



ANNEX C1: Twinning Fiche

Project title: Strengthening the Palestinian Monetary Authority and its role to support the stability, transparency, accountability and the digital transition of the financial sector in Palestine

Beneficiary administration: Palestine Monetary Authority

Twining Reference: PS 21 NDICI FI 01 24

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EU funded project

TWINNING TOOL

1. Basic Information

1.1 Programme: *Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2021*” - NDICI-GEO-NEAR/2022/ACT-60627 – Direct Management

1.2 Twinning Sector: *Finance, Internal market and economic criteria (FI)*

1.3 EU funded budget: EUR 2 000 000

1.4 Sustainable Development Goals (SDGs):

- **8.10** Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.
- **16.4** By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime.
- **16.6** Develop effective, accountable and transparent institutions at all levels.

2. Objectives

2.1 Overall Objective:

The overall objective of the project is to contribute to the stability, transparency, accountability and the digital transition of the financial sector in Palestine.

2.2 Specific objectives:

The specific objectives of the action are to:

- (i) Enhance the regulatory and corporate governance of the Palestinian Monetary Authority;
- (ii) Foster digital transformation and cashless society initiatives, and interlinking payment systems to support the trade and financial relations between Palestine and the rest of the world;
and
- (iii) Maintain the safety and stability of the Microfinance sector in Palestine by adopting best standards and practices.

2.3 The elements targeted in strategic documents i.e. National Development Plan/Cooperation agreement/Association Agreement/Sector reform strategy and related Action Plans

- Euro-Mediterranean Interim Association Agreement on trade and cooperation between the European Community, of the one part, and the Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority of the West Bank and the Gaza Strip – art. 43, Financial services
- National Development Plan 2021-2023 – National policy 13 – Strengthen the financial sector’s role in supporting comprehensive economic development
- PMA Strategy 2020-2024 (PMA Strategic Transformation Program 2020-2024).
- Microfinance Strategic Framework (2019-2023)
- National Payment Development Strategy 2018-2023
- National Financial Inclusion Strategy 2018-2025
- PA’s Reform Agenda¹

The PMA's new strategic framework for the sector aims to build a truly stable, sustainable, and inclusive financial system that allows all Palestinians to have permanent access to a range of

¹ Reform Agenda of January 30th, 2024.

financial services and products. The PMA's main concerns are: the overall growth and maturity of the financial system; the institutions governance; and product diversification that brings vital financial services to all Palestinians through a transparent and efficient financial methodology and culture.

Political instability and the ongoing Israeli occupation as well as war on Gaza pose significant threats to the sector, creating a challenging and unpredictable environment that discourages investment, innovation, and risk-taking. Distortionary interventions and/or imbalanced regulation have the potential to constrain or distort the market. Initiatives, such as interest rate caps and subsidized lending, could also lead to financial exclusion and other negative effects.

3. Description

3.1 Background and justification:

The *Palestine Monetary Authority* (PMA) is an independent public institution responsible for the formulation and implementation of monetary and banking policies to maintain price stability and low inflation, foster financial stability and safeguard the banking sector and promote sustainable growth of the national economy. PMA works to achieve these goals through:

- Development and implementation of monetary policy designed to ensure low inflation and achieve price stability.
- Effective and transparent regulation and supervision of banks, microfinance institutions, moneychangers and payment services companies in Palestine.
- Overseeing the development, implementation and operation of modern, efficient payment systems

PMA operates by an act of the Palestine Legislative Council's PMA Law No.2 of 1997, complemented by the PMA and Banking Law No.9 of 2010.

The banking sector in the West Bank and Gaza is currently stable, with banks maintaining a strong financial position. However, the banking sector is facing challenges in maintaining correspondent banking relations with Israeli banks, impacting their ability to offer digital financial services. Additionally, they have to manage excess physical shekel cash holdings due to Bank of Israel limits on transfers.

The PMA has made significant progress in implementing international standards, particularly in the areas of capital adequacy, risk management, and payments. The PMA has established an oversight policy framework focusing on payment systems in the region and has received technical assistance from the World Bank to modernize this framework.

The *digital financial ecosystem* in the West Bank and Gaza is growing, but the use of digital financial services remains modest. Credit transfers initiated via the internet, and via mobile phones, are growing annually, but the volume of transactions initiated through these channels is still low compared with other channels.

The PMA is in the process of developing a regulatory framework for digital banks in Palestine. This aligns with their strategic objectives of digital transformation, focusing on the digitization of financial activities, services and products in various sectors and the development of infrastructure that encourages the use of modern alternatives.

The Fin Tech sector in the oPt is in its early stages, but shows promising progress. Fintech initiatives are active in several areas, such as peer-to-peer lending, insurance, and payments. However, the number of initiatives overall is still limited, and few companies have proven ready to go to market.

The *microfinance sector* in Palestine is considered one of the main pillars of financial and social stability. It forms an important building block in the Palestinian national economy due to its social

and developmental role in reaching marginalized groups, providing them with the opportunity to integrate into the formal financial sector and access basic financial products and services necessary for their active participation in the economy.

Despite significant growth in the sector since 2010, there remains a substantial untapped market, with an estimated 245,000 to 345,000 potential borrowers currently unserved. This represents a significant opportunity for the microfinance sector to expand and mature. The sector has more than doubled its number of active clients and experienced an average annual growth rate of about 14% since 2010.

The Palestine Monetary Authority (PMA) has identified a need for greater product diversification within the sector. This includes the expansion of Islamic products, agricultural lending, home improvement loans, green lending and support for entrepreneurs. The PMA will also address this by allowing different categories of MFIs to provide other non-lending financial services either directly or in partnership with other financial services providers (FSPs).

The PMA is committed to promoting the sector's social mission, focusing on inclusivity and serving bottom-of-the-pyramid clients. This includes encouraging microfinance institutions (MFIs) to adopt cash flow-based lending methodologies and adhere to the SMART Campaign consumer protection principles. Furthermore, to help raise public awareness on the sector, the PMA will foster awareness on the importance of the sector and encourage Research Institutes and Universities to conduct studies on measure the impact of the microfinance sector in Palestine on job creation and alleviating poverty.

3.2 Ongoing reforms:

The PMA has been focusing on a number of reform actions towards the financial sector stability, as follows:

- *Domestic Systemically Important Banks (DSIBs)*: the methodology for designating DSIBs has been in place since 2015, which based on the Basel Committee related standards, and international best practices. The PMA perform annual reassessment using predetermined criteria to designate DSIBs. Each DSIB is required to maintain quantitative measures such as additional capital buffers besides qualitative measures including recovery and resolution plans and emergency liquidity planning.
- *Risk Based Supervision (RBS) methodology*: in 2016, the PMA has adopted RBS methodology and developed a comprehensive supervision manual with the goal of implementing risk-based supervision. The manual provides procedures for all components and tools of the supervision cycle including off site analyses, onsite inspection and macro prudential analysis. This approach helps the PMA to develop and maintain a forward-looking assessment of the risk profile of banks and to identify, assess and address risks emanating from banks and the banking systems as a whole. Moreover, this approach introduced a range of techniques to implement the supervisory approach and deploy our resources on a proportionate basis, taking into account the risk profile and systemic importance of the banks we supervise.
- *Corrective actions policy*: a corrective actions and penalties policy has been developed as part of crisis preparedness to provide further detail to implement the early intervention process.
- *Legislation reforms*: One legislative priority is amendment of the Banking Law to add further resolution tools, such as bridge bank authority besides the existing purchase and assumption (P&A). Other amendments of the banking law are aiming mainly to clarify resolution objectives, define resolution triggers and early intervention indicators and include explicit provisions regarding recovery plans. In 2021, Palestine Deposit Insurance Company (PDIC) Law has been amended to include provision for financial support to resolution measures by PDIC on a least cost basis.
- *Resolution plans* are being drafted by the PMA for institutions and templates for plans will be integrated into the Crisis Management Plan (CMP).

3.3 Linked activities:

In 2018, International Monetary Fund (IMF) mission performed a Financial Sector Stability Review (FSSR) based on a request from PMA. The FSSR mission provided recommendations on several aspects contributing to Palestine financial stability including resolution and crisis management framework. Since then, IMF provided follow up missions to assist the PMA implementing recommendations as outlined below.

- Creation of a separate resolution function independent from banking supervision including recommendation on the institutional arrangements.
- Outline components of good resolution strategies and plans.
- Include resolution related provisions in the new draft Banking Law.
- Local and cross border cooperation regarding to resolution and crises management.
- Development of resolution policy.
- Initial assistance was given with regard to drafting of portions of the CMP.

IMF's METAC supported the PMA in developing a new template for inspection reports to answer the recommendation made by the 2018 Financial Sector Stability Review (FSSR) on risk-based supervision (RBS), by developing enhanced inspection reports to provide a clear understanding of the bank, its risks, and the adequacy of capital. METAC is also assisting PMA in reviewing the implementation challenges of IFRS 9 and proposing enhancement to current regulatory framework of provisioning, loan restructuring and loan classification.

3.4 List of applicable *Union acquis*/standards/norms:

- *Directive 2013/36/EU* of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms
- *Directive 2009/110/EC* of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions
- *Directive (EU) 2015/2366* of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market
- *Communication from the Commission* to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions FinTech Action plan: For a more competitive and innovative European financial sector
- *EU Acquis:*
 - Chapter 4 – Free movement of capital – in parts related to relations with third countries, cross-border payments, fight against money laundering and terrorist financing, and combat of financial crimes;
 - Chapter 9 – Financial services – in regards to rules for the authorisation, operation and supervision of financial institutions in area of banking;
 - Chapter 17 – Economic and monetary policy – with focus of independence of central banks.

3.5 Components and results per component:

Component 1: Governance

The PMA seeks to strengthen its governance structure by refining the framework. Procedures, processes and regulatory aspects that influence decision-making, accountability, and overall organizational performance. This enhancement involves conducting a governance assessment,

clearly defining roles and responsibilities, and optimizing communication channels. Additionally, the initiative includes providing board training and developing manuals as needed to ensure a more effective and transparent governance system.

The component expected results:

- 1.1 Complete Governance Assessment Report and Action Plan;
- 1.2 PMA Board capacity building;
- 1.3 Manuals and documentation.

Component 2: Digital Transformation

The PMA aims to enhance awareness, proficiency, and capacity in digital technology applications and services, while fostering best practices in the field.

The component expected results:

- 2.1 Development of digital transformation index for PMA;
- 2.2 Define regulatory aspects/ requirements regarding the Digital Transition;
- 2.3 Build capacity and knowledge in Artificial Intelligence (AI) and Big Data Analytics use cases for central banking;
- 2.4 Strengthened capacity through peer-to-peer and knowledge-transfer with EU MS central banks and/ or European central bank in area of payment systems and related interlinked processes and procedures, associated challenges, and strategies to address these effectively.

Component 3: Non-Deposit Taking Microfinance Institutions

The PMA focuses also on maintaining the safety and stability of the Microfinance sector by adopting international standards and best practices, as well as strengthening financial inclusion, by providing financial services to marginalized groups, and continuing to enhance social performance.

The component expected results:

- 3.1 Non-Deposit Taking Microfinance Strategic Framework for the upcoming 5 years;
- 3.2 Tools and mechanisms to assist the PMA in facilitating and implementing the new regulatory and supervisory approach for Non-Deposit Taking Microfinance institutions;
- 3.3 A Risk-Based Supervision (RBS) Manual;
- 3.4 Improved collection of the regulatory returns/ reports;
- 3.5 Peer learning and review of the above.

3.6 Means/input from the EU Member State Partner Administration(s):

The implementation of the project requires one project leader (PL) with responsibility for the overall supervision and coordination of project activities. The PL will be supported by one resident twinning adviser (RTA) who will manage the implementation of project activities. The implementation of the project will also require three component leaders (CLs) and a pool of short-term experts (STEs) within the limits of the budget. The RTA will work directly with the PMA. It is essential that the team has sufficiently broad expertise to cover all areas included in the project/component description.

The interested member state(s) will present a proposal detailing their strategy, methodology, approach, timetable, structure, and the quality of the expertise to be mobilised and should clearly show the administrative structure and capacity of the Member State entity and personnel. The interested Member State(s) shall include in their proposal the CVs of the designated PL(s) and the

RTA, as well as the CVs of the potentially designated CLs. In addition to the inclusion of a general description of the anticipated activities that will be further developed in cooperation with the twinning partner.

The Twinning project will be implemented in close co-operation between the partners aiming to achieve the mandatory results in sustainable manner.

The set of proposed activities will be further developed with the Twinning partners when drafting the initial work plan and successive rolling work plan every three months, keeping in mind that the final list of activities will be decided in cooperation with the Twinning partner. The components are closely inter-linked and need to be sequenced accordingly.

3.6.1 Profile and tasks of the PL:

High-ranking, committed Member State (MS) official or assimilated agent who heads the implementation of the twinning project, and formally signs all work plans/their updates.

Tasks:

- Coordinate and manage project to ensure timely and effective implementation in cooperation with the beneficiary country's Project Leader
- Co-chair the project Steering Committee meetings with the beneficiary country's PL.
- Follow up on the implementation of the work plan with the beneficiary country's PL, and make modifications to it when necessary.
- Coordinate with the experts of the Member State.
- Monitoring and evaluation of the project, track the progress against the budget, and take corrective decisions to keep the project on track when necessary.
- Responsibility for the interim and final reports with the beneficiary country's PL.
- Coordinate the deployment of short-term experts.
- Ensuring compliance with EU requirements.

Education, Experience & Skills:

- The PL should have a university degree in economics, law or a discipline relevant to the project, or equivalent professional relevant experience of 8 years.
- Minimum 3 year experience at a senior managerial level in a regulatory authority of an EU MS.
- Minimum 3 years of experience working within or providing technical advisory services to central bank(s), or experience as technical adviser on central banking in international organizations or related bodies.
- Proven professional experience in project management. At least 1 year experience in managing or assisting in managing projects on central banking.
- Knowledge of EU legislation on central banking.
- Comparative knowledge of national experiences.
- Computer literacy.
- Excellent written and oral command of English is a must.

3.6.2 Profile and tasks of the RTA:

The Resident Twinning Adviser (RTA) will be appointed to reside in Palestine for the duration of the project, and will work under the supervision of the Member State PL and the Beneficiary Country PL.

Tasks:

- Providing general technical advice on EU policies and best practices;
- Coordinate all the project activities in the Beneficiary Country.
- Daily management of the project in the beneficiary institution.
- Coordinate the project implementation and propose corrective actions if required.
- Organize and participate in the Steering Committee meetings.
- Coordinate and provide assistance to the short-term experts.
- Draft the interim progress reports to be finalized by the PLs.
- Prepare regular project monitoring meetings/briefings.
- Networking with institutions relevant to this project and in EU MS
- Liaising with the EU Representative Office.

Education, Experience & Skills:

- The RTA should have a university degree in economics, banking, law or a discipline relevant to the project, or equivalent professional experience of 8 years.
- Minimum 3 years of technical experience in central banking or corresponding experience in international organizations or related bodies.
- Proven experience in project management and coordination. Experience related to central banking reforms is preferred.
- Knowledge of the EU legislative framework and best practices in particular in the fields relevant to the activities.
- Experience in overseeing, monitoring and evaluating projects.
- Experience in report writing and critical analysis.
- Good communication skills.
- Computer literacy.
- Excellent written and oral command of English is a must.

3.6.3 Profile and tasks of Component Leaders:

A Component Leader will be assigned for each of the aforementioned three components. Component Leaders will ensure continuity and consistency within each of the fields concerned. The Member State shall designate for each component a short-term expert who, besides contributing directly to individual activities, acts as Component Leader and coordinates, in close cooperation with the RTA, the intervention of all other Member State experts mobilised for the same component. He will be responsible for delivering the mandatory results/outputs for the specific components.

Common tasks of Component leaders:

- Component coordination, guidance and monitoring;
- Conducting analysis of the area relevant to the component;
- Timely proposals for any corrective measures;
- Liaise with MS and PL and daily contacts with RTA counterpart

All the component leaders must have the minimum following qualifications and skills:

- University degree in similar discipline relevant to the component or equivalent professional experience of 8 years,
- Minimum 3 years of professional experience in the domain covered by the component.
- Fluency in written and spoken English.

3.6.4 Profile and tasks of other short-term experts:

Short-term experts will deliver their expertise under the overall responsibility of the Member State PL and the coordination and supervision of the RTA. Short term experts are expected to perform specific tasks/activities. The detailed expert input shall be established when setting the Twinning work plan.

General Qualifications and Skills required for the short-term Experts:

- Relevant university degree or equivalent professional experience of 8 years,
- Minimum 3 years of professional experience in the domain for which they are mobilised,
- Experience in development cooperation; prior work in the Middle East region would be an asset,
- Excellent English communication skills, both spoken and written.

4. Budget

EUR 2 000 000

5. Implementation Arrangements

5.1 Implementing Agency responsible for tendering, contracting and accounting:

The office of the European Union Representative (West bank and Gaza Strip, UNRWA)

Contact person: Mr Ibrahim Laafia

Head of Cooperation

Tel: +972 2 541 5812

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Email: Ibrahim.Laafia@eeas.europa.eu

5.2 Institutional framework

The institutional framework of the PMA refers to the structure and organization of the central banking institution responsible for the management and regulation of monetary and financial matters in the Palestinian territories. The PMA operates within the framework established by the PA and works towards promoting monetary stability, enhancing the financial sector, and supporting economic development.

The key components of the institutional framework of the PMA:

Legal Basis: The PMA operates under the Palestinian Monetary Authority Law of 1994, which establishes its legal mandate, powers, and responsibilities. This law provides the legal framework for the operation of the PMA and outlines its objectives, functions, and governance structure.

Independence: The PMA operates independently of the Palestinian government in its decision-making and policy formulation. This independence is crucial for maintaining the integrity and credibility of the central bank's operations and ensures its ability to pursue sound monetary policies.

Governance Structure: The PMA is governed by a Board of Directors composed of prominent experts and professionals in the field of economics, finance, and banking. The board is responsible for setting the strategic direction of the PMA, making policy decisions, and overseeing the implementation of its functions.

Monetary Policy: According to the legal framework, the PMA supposed to be responsible for formulating and implementing monetary policy in Palestine. Because, Palestine does not have its own currency and depends on monetary union with Israel, it has limited monetary policy tools.

Financial Stability and Regulation: The PMA oversees and regulates the financial sector to promote its stability and integrity. It issues licenses to banks and financial institutions, supervises their operations, and enforces prudential regulations to safeguard the soundness of the financial system.

The PMA also monitors risks and implements measures to prevent money laundering, terrorist financing, and other financial crimes.

Payment Systems: The PMA manages and oversees the payment systems in the Palestinian territories, ensuring efficient and secure payment and settlement mechanisms.

Financial Inclusion: The PMA works towards promoting financial inclusion and expanding access to financial services for all segments of society. It encourages the establishment of microfinance institutions and initiatives that support financial literacy and inclusion, especially in underserved areas.

International Cooperation: The PMA actively engages in international and regional financial institutions and cooperates with central banks and monetary authorities worldwide. It participates in various forums and initiatives to share experiences, enhance expertise, and strengthen the Palestinian financial system's integration with the global economy.

Overall, the institutional framework of the PMA provides the necessary structure and mechanisms for managing monetary policy, regulating the financial sector, and contributing to the stability and development of the Palestinian economy.

5.3 Counterparts in the Beneficiary administration:

PMA will assign a PL and an RTA counterpart which will act as the counterparts of the EU MS PL and RTAs; the PL and RTA counterpart will be staff of the Beneficiary administrations and will be actively involved in the management and coordination of the project.

5.3.1 Contact person:

*Dr Feras Milhem
Chairman*

*Palestinian Monetary Authority
P. O. Box 452
Al-Bireh, Palestine
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E-mail: info@pma.ps*

5.3.2 Project leader counterpart

Faris Hindi, Director of the Payment Department, Al-Bireh- Ramallah Governorate – Palestine

5.3.3 RTA counterpart

Dima Najjar – Projects Coordinator - Planning Department, Al-Bireh- Ramallah Governorate – Palestine

6. Duration of the project

25 months (22 months for implementation and 3 months for closure).

7. Management and reporting

7.1 Language

The official language of the project is the one used as contract language under the instrument (English). All formal communications regarding the project, including interim and final reports, shall be produced in the language of the contract.

7.2 Project Steering Committee

A project steering committee (PSC) shall oversee the implementation of the project. The main duties of the PSC include verification of the progress and achievements via-à-vis the mandatory results/outputs chain (from mandatory results/outputs per component to impact), ensuring good coordination among the actors, finalising the interim reports and discuss the updated work plan. Other details concerning the establishment and functioning of the PSC are described in the Twinning Manual.

7.3 Reporting

All reports shall have a narrative section and a financial section. They shall include as a minimum the information detailed in section 5.5.2 (interim reports) and 5.5.3 (final report) of the Twinning Manual. Reports need to go beyond activities and inputs. Two types of reports are foreseen in the framework of Twining: interim quarterly reports and final report. An interim quarterly report shall be presented for discussion at each meeting of the PSC. The narrative part shall primarily take stock of the progress and achievements via-à-vis the mandatory results and provide precise recommendations and corrective measures to be decided by in order to ensure the further progress.

8. Sustainability

The sustainability of this twinning action should refer to the ability of the PMA to maintain its benefits, adapt to evolving technologies and customer needs. It also will support the PMA to manage its operations and policies in a way that ensures stability and resilience, contributing to long-term economic and social development. Given the great attention to the use of FinTech in central banking, in term of digitalisation of the services, some key factors that influence the sustainability of the reforms supported by the action should be considered. These includes:

Technological Advancements: The sustainability of digital transformation reform relies on continuous technological advancements and innovation. As technology evolves, it is essential for digitalization services to keep pace and leverage emerging technologies such as artificial intelligence, machine learning, and block-chains.

Regulatory Environment: A supportive and adaptive regulatory framework is crucial for the sustainability of financial stability. Regulations should strike a balance between promoting innovation and ensuring consumer protection, data privacy, and cybersecurity. A robust regulatory environment fosters trust in financial services and encourages competition and fair practices among service providers.

Financial Inclusion: Sustainable digital transformation reforms aim to enhance financial inclusion by providing access to banking services for underserved populations. This includes reaching unbanked or underbanked individuals and small businesses in remote areas or low-income communities. By expanding access to financial services, digital transformation can contribute to reducing economic inequality and promoting inclusive economic growth.

Cybersecurity and Data Privacy: As digital financial services handle sensitive customer data and financial transactions, ensuring robust cybersecurity and data privacy measures is vital for sustainability. Ongoing investments in cybersecurity infrastructure, encryption technologies, and proactive monitoring systems are necessary to protect customer information and maintain trust in digital banking platforms.

Collaboration and Partnerships: Collaboration between banks, FinTech companies, and other stakeholders is crucial for the sustainability of digital financial service reforms. Partnerships can leverage the strengths of different players, combining traditional banking expertise with innovative FinTech solutions. Collaborative efforts facilitate knowledge sharing, accelerate technology adoption, and enhance the overall digital banking ecosystem.

Scalability and Interoperability: Sustainable digital financial services reforms should be scalable and interoperable. This allows for the seamless integration of digital banking services with other financial systems and platforms. Scalability ensures that digital banking services can accommodate growing customer demand without compromising quality or performance.

Environmental Impact: With the increasing focus on sustainability, digital financial services reforms should also consider their environmental impact. Embracing paperless transactions, minimizing energy consumption, and adopting eco-friendly practices contribute to a greener and more sustainable banking system.

In summary, the project sustainability should ensure the PMA remains effective, accountable, and adaptable institution that govern and regulate the Palestinian financial sector efficiently and contributing to economic stability and development over the long term. This requires a balance between independence and accountability, financial resilience, and a commitment to addressing environmental and social concerns while also embracing technological innovation and international cooperation.

By considering the above factors during the design and implementation of the project by both the MS and PMA, this twinning intervention can contribute to establishment of a solid foundation for long-term sustainability, ensuring that it remains adaptive, customer-centric, secure, and inclusive in the face of technological advancements and changing market dynamics.

9. Crosscutting issues (equal opportunity, environment, climate etc...)

The reforms supported by this twinning intervention can play a transformative role in advancing gender and human rights policies, promoting equal opportunity, addressing environmental challenges, empowering minority communities, bridging regional disparities, and fostering inclusive economic growth. By ensuring accessibility to and affordability of various banking services, these reforms can help create a more inclusive and sustainable financial ecosystem that benefits society as a whole.

10. Conditionality and sequencing

Components and mandatory results to be implemented in this Twinning are strongly related to current activities of the beneficiary. The Twinning will fill in knowledge gaps and provide practical and timely support.

Within the scope of this project, PMA shall dedicate the qualified staff and appropriate space to ensure the smooth and effective implementation of the project in full and concise cooperation with the EU member state.

No external conditions, including other technical assistance projects, preventing the achievement of the results of the Twinning project currently exist or are foreseen to exist during the implementation of the Project activities. Similarly, there is no need to sequence the implementation of the Components as they can be implemented in parallel, without interfering with one another.

11. Indicators for performance measurement

Component 1: Governance

Expected results	Indicators
1.1 Governance Assessment Report and Action Plan	Tailored-made action plan to improve PMA governance implemented
1.2 PMA Board Members trained	PMA Board capacity strengthened
1.3 Manuals and documentation	Related manuals (e.g. Corporate Governance Manual, instructions etc.) approved and applied

Component 2: Digital Transformation

Expected results	Indicators
2.1 Digital transformation index for PMA	PMA digital maturity index developed
2.2 Build capacity and knowledge in Artificial Intelligence (AI) and Big Data Analytics	<ul style="list-style-type: none"> - At least 4 specialized workshops conducted (2 on AI and 2 on Big Data) - no of staff trained
2.3 International standards for the payment systems and interlinks with other payment systems at both regional and international levels.	Gap analysis/ benchmark analysis of the PMA payment system against the international standards for payment systems

Component 3: Non-Deposit Taking Microfinance Institutions

Expected results	Indicators
3.1 Non-Deposit Taking Microfinance Strategic Framework for the upcoming 5 years	Framework developed and approved
3.2 Tools and mechanisms for facilitating and implementing the new regulatory and supervisory approach for Non-Deposit Taking Microfinance institutions	Tools and mechanisms developed and approved
3.3 Risk-Based Supervision (RBS) Manual.	Approved RBS Manual
3.4 Improvement in collection of the regulatory returns/ reports	Streamlined and improved regulatory reporting
3.5 Peer learning, review and capacity building	<ul style="list-style-type: none"> - no. of peer review missions - no. of capacity building events - no. of staff trained

12. Facilities available

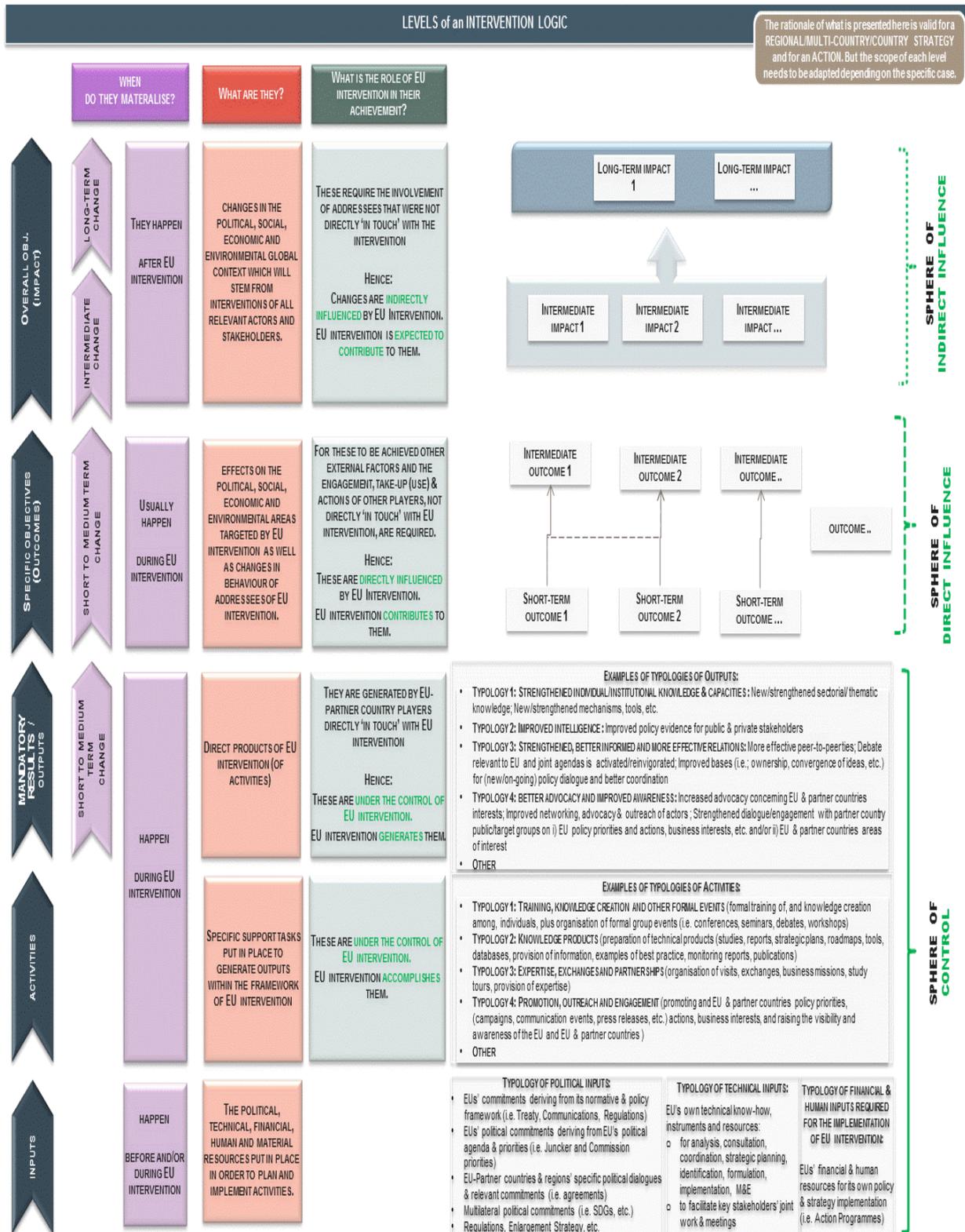
The beneficiary shall make available the necessary infrastructure for Member State(s) experts to carry out their tasks. The beneficiaries should provide equipped office space for the RTA, RTA assistant and short-term experts. The beneficiaries are expected to set up an office unit dedicated to

the implementation of the project and to make available, free of charge, meeting rooms and space for training for the implementation of project activities and conference facilities, unless otherwise justified to use rented premises.

ANNEXES TO PROJECT FICHE

1. The Simplified Logical framework matrix as per Annex C1a
2. PMA Annual Report 2022
3. Microfinance Strategic Framework (2019–2023)
4. implementing the Reform Agenda

ANNEX C1a: Levels of an intervention logic



	Description	Indicators (with relevant baseline and target data)	Sources of verification	Risks	Assumptions (external to project)
	1.3 Manuals and documentation	<p><u>Baseline:</u> The recently appointed board members possess limited experience in central bank governance.</p> <p><u>Target:</u> (At least) two workshops on Central Bank Governance</p> <p><u>Indicator:</u> Related manuals (e.g. Corporate Governance Manual, instructions etc.) approved and applied</p> <p><u>Baseline:</u> Absence of a formal corporate governance manual and limited accountability practices</p> <p><u>Target:</u> Enhanced Governance and Accountability</p>	<p>Project implementation reports</p> <p>PMA Strategic Transformation Program reports</p> <p>Project implementation reports</p>	<p>fellow board members, and external stakeholders, leading to misunderstandings or misalignment.</p> <p>Inconsistency in practice, increased dependency on individual knowledge, and communication challenges.</p>	
Component 2: Digital Transformation					
Specific (Project) Objective(s)	Foster digital transformation and cashless society initiatives, and interlinking payment systems to support the trade and financial relations between Palestine and the rest of the world		<p>PMA Strategic Transformation Program reports</p> <p>Project implementation reports</p>		Availability of corresponding external expertise
Mandatory results/outputs by components	2.1 Development of digital transformation index for PMA	<p><u>Indicator:</u> Development of a PMA digital maturity index</p> <p><u>Baseline:</u></p>	PMA Strategic Transformation Program reports	<ul style="list-style-type: none"> Failing to create a digital transformation index may hinder the 	

	Description	Indicators (with relevant baseline and target data)	Sources of verification	Risks	Assumptions (external to project)
	2.2 Build capacity and knowledge in AI and Big Data analytics	<p>Lack of maturity index available or developed for PMA</p> <p><i>Target:</i> Developed digital transformation index suitable for PMA</p> <p><i>Indicator:</i> No. of PMA staff trained in AI and Big Data applications and use cases in central banking sector.</p> <p><i>Baseline:</i> Available data warehouse & BI capability, with no current use of tools or application.</p> <p><i>Target:</i> Comprehensive and up-to-date knowledge and capacity building in AI and Big Data Analytics applications and use cases for the central banking sector</p>	<p>Project implementation reports</p> <p>PMA Strategic Transformation Program reports</p> <p>Project implementation reports</p>	<p>adoption of innovative digital technologies and practices, leading to lost opportunities and delays in digital transformation</p> <ul style="list-style-type: none"> ▪ Failure to build capacity and knowledge in AI and Big Data use cases and applications, lead to lack of competitive advantage, and inadequate workforce skillset 	
	2.3 Adoption of international industry standards in the payment systems for interlinking with other payment systems at both regional and international levels.	<p><i>Indicator:</i> Gap analysis/ benchmark analysis of the PMA payment system against the international standards for payment systems</p> <p><i>Baseline:</i> PMA is implementing the instant payment</p>	<p>PMA Strategic Transformation Program reports</p> <p>Project implementation reports</p>	<ul style="list-style-type: none"> ▪ The current frictions in payments will remain ▪ Missing on financial inclusion targets ▪ Missing on achieving progress on cashless society objectives 	

	Description	Indicators (with relevant baseline and target data)	Sources of verification	Risks	Assumptions (external to project)
		<p>system using ISO 20022 standard. And, has done the assessment for the RTGS system using the PFMI principles</p> <p><i>Target:</i> Defined technical and legal requirements based on best practices in view of interlinking with regional and international payment systems.</p>			
Component 3: Non-Deposit Taking Microfinance Institutions					
Specific (Project) Objective(s)	Maintain the safety and stability of the Microfinance sector by adopting international standards and best practices, and strengthening financial inclusion, by providing financial services to marginalized groups, and continuing to enhance social performance and practices.		<p>PMA Strategic Transformation Program reports</p> <p>Project implementation reports</p>		Acceptance by the Microfinance sector and complementarity with the existing assistance by other development partners
Mandatory results/ outputs by components	3.1 Development of new Non-Deposit Taking Microfinance Strategic Framework for the upcoming 5 years	<p><i>Indicator:</i> Completion and approval of the Non-Deposit Taking Microfinance Strategic Framework for the upcoming 5 years</p> <p><i>Baseline:</i> The existing and assessment review of the Microfinance Strategic Framework (2019-2023)</p> <p><i>Target:</i></p>	<p>PMA Strategic Transformation Program reports</p> <p>Project implementation reports</p>	<ul style="list-style-type: none"> ▪ No clear strategy that differentiates between the Non-Deposit MF and the proposed model of microfinance banks. ▪ Inadequate regulated (burden and costs). 	Microfinance sector remains committed to comply with international and local developments and responds to evolving needs.

	Description	Indicators (with relevant baseline and target data)	Sources of verification	Risks	Assumptions (external to project)
	<p>3.2 Development of tools and mechanisms to assist the PMA team in facilitating and implementing the new regulatory and supervisory approach for Non-Deposit Taking Microfinance institutions.</p>	<p>Completed and approved Non-Deposit Taking Microfinance Strategic Framework for the upcoming 5 years; while ensuring alignment with the industry best-fit standards for PMA.</p> <p><i>Indicator:</i> Completion of tools and mechanisms for facilitating implementation of new regulatory approach for Non-Deposit Taking Microfinance institutions</p> <p><i>Baseline:</i> The current supervisory approach taken by PMA towards the MFI sector does not reflect the primary risks for the current MFI clients that are related to financial consumer protection.</p> <p><i>Target:</i> Completion and readiness of the tools and mechanisms with related supervision policies and procedures to assist PMA implementing the new regulatory framework efficiently and effectively.</p>		<ul style="list-style-type: none"> ▪ The existing approach led to insufficient use for the available resources. ▪ More focus on the prudential requirements not aligned with the international practices for MF, which focus on market conduct/ consumer protection with some governance areas. 	
	<p>3.3 Development of a Risk-Based</p>	<p><i>Indicator:</i></p>		<ul style="list-style-type: none"> ▪ The traditional compliance 	

	Description	Indicators (with relevant baseline and target data)	Sources of verification	Risks	Assumptions (external to project)
	3.5 Providing peer learning and review	<p>the regulated entity need focus on financials & prudential data and information, and it does not consider and obtain the social aspects and development</p> <p><u>Target:</u> New/ updated regulatory returns/ reports, which focus more on the social aspects, performance and development.</p> <p><u>Indicator:</u> Conducting peer learning and review workshops based on the best practices and standards in the microfinance sector.</p> <p><u>Baseline:</u> Limited knowledge and experience on the latest best practices and up-to-date information related to the microfinance field</p> <p><u>Target:</u> At least two workshops and study visits in the microfinance field.</p>		<p>the financial sector, potentially hindering our strategic efforts in this domain</p> <p>▪ Insufficient capacity building and practical experience and real success stories.</p>	