensive representation of sustainable finance activities in Palestine. The establishment of this central database is a pivotal step towards enhancing transparency, accountability, and effectiveness in sustainable finance initiatives in the country.

The envisioned sustainable finance information database will strive to collect a diverse range of relevant data and information to support various initiatives across the pillars. It will aim to capture, among other things:

1. Physical risk data of critical or significant assets from a climate risk perspective as well as Transitional risk profile of leading industries in Palestine.
2. ESG progress reports and sustainable commitments made by various financial and non-financial entities.
3. Updated information on the latest sustainable finance regulations applicable to both financial and non-financial corporates and products in Palestine.



4. Details on the sustainable finance product framework to inform interested parties in their search for adapted financing.
5. GHG emissions data categorized by sector and results of mitigation efforts on sectoral and national level.
6. Dedicated financial flows from national and international (donor-funded) sustainable finance programs in Palestine, along with the tracking of KPI results.

This comprehensive collection of data will not only serve as a valuable resource for the sustainable finance sector but will also provide insights and information crucial for decision-making, policy formulation, and the overall advancement of sustainable finance initiatives in Palestine.

2.6 Enhance adoption of sustainable finance through innovation and digitalization in the financial sector

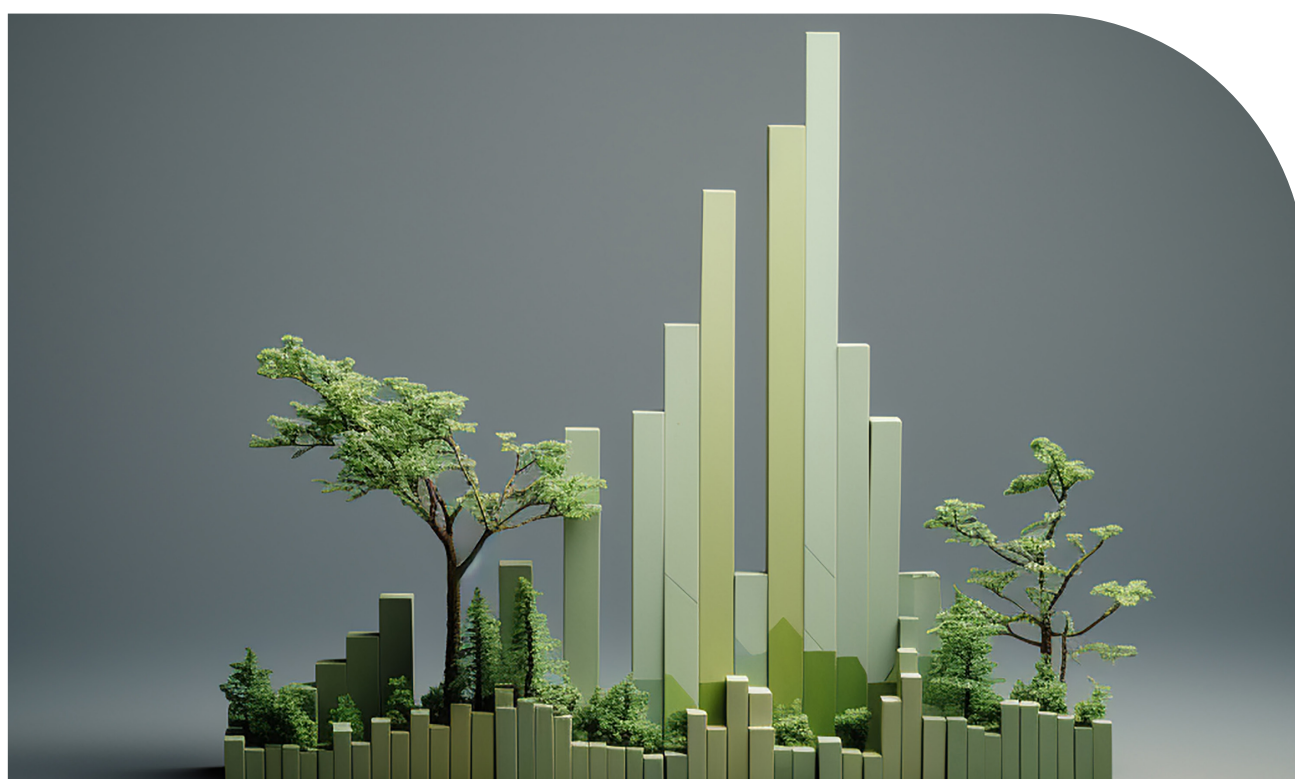
Objective of the activity: To leverage on newest digital solutions and technologies in order to streamline the sustainable finance across various sectors in Palestine.

Importance and expected impact: Using innovative channels would underpin the uptake of sustainable finance in Palestine, extending the reach to sectors and social groups that are generally underserved by the financial sector.

The PMA will seek to leverage on financial sector innovations and digital solutions in order to promote broader promotion of sustainable finance principles. This may be done through incorporating sustainability criteria into the Regulatory Sandbox framework, which supports the testing of financial technologies (FinTech) and digital solutions aimed at addressing climate-related challenges, such as carbon footprint tracking, climate risk analytics, and sustainable investment platforms.

The PMA will leverage technology and digital innovations to expand access to financial services in an environmentally sustainable manner, promoting digital payments, mobile banking, and fintech solutions that reduce carbon footprint and enhance efficiency.

Moreover, the PMA will support research initiatives focused on sustainable finance, including studies on the economic impacts of climate change, ESG risks in the financial sector.



3. Pillar III: ESG Integration and Disclosures

3.1 ESG Risk Identification and Management and Integration of ESG in Supervisory Framework

Objective of the activity: Introducing the assessment of non-financial set of risks (environmental, social and governance) to the financial decision-making procedures of Palestinian FIs (including through modifications of the Supervisory framework).

Importance and expected impact: An activity of primary importance which will induce and push the financial institutions towards taking into consideration of additional set of ESG related risks when making financing decisions. By integrating additional ESG to their risk screening and management methodologies would allow the FIs avoid future losses due to climate, social or reputational risks while efficiently allocating resources to sustainable investment projects at the same time.

ESG risk management involves the integration of Environmental, Social, and Governance risks into lending and investment considerations. The goal is to prevent or mitigate financial losses, reputational risks, and harm to the environment and communities resulting from projects financed by banks or non-bank financial institutions. Notably, an increasing number of markets now recognize climate risk as a distinct factor influencing the performance of both supply and demand. Over the past decade, there has been a growing global convergence of ESG risk management standards. Notable examples include the IFC's Performance Standards, the Equator Principles, and the EBRD Environmental and Social Risk Management Manual, etc. These standards provide a framework for public and private financial institutions to align their practices, contributing to a more unified and responsible approach to managing ESG risks in the financial sector.

Financial institutions can generate long-term value for their business by effectively managing ESG risks and identifying opportunities associated with these risks. Achieving optimal long-term value creation requires a meticulous approach to both risk and opportunity management. Such a balanced strategy ensures that FIs not only mitigate potential negative impacts but also capitalize on opportunities aligned with sustainable and responsible practices, contributing to the overall success and resilience of the business in the long run.

The integration of ESG factors into the supervisory manual/ framework is designed to establish a robust supervisory response to climate-related and environmental risks. This integration will involve incorporating considerations of these risks into various components of the PMA's supervisory functions. Furthermore, such an initiative will support the integration through structural capacity-building at the institutional level.

To achieve a comprehensive integration of these risks into supervisory practices, the PMA will allocate the necessary time and resources. This commitment aligns with the overarching institutional strategic plan, ensuring that actions are coordinated and mutually reinforcing, thereby fostering a holistic and effective approach to addressing climate-related and environmental risks in the supervisory context.

The integration of sustainability risks into the supervision framework will follow a gradual and sequential approach, with a particular emphasis on addressing climate-related and environmental risks. The PMA, in cooperation with relevant public entities and private sector partners, will consider a number of activities in this regard:



1. Conduct studies on the impact of climate-related and environmental risks on the domestic economy and stakeholders, including the financial system.
2. Develop and adopt a strategic plan for integrating climate-related and environmental risks into supervisory responsibilities. This will include establishing an internal governance structure, operating model, and institution-wide awareness-raising and capacity-building efforts.
3. Establish clear supervisory expectations, tools, and guidelines for assessing and managing climate-related and environmental risks.
4. Foster close collaboration and cooperation among local financial institutions, relevant public sector entities, regional and international supervisors, and other stakeholders to effectively manage the physical and transition risks arising from climate change.
5. Publicly report on the financial supervisory/regulatory authority's governance, strategy, and risk management arrangements related to climate risk.

The PMA will also consider examining the requirements related to the utilization of external reviews and information service providers, including benchmarks, and auditors. Furthermore, the implementation of measures to prevent, detect, and sanction greenwashing and the misuse of funds through sustainable or green-labelled instruments will be outlined, aligning with the responsibility to set clear supervisory expectations.

To underpin the success of this activities, the PMA will consider Provide incentives, such as preferential regulatory treatment to FIs that fulfill regulatory requirements in sustainable finance.

3.2 Develop Guidance and Expectations on ESG Integration and Risk Management

Objective of the activity: Closely linked to the previous activity, this one aims at creating an enabling environment for ESG integration into the risk management frameworks of the local FIs.

Importance and expected impact: Highly important activity which will prepare and support the local FIs for implementation of ESG into their decision-making processes. The mix of mandatory and voluntary initiatives will also build long – term internal capacities at the FIs.

PMA's guidance for FIs plays a pivotal role in the overall supervisory response. Through the establishment of clear supervisory expectations concerning financial institutions' management of climate-related and environmental risks, the PMA will aim to actively guide FIs towards taking concrete actions. Such guidance will be instrumental in driving FIs to enhance their approaches to incorporating ESG considerations into their risk management frameworks. By providing specific expectations, the PMA will promote proactive measures by FIs to address and integrate sustainability considerations within their operations.

Developing guidelines for the financial sector on sustainable finance would involve a mix of mandatory regulatory requirements and voluntary initiatives to promote environmental, social, and governance (ESG) considerations.

The Mandatory Regulatory Requirements may include:

1. Integrating ESG factors and climate-related financial risks into their risk management frameworks, including the identification, assessment, and mitigation of ESG-related risks across all business activities.
2. Strengthening disclosure requirements and promoting transparency and accountability.
3. Conducting environmental due diligence assessments for large-scale projects, ensuring compliance with environmental regulations and standards.

The Voluntary Initiatives may include:

1. Encouraging financial institutions to adapt and report on their ESG performance using internationally recognized frameworks, such as the Global Reporting Initiative (GRI) or the Task Force on Climate-related Financial Disclosures (TCFD).
2. Facilitating collaboration among financial institutions, industry associations, and other stakeholders to share best practices, develop industry standards, and promote innovation in sustainable finance.

There is a growing global convergence among public and private financial institutions on climate and wider ESG risk management standards, including EU Taxonomy's "Do No Significant Harm" and "Minimum Social Safeguards"², the IFC's "Performance Standards"³, the "Equator Principles"⁴ and EBRD's "Environmental and Social Risk Management Manual"⁵. The PMA will undertake efforts to map the methods and approaches employed by FIs, as well as those endorsed by international bodies. This mapping exercise will aim to identify potential gaps in current practices. Based on the findings, the PMA will consider making recommendations or mandating specific frameworks to enhance the alignment of financial institutions with international best practices and standards in sustainable finance. This proactive approach will ensure that the financial sector of Palestine remains informed by global advancements and adheres to sustainable finance principles.

The PMA will develop its sustainable finance guidance based on the existing international best practices, focusing on several key areas or a combination thereof, including governance, strategy, risk management, scenario analysis and stress testing, and disclosure:

1. **Governance:** The PMA will expect the management bodies of the FIs to comprehend and evaluate the financial risks associated with climate-related and environmental factors affecting their long-term business models. Additionally, the FIs management should be capable of addressing and overseeing these risks within their own overall business strategies and risk appetite. The PMA will also anticipate evidence demonstrating how supervised institutions monitor and manage financial risks stemming from climate change in accordance with their risk appetite statements. The FIs will be required to demonstrate clearly defined roles and responsibilities for climate related and environmental risk management. Supervised FIs will have to allocate sufficient resources and develop necessary internal capacity to identify and manage such risks.
2. **Strategy:** FIs will be expected to adopt a risk management approach that reflects an understanding of the unique aspects of financial risks associated with climate change. This approach should encompass a sufficiently long-term perspective, extending beyond standard business planning horizons typically ranging from 3 to 5 years.

² https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

³ IFC Performance Standards and supporting guidance, including the World Bank Group environmental, health and safety (EHS) guidelines www.ifc.org/sustainability and www.ifc.org/performancestandards

⁴ <https://equator-principles.com/about-the-equator-principles/>

⁵ <https://www.ebrd.com/who-we-are/our-values/environmental-emanual-risk.html>



- 3. Risk Management:** FIs will be encouraged to incorporate the management of financial risks associated with climate-related and environmental changes into their existing risk management frameworks, consistent with their board-approved risk appetite. FIs may need to update existing risk management policies as deemed appropriate to effectively address climate-related and environmental risks.
- 4. Stress Testing and Scenario Analysis:** Over the longer term, the PMA will develop a climate change stress test along with applicable scenarios, providing clear guidance for FIs. The PMA stress testing exercise will be leveraging on insights from the work conducted by globally renowned organizations and institutions such as the Network for Greening the Financial System (NGFS) and the European Central Bank (ECB) on stress tests, aiming to:
 - a. Explore the impact of climate change and the transition to a low-carbon economy on FIs strategies and the resilience of their business models.
 - b. Identify and assess relevant climate-related risk drivers affecting individual FI or the Financial system as a whole.
 - c. Facilitate information sharing, identify common data, and address methodological gaps and limitations in climate-related risk management.
 - d. Inform the adequacy of supervised FIs risk management frameworks, including their available risk mitigation options.
- 5. Disclosures:** Palestinian financial institutions will be expected to exhibit transparency by disclosing the integration of climate-related and environmental financial risks into their governance and risk management processes. The disclosures should encompass the process through which the institutions have assessed whether these risks are deemed material or principal risks. By providing clear and comprehensive information on these aspects, LFIs will be contributing to greater transparency and enable stakeholders to understand the institution's approach to managing climate-related and environmental risks.

The PMA will expect FIs to tailor their response to financial risks arising from climate-related and environmental factors in proportion to the nature, scale, and complexity of their impacted financial operations. The ultimate objective is to ensure that ESG risks are adequately integrated into decision-making processes, and that material risks are effectively managed.

3.3 Aligning Corporate Governance of FIs with ESG

Objective of the activity: To internalize ESG considerations into the FI governance structure and managerial processes.

Importance and expected impact: Implementing ESG compliant internal procedures will allow local FIs to obtain better understanding of key Sustainable Finance Principles and design well-tailored financial risk policies and products to offer to their clients.

The PMA will be actively encouraging governance enhancements among FIs to account for climate-related and environmental risks and opportunities. Acknowledging the significance and challenges inherent in this transformation, the PMA will aim to assist FIs in formulating, developing, and embracing effective corporate management systems dedicated to climate-related accountability and responsibility. In some instances, these efforts may be part of a broader sustainability agenda.

This ESG alignment support may involve initiatives such as establishing guidelines, developing tools, and creating manuals that reflect best practices in establishing accountability mechanisms for climate-related business performance. Additionally, it may encompass the adoption of climate-related strategies, risk policies, and financial planning, facilitating the incorporation of corporate governance measures throughout the FIs' value chain.





VIII. Implementation of the Sustainable Finance Roadmap – Monitoring and Control

Effective execution of the Sustainable Roadmap necessitates close cooperation and coordination among various stakeholders. To ensure the smooth execution of the action plan and the engagement of all stakeholders from the outset, the PMA will consider the establishment of a National Sustainable Finance and Climate Risk Coordination Committee NSF-CRCC. This Committee will comprise representatives from relevant ministries and authorities and other public bodies, senior figures from financial institutions, and other relevant stakeholders. Regular meetings of the Committee will facilitate the exchange of ideas, updates on ongoing initiatives in sustainable finance, and discussions on roles and responsibilities related to the activities outlined in each pillar of the roadmap.

The formation of the Committee will also aid in communicating progress. However, for tracking progress accurately, additional measurement and reporting tools are indispensable. These indicators will be developed in alignment with sustainable finance taxonomy (upon its development and adoption in Palestine). Furthermore, a separate set of indicators will be devised based on ESG disclosures by financial institutions. Given that the sustainable finance framework in Palestine is still in its early stages, further research will be conducted before finalizing specific progress metrics. These metrics will be periodically reviewed and adjusted to reflect market evolution.

The progress tracking framework of the PMA Sustainable Finance Roadmap implementation will consist of various activities such as:

1. Monitoring the achieved progress by collecting information about conducted Roadmap activities and comparing against the Roadmap action plan ambition.
2. Measure the achieved results by employing internationally recognized methodologies or develop local measurement approaches.
3. Regularly report on the attained results through annual PMA publications and other means of public dissemination.

IX. Roadmap for Sustainable Finance in Palestine – Action Plan

Table 1: PMA's Sustainable Finance Roadmap – Action Plan

Pillar	Initiative	Activities	Involved parties	Implementation Timeframe			
				2024	2025	2026	on wards
I. Awareness, Capacity, Guidance	Strengthen internal capacity at PMA	1. Awareness and capacity building sessions. 2. Building a sustainable finance curriculum for internal trainings. 3. Engagement with international initiatives and forums.	PMA, Palestinian banking institute, Capacity service providers				
	Develop overall financial market capacity	1. Develop standardized sustainable finance and ESG curriculum for FIs. 2. Training workshops for financial sector. 3. Continuous support towards improving ESMS and related risk management approach at FIs.	PMA, Palestinian banking institute, Capacity service providers				
	Establishment of the National Committee (NSF-CRCC)	1. Seek partnership with relevant stakeholders to establish the committee. 2. Structure it and outline its mandate. 3. Build a dedicated curriculum in partnership with local and international initiatives and institutions.	PMA, Palestinian banking institute, international partners				
	Cooperation with relevant international initiatives	1. Screening of the SF landscape at international level. 2. Identification and engagement with organizations/initiatives relevant to the Palestinian SF market.	PMA				
	PMA leads by example	1. Integration of sustainable development goals and sustainability practices into the PMA's strategy, policies, and practices. 2. Introduction of sustainable procurement practices at PMA. 3. Conduct a comprehensive energy audit to assess energy consumption patterns and identify opportunities for efficiency improvements and invest in on-site renewable energy generation at PMA's premises. 4. Conduct a waste audit to analyze waste generation, segregation, and disposal practices within the PMA's premises, and implement measures to minimize waste generation. 5. Improve PMA employee's engagement and awareness by delivering training and educational programs. 6. Establish metrics and key performance indicators (KPIs) to track progress on sustainability goals and targets, regularly monitoring energy consumption, waste generation, and other relevant indicators. 7. Include in the PMA annual report a section on Sustainability to communicate the performance, achievements and environmental initiatives.	PMA				

	Update National Financial Inclusion Strategy	1. Develop a comprehensive plan outlining the timeline, key milestones, and deliverables for updating the NFIS. 2. Identify and secure access to necessary data sources. 3. Identify and map all relevant stakeholders who need to be involved. 4. Circulate the draft strategy to stakeholders for comments and incorporate their feedback. 5. Develop action plan outlining specific activities, timelines, and responsible parties for implementing the updated NFIS. 6. Establish a monitoring and evaluation framework.					
	Create a designated Function.	Based on identified needs, the PMA may establish a dedicated function aims to develop a robust framework that promotes sustainable practices within the financial sector, ultimately enhancing economic stability, environmental sustainability, and social welfare in Palestine.					
II. Enable Sustainable Finance Flows in Palestine	Introduction of Sustainable Finance Principles/ guidelines	1. Establishment of a dedicated committee. 2. Development of SF Principles/ guidelines.	PMA, Financial sector associations, Local/international consultants/ advisors				
	Development of National SF Taxonomy.	1. Review and analysis of existing taxonomies considered best international practices. 2. Adaptation to Palestinian market reality and needs.	PMA, EQA, MoF, MoE, Financial sector associations.				
	Program for support FIs in design of SF instruments and products	1. Conduct survey among FIs to assess SF appetite and support needs. 2. Outline the support activities to be performed. 3. Launch the support program.	PMA, Palestinian banking institute, Financial sector associations, Local/ international consultants/ advisors.				
	SF market enabling policies (including the PMA Policy).	1. Analyze the needs for policy/regulatory improvement. 2. Initiate and steer public dialogue for improvement of the policy/ regulatory framework.	PMA, EQA, MoF, MoE, and other agencies.				
	Develop SF Database and Tracking tool	1. Review and analyze international best practices and existing local databases. 2. Define the scope. 3. Develop database and tracking tools .	PMA, Financial sector associations.				

III.ESG Integration and Disclosures	Integration of ESG into supervisory framework	1. Study international prudential best practices related to ESG. 2. defined the impacts of climate and environmental risks on Palestinian economy and financial sector. 3. Develop a plan for integration of ESG risks into supervisory responsibilities. 4. Develop supervisory expectations, guidelines and tools.	PMA, Financial sector associations, Local/ international advisors.				
	Introduction of ESG risk management for FIs	1. Mapping of ESG risk approaches employed by FIs with renowned international practices. 2. Identify existing gaps. 3. Develop relevant guidance for FIs. 4. Introduce disclosure expectations.	PMA, Financial sector associations, Local/international advisors				
	Align FIs corporate governance with ESG	1. Encourage FIs to enhance their corporate governance. 2. Provide support and guidance by developing tools, manuals, sharing international best practices, etc.	PMA, Financial sector associations, Local/international advisors				
	Integrate SF in Fintech/ SandBox framework.	1. Develop a specific ESG guidelines for fintechs participating in the sandbox (like Carbon Footprint Tracking Apps). 2. Offer incentives, may include preferential access to the sandbox and partnerships with financial institutions committed to sustainable practices.					