

Environmental, Social, and Governance (ESG) Adoption in Firms Operating in Palestine: A Policy and Practice Analysis in a Fragile and Constrained Economy

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Abstract

Environmental, Social, and Governance (ESG) principles have become a central component of global corporate governance, investment decision-making, and regulatory reform. However, the applicability and effectiveness of ESG frameworks in fragile and conflict-affected economies remain insufficiently examined. This policy and practice analysis investigates ESG adoption among firms operating in Palestine, focusing on the alignment between formal ESG-related policies and actual organizational practices. Drawing on institutional theory, stakeholder theory, and the resource-based view, the paper evaluates how political instability, regulatory fragmentation, economic constraints, and limited enforcement capacity shape ESG implementation in the Palestinian context. While ESG-related policies and commitments are increasingly visible, substantive implementation remains uneven. In contrast, the social dimension of ESG is more deeply embedded in organizational practice, reflecting Palestine's socio-economic realities and stakeholder priorities. The paper identifies critical policy–practice gaps, including symbolic compliance, weak disclosure regimes, limited board-level accountability, and insufficient organizational capacity. It concludes with context-sensitive policy and managerial recommendations aimed at regulators, firms, financial institutions, and development partners. By situating ESG adoption within the realities of a constrained and fragile economy, this study contributes policy-relevant insights to the broader ESG governance literature beyond advanced and emerging market settings.

Keywords: ESG, Corporate Governance, Sustainability Policy, Fragile Economies, Palestine

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1 Introduction

Over the past two decades, Environmental, Social, and Governance (ESG) considerations have evolved from voluntary corporate social responsibility initiatives into a central pillar of corporate governance, regulatory oversight, and capital market discipline. International evidence indicates that ESG can affect firm performance, risk, legitimacy, and financing conditions, although the direction and magnitude of these associations vary across institutional settings (Gultom et al., 2024; Oktavianti & Gunawan, 2025; Ruan & Liu, 2021). Institutional investors, regulators, and multilateral organizations increasingly frame ESG not merely as an ethical or reputational concern, but as a mechanism for managing long-term risk, enhancing transparency, and supporting sustainable economic development (Eccles et al., 2014; Friede et al., 2015). As a result, ESG has acquired a quasi-regulatory status, shaping access to finance, market legitimacy, and firm survival.

Despite this global diffusion, ESG frameworks have been largely designed and empirically validated in advanced economies and, to a lesser extent, large emerging markets with relatively stable institutions, functioning capital markets, and established regulatory enforcement mechanisms. Three distinct strands of comparative evidence illustrate why this transferability assumption warrants scrutiny. First, firm-level studies from Asian and Middle Eastern emerging markets report that ESG scores are associated with financial performance, disclosure quality, and firm value, though the strength of these relationships is moderated by governance factors such as CEO turnover and board oversight (Ameliawati & Hendranastiti, 2024; Arshad et al., 2020; Sabirali, 2024; Safitri et al., 2025; Sani et al., 2020; Intezar et al., 2024). Second, research spanning developing and MENA economies indicates that the strength of the ESG–performance link is itself contingent on institutional quality, ownership concentration, and firm-level resource endowments, meaning that findings from these settings should be read as contextual comparison rather than direct evidence about Palestinian firms (Almarayeh, 2025; Dimic et al., 2025; Ning et al., 2025). Third, and most directly relevant to a fragile-economy setting, work on institutional voids in conflict-affected and politically unstable environments shows that political risk and resource scarcity push firms toward short-term resilience and symbolic compliance rather than substantive ESG investment, a pattern for which extrapolation to Palestine should remain cautious pending direct evidence (Gao et al., 2017; Saha et al., 2022; Witte et al., 2020). Recent empirical evidence from Palestine demonstrates that ESG disclosure is nonetheless economically consequential even under institutional fragility, as environmental, social, and governance disclosures significantly influence firm profitability when supported by corporate governance mechanisms such as board size and diversity (Alslaibi & Abdelkarim, 2024). The assumption that these frameworks can be seamlessly transferred to fragile and conflict-affected economies remains largely untested. In such contexts, firms operate under conditions of political instability, regulatory fragmentation, economic uncertainty, and constrained institutional capacity—conditions that fundamentally alter both the incentives for ESG adoption and the feasibility of substantive implementation. Palestine represents a particularly instructive and underexplored case

for ESG policy and practice analysis. Firms operate in an environment characterized by prolonged political uncertainty, restrictions on movement and trade, fragmented regulatory authority, and limited access to capital markets. Regulatory bodies face significant enforcement constraints, while firms—especially small and medium-sized enterprises—prioritize survival, liquidity management, and employment stability over long-term sustainability investments. At the same time, Palestinian firms are increasingly exposed to ESG expectations through international donors, development finance institutions, correspondent banks, and multinational supply chains. This dual pressure generates a complex governance environment in which ESG is simultaneously promoted and constrained. From a policy perspective, ESG adoption in Palestine is not primarily driven by domestic regulation or market discipline. Instead, ESG-related policies and practices are often externally induced, reflecting compliance with donor requirements, international reporting standards, or risk management frameworks imposed by financial institutions. While such pressures have increased awareness of ESG principles, they have also contributed to a pattern of symbolic adoption, where formal policies exist without corresponding organizational capabilities or enforcement mechanisms. This raises critical questions regarding the effectiveness, legitimacy, and sustainability of ESG governance in fragile economies.

This paper adopts a policy and practice analysis approach to examine ESG adoption among firms operating in Palestine. The objective is not to measure ESG performance quantitatively or to test causal relationships, but rather to evaluate the coherence between ESG-related policies and their translation into organizational practice. The analysis focuses on three interrelated questions. First, what institutional, regulatory, and economic factors shape ESG policy design in Palestine? Second, how are ESG policies interpreted and implemented by firms in practice? Third, where do the most significant policy–practice gaps emerge, and what reforms are necessary to address them? The paper is explicitly policy-oriented. It seeks to inform regulators, policymakers, corporate boards, financial institutions, and development partners engaged in promoting sustainable business practices in Palestine. By highlighting the structural and institutional constraints facing firms, the analysis cautions against the uncritical transplantation of global ESG frameworks and underscores the need for context-sensitive policy design. At the same time, it identifies emerging opportunities for ESG advancement through the financial sector, professional bodies, and hybrid public–private governance arrangements.

Theoretically, the study draws on institutional theory to explain externally driven ESG adoption, stakeholder theory to account for the prioritization of social considerations, and the resource-based view to highlight internal capacity constraints. International evidence linking ownership structures and board composition to ESG-related firm performance across emerging markets lends further support to this governance-centered theoretical lens (Bilyay-Erdogan & Öztürk, 2023; Gholami et al., 2022; Khalil & Moharram, 2024). This interpretation is consistent with evidence from emerging economies showing that board characteristics and internal governance structures condition whether ESG policies translate into measurable sustainability and financial performance outcomes (Alslaibi & Abdelkarim, 2024; Alslaibi et al.,

2025b). Empirically, it relies on institutional analysis, regulatory review, and synthesis of existing evidence from Palestine and comparable fragile economies. This combination allows for a nuanced understanding of ESG as both a governance aspiration and a practical challenge.

The contribution of this paper is threefold. First, it extends ESG governance scholarship to a fragile and underrepresented context, addressing a significant gap in the literature. Second, it advances a policy–practice lens that moves beyond normative ESG advocacy to examine implementation feasibility. Third, it provides actionable policy recommendations tailored to the Palestinian institutional environment. In doing so, the paper aligns with the mission of Accounting, Business, Governance & Sustainability to publish theoretically grounded, policy-relevant research with global relevance and particular attention to emerging and transitional economies.

2 ESG Policy Landscape in Palestine

2.1 Fragmented Regulatory Architecture and ESG Policy Formation

The ESG policy environment in Palestine is characterized by regulatory fragmentation, partial coverage, and limited enforcement capacity. Comparative evidence from emerging and MENA economies further suggests that ESG adoption depends on institutional quality, ownership structures, and enforcement capacity (El Khoury et al., 2021; Mahmood & Alsayegh, 2020; Makhdalena et al., 2023); these findings provide contextual comparison rather than direct evidence about Palestinian firms. Unlike jurisdictions that have embedded ESG disclosure and sustainability obligations into company law or securities regulation, Palestine lacks a unified ESG framework governing non-financial firms. ESG-relevant provisions are instead dispersed across company legislation, environmental protection regulations, labor laws, banking supervision guidelines, and sector-specific governance codes. This dispersion results in institutional overlap, ambiguity in regulatory responsibility, and weak policy coordination, all of which constrain coherent ESG implementation.

Environmental regulation exists primarily in statutory form, but enforcement is constrained by limited inspection capacity, infrastructural deficiencies, and overlapping mandates among public authorities. Studies of institutional voids in other developing and emerging-market economies suggest that where public enforcement capacity is weak, firms and even entrepreneurs tend to substitute short-term, reputation- or network-based coping strategies for compliance with formal environmental standards (Adomako et al., 2019; Alshbili et al., 2020; McCarthy & Puffer, 2016); extrapolation of this pattern to Palestine should remain cautious in the absence of direct evidence. Empirical evidence from fragile and conflict-affected economies suggests that under such conditions, environmental regulation tends to be reactive and compliance-oriented rather than preventive or strategic (Arezki et al., 2021; World Bank, 2020). In Palestine, firms typically respond to environmental requirements only when linked to licensing, donor funding, or project approval, rather than integrating environmental management systems into core operations.

Social regulation—particularly labor and employment protection—occupies a more prominent position in the formal legal framework. Research on state influence over ESG performance and institutional logics in developing economies indicates that the strength and consistency of social regulation is closely tied to broader state capacity and institutional coherence, a dynamic visible in Palestine’s own fragmented regulatory landscape even though the cited evidence itself is drawn from other emerging markets (Jatmiko et al., 2025; Jhunior et al., 2025; Said & ElBannan, 2023). This reflects the socio-economic importance of employment stability, income security, and worker protection in a context of high unemployment and economic volatility. However, enforcement remains uneven, particularly among small and medium-sized enterprises, and a significant proportion of social practices remain informal and undocumented. While such practices may generate social value locally, their informality limits transparency, comparability, and integration into ESG reporting structures (Jamali & Karam, 2018).

Corporate governance regulation represents the weakest institutional pillar in ESG policy formation. Comparative evidence from emerging and Middle Eastern economies suggests that the strength of ESG-related governance regulation depends on institutional quality, market volatility, and the breadth of enforcement mechanisms available to regulators (Galindo-Manrique et al., 2021; Sabbaghi, 2023; Wiredu et al., 2025); these findings provide contextual comparison rather than direct evidence about Palestinian firms. Although governance codes and board requirements exist, they are rarely linked explicitly to ESG oversight, sustainability risk management, or non-financial disclosure. Governance reforms tend to prioritize formal compliance—such as board composition and reporting structures—without embedding ESG responsibilities into board mandates or executive accountability systems. Separately, research on sustainability governance and reporting indicates that board composition, dedicated oversight structures, and the reliability of disclosure infrastructure meaningfully shape the credibility of ESG information, including where artificial-intelligence-supported reporting tools are introduced (Buallay et al., 2020; Cepêda et al., 2025; Naveed et al., 2025). This disconnect significantly undermines the effectiveness of ESG policy diffusion at the firm level.

2.2 Financial Regulation and the Banking Sector as De Facto ESG Enforcers

In the absence of comprehensive ESG mandates for non-financial firms, the financial sector has emerged as a central conduit for ESG diffusion in Palestine. Banks—particularly those engaged in correspondent banking relationships and development-finance-supported lending—are increasingly exposed to environmental and social risk management expectations. These expectations are typically transmitted through international financial institutions, donor conditionalities, and global risk-based compliance frameworks rather than domestic ESG regulation (UNEP FI, 2021).

Consequently, ESG considerations enter firm-level decision-making primarily through credit allocation, project screening, and risk assessment processes. Comparative evidence on ESG-lending practices across dual and emerging banking systems shows that macro- and micro-prudential incentives, sector-specific risk

pricing, and technology investment shape how banks translate ESG expectations into lending decisions (Al Banna & Putri, 2026; Korobeynikov et al., 2023; Mirza et al., 2025); whether Palestinian banks apply comparable mechanisms has not been directly established. Evidence from the Palestinian banking sector indicates that financial institutions increasingly act as de facto ESG enforcers, transmitting governance and disclosure expectations through lending conditions, risk controls, and supervisory pressure rather than through formal sustainability regulation (Alslaibi, 2024b; Alslaibi, 2025). Firms seeking financing may be required to demonstrate basic environmental compliance or adherence to social safeguards, especially for large or donor-funded projects. However, these requirements are generally framed as risk mitigation tools rather than as components of a broader sustainability or value-creation strategy. The broader sustainable-finance literature spanning bibliometric syntheses of the field to country-level studies of green lending similarly frames reliable ESG information and proportionate regulatory incentives as preconditions for banks to move beyond minimalist, compliance-only engagement (Kashi & Rasid, 2023; Mazur & Petrovičová, 2024; Ozili, 2024). Moreover, banks rarely provide technical assistance, standardized ESG metrics, or post-financing monitoring mechanisms, reinforcing a compliance-driven and minimalist approach to ESG implementation.

This financialized pathway of ESG diffusion has two important policy implications. Evidence on the role of external assurance and ESG ratings in shaping bank lending judgments, alongside broader work on sustainable-finance transition imperatives, suggests that the instruments available to banks are considerably more developed internationally than the minimalist screening practices observed in Palestine (Isack & Aschauer, 2024; Ryszawska, 2016; Thornton, 2025). First, it disproportionately affects larger and more formal firms with access to bank finance, leaving smaller enterprises largely outside ESG governance mechanisms. Second, it narrows the scope of ESG to risk avoidance and reputational protection, rather than developmental impact or long-term resilience (Eccles & Klimenko, 2019).

2.3 Donor Influence and the Transplantation of Global ESG Frameworks

International donors and development partners exert significant influence over ESG policy discourse in Palestine. Donor-funded projects frequently mandate compliance with international environmental and social safeguards, governance principles, and reporting standards. As a result, Palestinian firms increasingly reference global frameworks such as the UN Sustainable Development Goals, the Global Reporting Initiative, and International Finance Corporation performance standards in policy documents and project proposals.

While these frameworks enhance international legitimacy and comparability, their direct transplantation often fails to account for local institutional constraints. Regional CSR research, including evidence on how corporate social responsibility discourse is received by Palestinian and Jordanian consumers, indicates that CSR and governance expectations imported from international donors do not automatically translate into locally legitimate practice without adaptation to socio-cultural context (Al-Daaja & Szabados, 2018; Alawamleh & Giacaman, 2020; Garas & Elmassah,

2018). More broadly, the institutional-voids literature on emerging and transition economies shows that where formal institutions are weak, external actors' standards are frequently reworked, resisted, or symbolically adopted by local firms and intermediaries rather than implemented as designed (Barrios et al., 2025; Chipp et al., 2019; Puffer et al., 2016); direct extension of these findings to Palestine should be treated as suggestive rather than confirmed. ESG standards developed for multinational corporations or listed firms in advanced markets presuppose data availability, governance capacity, and reporting infrastructure that are frequently absent in fragile economies (Khan et al., 2016; Bebbington et al., 2020). This misalignment contributes to symbolic compliance, whereby ESG policies are adopted for external legitimacy but remain weakly embedded in organizational routines.

2.4 Policy Implications of the Existing ESG Landscape

Taken together, the Palestinian ESG policy landscape reflects a system in which ESG adoption is externally induced, unevenly enforced, and weakly institutionalized. Regulatory fragmentation, reliance on financial intermediaries, and donor-driven policy transfer limit the development of a coherent and locally grounded ESG governance regime. Comparative firm-performance evidence from other developing-country settings — spanning bibliometric mapping of the ESG field, quantile-regression analyses of ESG risk, and sector case studies — reinforces the general expectation that weakly coordinated ESG policy regimes translate unevenly into firm-level outcomes (Jasni et al., 2019; Kiflee et al., 2024; Teng et al., 2021). Separately, the institutional-voids literature on business model adaptation and strategic responses to weak institutions offers a complementary comparative lens on why externally induced policy regimes so often stall at the level of formal adoption in resource-constrained settings, though this evidence is not drawn from Palestine itself (Davies & Torrents, 2017; Lashitew et al., 2020; Luiz et al., 2021). From a policy perspective, this suggests that incremental, proportionate, and capacity-sensitive ESG reforms — rather than comprehensive disclosure mandates — are more likely to produce meaningful and sustainable outcomes in Palestine.

3 ESG in Practice: Firm-Level Realities in Palestine

3.1 Environmental Practices: Compliance without Capability

At the firm level, environmental practices in Palestine are typically narrow in scope and compliance-driven. Comparative research on institutional voids in other emerging and developing markets finds that firms operating under similar resource scarcity and institutional uncertainty tend to favor short-term operational resilience over sustained environmental investment (Akbar et al., 2017; Amankwah-Amoah et al., 2019; Ejaz et al., 2023); extrapolation of this pattern to Palestine should remain cautious in the absence of direct evidence. While environmental policies are increasingly referenced in corporate documents — often mirroring donor templates or international standards — their operationalization remains limited. Firms frequently lack the technical expertise, monitoring systems, and capital investments required to

implement structured environmental management systems. Governance research from the GCC further shows that the absence of dedicated environmental management teams and weak board-level environmental oversight significantly constrains firms' ability to convert formal environmental commitments into operational performance (Alslaibi et al., 2025b). As a result, environmental actions tend to be episodic and reactive, responding to licensing requirements, donor-funded project conditions, or ad hoc inspections rather than being embedded in strategic planning.

Evidence from fragile and conflict-affected settings suggests that environmental regulation under institutional constraints often produces minimal compliance outcomes, particularly when enforcement capacity is weak and firms face survival pressures (Arezki et al., 2021; World Bank, 2020). In Palestine, environmental investments compete directly with liquidity needs, working capital constraints, and operational continuity. Consequently, firms prioritize short-term operational resilience over long-term environmental performance, even when environmental risks are recognized.

Moreover, environmental data collection and reporting remain underdeveloped. Research on sustainability committees and board oversight in other emerging-market settings indicates that dedicated governance structures and gender-diverse boards are associated with more systematic environmental data practices and stronger reporting infrastructure (Aini et al., 2025; Boța-Avram & Tiron-Tudor, 2025; Tumewang et al., 2025). Firms rarely maintain systematic records of emissions, resource use, or waste management, limiting the feasibility of credible ESG disclosure. This data gap reinforces symbolic compliance, as firms are unable to substantiate environmental claims with verifiable metrics (Bebbington et al., 2020).

3.2 Social Practices: Embedded Norms, Informal Structures

In contrast to the environmental pillar, the social dimension of ESG is more deeply embedded in firm-level practice. Palestinian firms often demonstrate strong commitment to employment stability, worker welfare, and community engagement. These practices reflect socio-cultural norms and stakeholder expectations in a context marked by high unemployment, economic volatility, and social vulnerability.

Stakeholder theory helps explain this pattern: employees and local communities constitute highly salient stakeholders, and firms derive legitimacy from maintaining social cohesion and trust (Freeman, 1984; Mitchell et al., 1997). Social initiatives such as flexible employment arrangements, community support, and informal welfare mechanisms are frequently implemented even in the absence of formal ESG policies.

However, the informality of social practices presents a governance challenge. Comparative research on board diversity and sustainability disclosure suggests that where informal social contributions are not channeled through identifiable governance structures, they tend to remain invisible in formal ESG reporting regardless of their underlying social value (Al-Shaer & Zaman, 2016; Bakar et al., 2019; Tifani & Naimah, 2025). While socially valuable, these initiatives are rarely

documented, standardized, or linked to performance indicators. As a result, social practices are often invisible in ESG reporting and difficult to integrate into formal sustainability frameworks. This disconnect limits transparency and comparability, reducing the potential for social performance to be recognized by regulators, financiers, and international partners (Jamali & Karam, 2018).

3.3 Governance Practices: The Central Bottleneck

Corporate governance constitutes the most significant constraint on ESG implementation in Palestine. Comparative evidence on mandatory disclosure regimes and climate governance elsewhere suggests that regulatory mandate, rather than voluntary board commitment alone, is often what moves ESG oversight from aspiration to institutionalized practice (Farooq & Muhammad, 2025; Schiehl & Kolahgar, 2020; Talha, 2026). Although many firms formally comply with governance requirements such as board formation and statutory reporting ESG oversight is rarely institutionalized at the board or senior management level. ESG responsibilities are often fragmented across departments, with no clear accountability for sustainability outcomes.

Boards tend to prioritize immediate financial survival, regulatory compliance, and risk avoidance, leaving ESG considerations peripheral to strategic deliberations. Empirical studies in Palestine confirm that board size, diversity, financial expertise, and meeting intensity materially affect governance quality, audit outcomes, and disclosure credibility, reinforcing the role of ineffective boards as a central constraint on ESG integration (Alslaibi & Daraghma, 2022; Aljarrah & Alslaibi, 2025). Research on sustainability reporting narratives and assurance practices in other jurisdictions similarly finds that formal adherence to reporting standards does not guarantee that disclosure substance keeps pace with formal commitments (Demartini et al., 2025; Friske et al., 2023; Rezaee et al., 2023). The absence of dedicated ESG committees, sustainability expertise among directors, and performance-linked incentives further weakens governance integration. This finding aligns with broader evidence from emerging and fragile economies, where governance reforms often emphasize form over function (Aguilera et al., 2019).

The governance deficit has direct implications for ESG credibility. Comparative evidence on board characteristics, gender diversity, and ESG performance in banking and other listed-company settings indicates that more diverse and better-resourced boards are generally associated with stronger sustainability reporting and oversight outcomes (Anyigbah et al., 2023; Arayssi et al., 2016; Menicucci & Paolucci, 2022), a pattern that underscores what is currently missing from Palestinian board practice rather than describing it directly. Without board-level ownership, ESG policies lack authority, coordination, and continuity. Consequently, ESG initiatives are vulnerable to leadership turnover, funding fluctuations, and shifting external pressures.

3.4 Reporting and Disclosure Practices

ESG reporting among Palestinian firms remains largely voluntary and inconsistent.

Where reports exist, they often focus on narrative descriptions rather than quantified performance indicators. Evidence from emerging-economy firms suggests that meaningful disclosure—particularly when supported by advanced technologies such as artificial intelligence—depends critically on the reliability and integrity of underlying accounting information systems (Alslaibi et al., 2025a). Firms frequently adopt global reporting templates without adapting them to local realities, resulting in disclosures that are generic and weakly linked to operational practice.

The absence of mandatory ESG disclosure standards and assurance mechanisms exacerbates these challenges. Without clear regulatory guidance, firms face uncertainty regarding what to report, how to measure performance, and how disclosures will be evaluated. This uncertainty reinforces a minimalist reporting approach aimed at reputational signaling rather than accountability (Khan et al., 2016).

4 Core Policy–Practice Gaps in ESG Implementation

Synthesizing the analysis above reveals four interrelated policy–practice gaps that systematically constrain ESG effectiveness in Palestine.

4.1 Symbolic Adoption versus Substantive Implementation

The first gap concerns the widespread adoption of ESG policies without corresponding operational change. Institutional pressures from donors, financial institutions, and international partners encourage firms to adopt ESG language and frameworks. Similar patterns of symbolic compliance have been documented in Palestinian corporate governance and sustainability research, where formal ESG and governance adoption often outpaces substantive organizational change due to institutional uncertainty and capacity limitations (Alslaibi & Abdelkarim, 2024; Alslaibi et al., 2026). However, weak enforcement and limited capacity result in symbolic compliance, where policies exist primarily for legitimacy purposes (Meyer & Rowan, 1977).

4.2 Voluntary Disclosure without Enforcement or Assurance

The second gap relates to ESG disclosure. In the absence of mandatory reporting standards or external assurance, firms face limited incentives to invest in robust data systems. Voluntary disclosure remains selective and narrative-driven, undermining comparability and credibility. This gap limits the usefulness of ESG information for policymakers, investors, and stakeholders.

4.3 Board-Level Endorsement without Managerial Accountability

The third gap concerns governance. While boards may formally endorse ESG principles, they rarely translate these commitments into managerial accountability structures. ESG responsibilities are not embedded in executive performance evaluation, risk management systems, or strategic planning processes. This

disconnect weakens implementation and monitoring.

4.4 External Pressure without Internal Capacity Development

Finally, ESG diffusion in Palestine is characterized by strong external pressure and weak internal capacity. Donor requirements and financial sector expectations promote ESG adoption, but insufficient attention is paid to building organizational capabilities. Without targeted capacity-building, ESG remains aspirational rather than operational.

5 Policy and Managerial Implications for ESG Implementation in Palestine

The analysis indicates that ESG effectiveness in Palestine is constrained less by lack of intent than by misaligned policy design, weak governance integration, and insufficient organizational capacity. Comparative evidence from other emerging markets similarly links ESG effectiveness to the alignment between formal factors and firm-level implementation capacity, reinforcing the diagnosis that intent alone rarely determines outcomes (Bahadori et al., 2021). Addressing these constraints requires coordinated action by policymakers, firms, financial institutions, and development partners.

5.1 Implications for Policymakers and Regulators

First, ESG regulation in Palestine should follow a sequenced and proportionate approach rather than adopting comprehensive disclosure mandates modeled on advanced economies. Emerging fintech-enabled approaches to regulatory monitoring and instruments such as green treasury bonds illustrate how proportionate, technology-supported regulatory tools can expand without requiring immediate comprehensive mandates (Al-Alawneh et al., 2026; Al-Khoury et al., 2025; Anghel & Lupu, 2024; Szemán, 2023); whether such tools are currently feasible for Palestinian regulators has not been established. International evidence suggests that premature ESG regulation in fragile economies can exacerbate compliance burdens without improving sustainability outcomes (World Bank, 2020; Bebbington et al., 2020). Policymakers should prioritize a limited set of material ESG indicators aligned with national development priorities, such as environmental risk management in high-impact sectors, labor standards, and basic governance transparency.

Second, regulatory coordination should be strengthened. ESG-relevant oversight is currently dispersed across environmental, labor, corporate, and financial regulators, resulting in duplication and enforcement gaps. Establishing an inter-agency ESG coordination mechanism potentially housed within an existing regulatory body would improve policy coherence and reduce compliance uncertainty for firms.

Third, ESG criteria should be gradually embedded into public procurement, licensing, and incentive schemes. Rather than relying solely on disclosure mandates,

regulators can use preferential procurement, tax incentives, or expedited licensing to encourage substantive ESG adoption. Such incentive-based mechanisms are particularly effective in contexts where enforcement capacity is limited (Arezki et al., 2021).

5.2 Implications for Firms and Corporate Boards

For firms, the primary governance challenge lies in moving ESG from a peripheral compliance activity to an integrated strategic function. Boards should assign explicit ESG oversight responsibilities, either through dedicated committees or by integrating ESG into existing risk and audit committees. Without board-level ownership, ESG initiatives are unlikely to survive leadership turnover or external funding fluctuations (Aguilera et al., 2019).

Management should prioritize material ESG issues rather than attempting comprehensive adoption of international frameworks. Materiality-based ESG strategies focused on the most salient environmental, social, and governance risks are more feasible and impactful in resource-constrained settings (Khan et al., 2016). Firms should also invest incrementally in data collection and internal controls to support credible ESG reporting over time.

5.3 Role of Financial Institutions and Development Partners

Financial institutions occupy a pivotal position in ESG governance in Palestine. Banks should move beyond risk-screening approaches and adopt incentive-based ESG lending mechanisms, such as preferential terms for firms demonstrating measurable ESG improvements. Evidence from sustainable finance research indicates that such mechanisms are more effective than compliance-only models in driving behavioral change (UNEP FI, 2021).

Development partners should align ESG conditionalities with capacity-building support, including training, reporting tools, and governance advisory services. Without such support, ESG requirements risk reinforcing symbolic compliance rather than substantive implementation.

6 Discussion: Rethinking ESG Governance in Fragile Economies

The Palestinian case highlights the limitations of universal ESG models. ESG frameworks developed in advanced economies presuppose stable institutions, enforcement capacity, and access to capital conditions that do not hold in fragile and conflict-affected settings. In such contexts, ESG functions less as a market-driven governance mechanism and more as an externally induced policy aspiration.

This analysis supports a developmental interpretation of ESG, in which sustainability objectives are pursued incrementally and aligned with institutional capacity. Rather than viewing ESG as a fixed set of standards, policymakers and practitioners should conceptualize ESG as a dynamic governance process shaped by local constraints and priorities. This perspective aligns with recent evidence from

Palestinian banking studies showing that sustainable performance emerges from the alignment between internal behavioral dynamics, governance quality, and contextual constraints rather than from isolated ESG adoption (Alslaibi, 2025; Alslaibi et al., 2026). This perspective resonates with recent critiques of ESG universalism and calls for context-sensitive sustainability governance (Jamali & Karam, 2018; Bebbington et al., 2020).

7 Conclusion and Implications

This policy and practice analysis examined ESG adoption among firms operating in Palestine, focusing on the alignment between formal ESG policies and organizational practices. The findings reveal a persistent policy–practice gap driven by regulatory fragmentation, externally induced compliance pressures, governance deficits, and capacity constraints. While ESG policies are increasingly visible, substantive implementation remains uneven, particularly with respect to environmental management and governance integration.

The paper contributes to ESG scholarship by extending analysis to a fragile and underrepresented context and by adopting a policy-oriented lens that emphasizes implementation feasibility. For policymakers, the findings underscore the need for proportionate, incentive-based ESG reforms. For firms and boards, they highlight the importance of governance integration and materiality-based strategies. More broadly, the study cautions against uncritical transplantation of global ESG frameworks into fragile economies.

8 Limitations and Future Research

This study is based on institutional analysis and secondary evidence rather than firm-level empirical data. Future research should incorporate qualitative case studies, interviews with regulators and corporate leaders, and quantitative ESG performance indicators to deepen understanding of ESG dynamics in Palestine. Comparative studies across fragile and conflict-affected economies would further enhance theoretical generalizability and policy relevance.

Declarations

Funding

This research received no external funding. The article processing charge (APC) was waived by the publisher.

Conflict of Interest

The authors declare that they have no competing interests.

Editorial Disclosure

Ala'a Al Jarrah serves on the editorial team of ABGS. To ensure editorial independence, the manuscript was assigned to Dr. Rafat Abu Al-Rub, who

independently managed the peer-review process, selected the reviewers, and made the final editorial decision. Mrs. Al Jarrah had no involvement in the selection of reviewers, the peer-review process, or the editorial decision concerning this manuscript.

Ethics Approval

Not applicable.

Consent to Participate

Not applicable.

Consent for Publication

Not applicable.

Data Availability

Not applicable.

Authors' Contributions

The author contributed to: Conceptualization; Methodology; Data collection; Formal analysis; Writing original draft; Writing – review and editing

Clinical trial number

Not applicable.

Use of Artificial Intelligence

The author declare that generative artificial intelligence (AI) tools were used only to assist with language editing and clarity of expression during the preparation of the manuscript. The authors reviewed and edited all AI-assisted outputs and take full responsibility for the content, interpretation, and conclusions of the manuscript. No AI tools were used to generate, manipulate, or analyse the research data, nor to produce the study's scientific results.

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