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SPECIAL REPORT
TOWARDS A CONNECTED FUTURE
INNOVATION FUELING TRANSFORMATION

**EAST
ARABIA**





2

4

J.K. Khalil,
Division President, East Arabia,
Mastercard
• Foreword

6

Natalia Lechmanova,
Senior Economist,
Mastercard
• Inside Perspective

9

Hopeful Trends
• Infographic: Economic Outlook 2024

10

GOVERNMENT IN FOCUS

11

Highly collaborative,
productive partnerships
• Focus: Enabling trust & supporting
inclusive development

14

Erdem Çakar,
VP, Country Manager, Qatar and Kuwait,
Mastercard
• Interview

18

**EMERGING TECHNOLOGIES FUELING
THE FUTURE OF PAYMENTS**

19

The path forward
• Focus: Emerging technologies
fueling the future of payments

20

Gina Petersen-Skyrme,
VP, Country Manager, UAE and Oman,
Mastercard
• Interview

24

The digital payments revolution
• Infographic: New Payments Index

26

FINTECH RISING

27

Co-creating to build the future of
commerce
• Focus: Fintech

30

Arslan Khan, VP, Country Manager,
Pakistan, Mastercard
• Interview

32

MENA SMEs optimistic: 72% expect
revenue boost
• Infographic: Mastercard EEMEA
SME Confidence Index

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TOWARDS A CONNECTED FUTURE

J.K. Khalil
DIVISION PRESIDENT, EAST ARABIA,
MASTERCARD

J.K. Khalil, Division President, East Arabia, Mastercard, explores the ways technology is reshaping business and society.

BIO

J.K. Khalil is responsible for the UAE, Pakistan, Qatar, Kuwait and Oman markets at Mastercard. With almost 20 years of tech, banking, consulting and payments experience, he has held a number of roles across multinational banks, top-tier consulting firms and tech startups. In his previous role at Mastercard, he was the General Manager of MENA Central and, before that, he was the Mastercard Advisors Region Lead for MENA Central. Prior to Mastercard, he was a senior manager with Strategy& (formerly Booz & Company), where he was a principal in their financial services practice and focused on the wealth management, risk and digital verticals in particular. Before joining Booz & Company, he held a number of positions at Barclays Bank, including strategy and cross-asset derivatives sales. In 2021, he was recognized in the Arabian Business Young Achievers List (formerly known as 40 under 40), profiling young leaders who are making their mark in the GCC and the wider region. In 2024, he was included on Arabian Business's list of 100 Most Influential Arabs. He holds an MBA with distinction from the University of Chicago (Booth) and is the President of the GCC Alumni Club chapter. He also holds a computer systems and networks engineering degree from St. Joseph University in Beirut.

WELCOME TO THIS SPECIAL EDITION of The Business Year as we explore the ways innovation is fueling transformation across the financial services industry and beyond.

The gap between the present and the future is narrowing rapidly. Exponential leaps in technology are creating previously undreamt-of opportunities, and the resulting innovations are revolutionizing the way we connect with one another and the world around us.

The possibilities for collaboration and connection are limitless, and the potential for change is immense. But in an ever-evolving world, how do we ensure that we do not get left behind?

The future will be driven by value and opportunity. Whoever creates the most value gets to dictate the next chapter. Tomorrow's winners are those who write the next chapter today, because if you don't write it for yourself, someone else will write it for you.

Ultimately, I like to think we all want the same thing: a better, more inclusive, more connected world—one with equal opportunities underpinned by technology, where societies and individuals can achieve their full potential.

A rising tide raises all boats. In a world buoyed by innovation and technology, we can all rise and prosper.

In this report, my colleagues and I will explore the trends and

technologies that will help shape this future.

INVESTING IN A DIGITAL FUTURE

Hundreds of millions of connected customers now have a “digital lifestyle” that requires ongoing connectivity. GSMA's latest Mobile Economy report shows that mobile penetration reached 54% of the MENA population by the end of 2022.

However, the speed at which these changes arrive can make it hard for providers to keep up with customers' ever-changing requirements. Digital transformation is the only way to embrace a connected future—and the only way to remain relevant and meet consumer needs.

Digital transformation investments in the Middle East, Türkiye and Africa (META) are set to more than double and hit USD76 billion by 2026*. Digital transformation spending in the region is expected to accelerate at a compound annual growth rate of 16% during that period.

For many organizations, the digital and tech investments they made during the pandemic to build resilience are being put to test across key business dimensions, such as customer experience, operations and financial management.

THE DIGITAL BUSINESS, THEREFORE, IS THRIVING

The implementation of further digitalization in critical areas and a more rapid shift to a holistic digital approach will be key to separating the thrivers from the survivors.

Organizations must not lose sight of their digital aspirations, no matter what the economy throws at them. The focus should be on enabling clear and measurable outcomes, and digital spending needs to transition from building to scaling.

At Mastercard, our leadership has kept its focus on scaling innovation and running a business that truly enforces a digital-first mindset across all our operations and offerings to our customers.

A CONNECTED ECONOMY

A Harvard Business Review report beautifully captures the drivers of the connected economy: Value is created through the technology-enabled links between people, machines and organizations. Every organization now faces a challenging shift, as more

than half of the companies surveyed believe that a substantial part of their revenue is under threat from a new wave of digital disruption. Organizations have seen significantly stronger revenue growth over the previous two years than their less connected rivals due to their ability to leverage information at speed through their use of hardware, software and networking technologies.

The East Arabia Division that I lead for Mastercard is unique in the sense that we represent diverse markets, spanning the United Arab Emirates, Qatar, Kuwait, Oman and Pakistan. The creation of this division is a clear indication of the incredible growth of what used to be our MENA East cluster. Recognizing the region's immense potential, the move is part of our refreshed organizational design that focuses on fast-tracking growth, strengthening stakeholder engagement and enhancing our multi-rail capabilities in key markets.

With huge disparities in GDP, population and size (fun fact: Pakistan is about 69 times bigger than Qatar!), it could be easy to overlook the commonalities driving these markets.

The golden thread is an appetite for digital disruption driven by technology. These markets are all embracing a digital future, and a rise in fintechs, burgeoning SME landscapes and progressive governments are leading to a bright and connected tomorrow.

AN EVOLVING PAYMENTS LANDSCAPE

You may ask how such diverse topics are connected to each other, and what the role of the payments industry is in driving this connected future.

The SME sector is a great example. At Mastercard, we empower small and medium enterprises to fuel economic progress.

E-commerce in the UAE is projected to reach USD27 billion this year, partially fueled by the exponential growth in the SME sector. According to the Ministry of Economy, SMEs represent more than 94 percent of the total number of companies operating in the country and employ more than 86 percent of the private sector's workforce. These businesses provide a livelihood for many while advancing financial inclusion, reducing poverty and boosting prosperity. The latest Mastercard SME Confidence Index 2023 has revealed that 80% of SMEs in the UAE are confident about business growth, projecting similar or increased revenue compared to the past year.

At Mastercard, we continue to leverage our technology, insights, global expertise and partnership approach to empower every business everywhere to grow digitally, become stronger than before, and prosper in a more connected, equal and inclusive world.

So together with Aramex, we launched the ScaleUp platform in partnership with the UAE Ministry of Economy's The Entrepreneurial Nation with the aim of supporting SME growth in the country. ScaleUp presents an exciting opportunity for startups and SMEs to pitch innovative ideas for a chance to win AED250,000, meet with angel investors and several additional benefits, including marketing exposure. By partnering with the likes of Aramex to enable an inclusive and connected SME landscape, we ensure that the trajectory of e-commerce in the region continues to rise.

At Mastercard, we are committed to advancing digitization to simplify the way people pay. By harnessing the potential of tech-

nology and innovation, we continue to work with partners in the public and private sector to ensure a more connected future. A case in point is our partnership with e&, where we leverage our core payment products as well as value-added services to drive an ambitious digital future for e& consumers in 16 markets across the Middle East, Asia and Africa. Through this collaboration, we provide consumers with innovative alternatives to how they choose to pay for a variety of lifestyle activities, whether they are making purchases in-store or online. I call our collaboration with e& a complementary partnership because we have the innovation and technology, and they have the access and experience in engaging consumers, which creates a unique B2B2C model that works for all.

For many people, remittances are a vital way to stay connected to their communities. At Mastercard, we are providing communities with fast, convenient, secure and affordable ways to transfer funds internationally. Mastercard Cross-Border Services facilitates the movement of funds to any end point across over 140 countries through one secure connection, reaching 95% of bank accounts worldwide almost instantly. This solution is now available with several issuers in the UAE.

We also marked the debut of the Mastercard Installments program in the EEMEA region with the launch of the SlicePay card in collaboration with First Abu Dhabi Bank (FAB) under its Dubai First trademark. The buy now, pay later (BNPL) solution allows shoppers to convert their purchases into four interest-free installments at no extra cost, facilitating access to essential products and services for individuals and businesses.

In Pakistan, we joined forces with Euronet to bring Card-as-a-Service (CaaS) and Bank-as-a-Fintech (BaaS) solutions to the country, enabling banks, non-banking financial institutions and fintech companies to create and launch innovative products with scalability and quicker time to market.

And in collaboration with Ajman Bank in the UAE, we launched the world's first-ever Touch Card, an innovative solution that allows blind and partially sighted people to easily distinguish between their payment cards with just a touch. Since then, National Bank of Bahrain (NBB) followed suit, and the Touch Card is coming to Saudi Arabia soon.

AND THE WINNERS ARE...

In a rapidly changing and complex world, those who are proactive and agile will emerge as winners. At Mastercard, we are constantly developing our payments matrix across new rails and enabling new players. We are connecting our wider network of partners, FIs, governments, fintechs, merchants, retailers and e-tailers, exchange houses and telcos, empowering them with an ever-evolving suite of solutions and capabilities that will allow them to thrive. For more than 50 years, Mastercard has shaped the global payments landscape, powering economies and empowering people. I consider us the original fintech – bringing innovation and technology to our partners and using our scale and expertise to uplift communities across the globe. Over the following pages, we'll share our view of a bright and connected future, and how to harness the power of innovation to stay ahead of the pack.

Together, we can embrace the future—today. ✖



GCC: BUCKING TRENDS

The Gulf Cooperation Council (GCC) witnessed a sharp economic slowdown in 2023 as the oil sector contracted due to lower prices and production cuts. However, the headline numbers obscure the success the region continues to experience in the non-oil economy, which has been growing at an estimated 4% in UAE and at over 5% in Saudi Arabia. The non-oil economy is supported by procyclical fiscal policy that drives the diversification efforts, including high investment and, in turn, high employment and domestic consumption.

Natalia Lechmanova
SENIOR ECONOMIST,
MASTERCARD

BIO

Prior to joining Mastercard, Natalia was the head of sovereign and economic risk for Europe, Middle East & Africa at Goldman Sachs in London. Previously, she was a senior economist at Standard Chartered Bank. She also spent several years as a senior consultant at NERA Economic Consulting in New York. She holds a degree in international economics and international affairs from the American University of Paris, a master's degree from the London School of Economics and Political Science and an MBA from INSEAD.

IN 2024, growth is set to accelerate as the oil sector recovers. With oil prices expected to average around fiscal breakevens in most GCC countries, together with proactive sovereign wealth funds, the non-oil economy will continue to benefit from diversification efforts. The UAE seeks to maintain its position as the regional trade and investment hub amid increased competition from its neighbors. Changes to the workweek to align with international markets as well as reforms to immigration rules have attracted large numbers of bankers, asset managers,

entrepreneurs and influencers, which will continue to drive domestic demand. In Saudi Arabia, within the framework of Vision 2030 and the long-term economic transformation plan, a significant investment drive is underway. Giga projects, such as NEOM, aim to mobilize USD3.3 trillion by 2030. Although slower project execution implies that only a part will materialize, it is also fueling domestic demand. The story is different for MENA oil importers. Since 2022, Egypt and Turkey have seen food and fuel bills rise and foreign capital flee. Recently, they significantly tightened their monetary policies to support exchange rates, fight inflation and reduce macroeconomic imbalances. Similar to the trend in the global economy, most MENA countries should see continued normalization in inflation rates in 2024. This is not only because the worst of currency depreciations are likely behind, as the US Fed is at the end of its tightening cycle and contemplating cuts, limiting the gains for the dollar, but also because commodity prices, including food and fuel, have stabilized, as have the pandemic-driven supply chain bottlenecks. However, a surge in oil prices due to, for instance, geopolitical risks remains a key risk to inflation.

TOURISM REMAINS A BRIGHT SPOT ACROSS THE REGION

The GCC's strong push to grow its tourism sector has made the region one of the world's fastest-growing destinations, attracting visitors with diverse interests. These include arts and culture, cuisine, wellness, shopping, nature and family activities. By the end of 2023, the GCC is projected to have registered a 22% increase in inbound tourist spending compared to 2019, 26 percentage points higher than the global average. This inbound spending supports the local economy and is an increasingly important part of the tourism industry for the GCC. The UAE leads the region in terms of absolute increase in bookings since 2019. We expect this tourism boom to continue through 2024 and beyond as the pandemic structurally shifted spending away from things and toward experiences. In 2023, Turkey, Egypt, Tunisia and the UAE were in the top 10 fastest-growing destinations for Europeans compared to 2022, while bookings to Italy, Spain, Portugal and Greece contracted over the same time period. We anticipate this trend to become even more prominent in 2024 as more middle-class Europeans, who

are the group that travels the most, are forced to prioritize their mortgage payments. The quality of tourist offerings in leading GCC cities is at least comparable to leading global tourist destinations and sometimes better. Online reviews from tourists in 20 countries show that tourism offerings in Dubai and Abu Dhabi are on a par with those in London, Paris, New York and Singapore. The GCC region is well-known for its luxury hotels. This reputation for service excellence and high hospitality standards extends to budget-friendly hotels. The hotel satisfaction index, based on customer review data, shows that hotels in the GCC receive higher satisfaction scores than those in other prominent cities around the world. For higher-end stays, where the region's average spending is bolstered by luxury aficionados, five-star hotels in Dubai scored higher than their counterparts in international cities by a small margin, highlighting the competitiveness of the luxury hotel industry. Satisfaction scores for three-star hotels outperform by an even wider margin. Dubai scored 71, while Paris, London and New York trailed with 56, 42, and 30.

THE SYMMETRIC AND ASYMMETRIC NATURE OF RISKS

In an uncertain world, there are several risks to the outlook. The first is heightened geopolitical risks in the Middle East that could undermine growth in the region, particularly in the tourism sector. Since the conflict in Gaza broke out, increased booking cancellations have been reported in Lebanon, Jordan and Egypt. The second is oil prices, which impact the region symmetrically. A fall in oil prices presents a downside risk to the outlook for the GCC. If the prices fell low enough, it would affect the magnitude of the pro-cyclical fiscal policy. It would, however, benefit oil importers, like Egypt and Turkey, helping reduce their macroeconomic imbalances and inflation. A further rise in oil prices would have the opposite effect. Finally, the non-GCC countries in the region are more vulnerable to changes in food prices, given that these represent a large proportion of their inflation basket. The El Niño weather phenomenon playing out in the coming months makes this risk more acute. Non-GCC countries are also at the risk of tightening of global financial conditions, given their large external re-financing requirements.

EMPOWERED CONSUMERS TO BALANCE PRICES AND PRIORITIES

While elsewhere in the world, consumers and businesses face crucial decisions about spending and investing, with

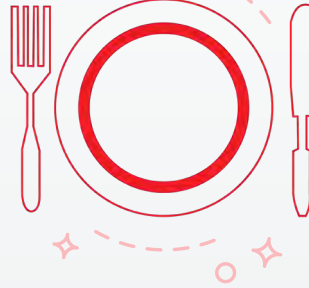
interest rates, wages and prices higher than before the pandemic, consumers in the GCC feel fewer constraints due to strong economic growth and labor markets. In the UAE, for example, real consumer spending is expected to increase year over year by 5% in 2024, one of the highest rates globally. The strong consumption is helping fuel e-commerce penetration that was already supercharged by the pandemic. This is good news for retailers who have expanded their volumes, but it also comes at a cost as consumers are firmly in charge, demanding quality and service at the right price. The rate of customer purchase returns for online transaction grew from 2.8% of sales in 2019 to 16% in 2023, or 13.2 percentage points, while it remained relatively unchanged for in-store purchases, increasing by one percentage point.

In sum, expansionary fiscal policy will continue to support growth in GCC countries. Furthermore, the UAE will seek to maintain its traditional position as the regional trade and investment hub. Tourism will likely remain a bright spot for many of the region's economies. A strong labor market will underpin consumer purchasing power, and the easing of monetary policy will help sustain consumer spend in interest-sensitive sectors. This will encourage empowered and resilient consumers to confidently take charge of their needs and wants within the constraints of available resources. ✖

HOPEFUL TRENDS



Consumers and businesses in the region will face crucial decisions about spending and investing, where price differentials and interest rates have burrowed into budgets, informing the resources available with less wiggle room.

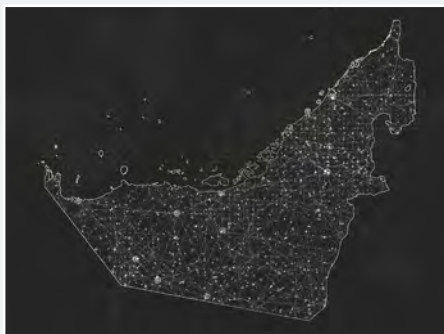


Even with inflation taking a larger chunk of spending on essentials, consumers will prioritize the discretionary spending that matters most, with travel, events, live concerts and movies remaining popular choices.



In 2024, real consumer spending in the UAE is expected to increase by 5% year over year.

TOURISM AS A BRIGHT SPOT



Egypt and Tunisia were among the top five fastest-growing destinations for Europeans in 2023 compared to 2022. Meanwhile, the GCC's strong push to grow its tourism sector has made the region one of the world's fastest-growing destinations. In 2023, the region is estimated to have registered a 22% increase in inbound tourist spending compared to 2019, 26 percentage points higher than the global average.

E-COMMERCE OUTPACES BRICK-AND-MORTAR STORES



With supply chains finally untangled, consumers can once again wait until the last minute for purchases with few constraints, and perhaps add more options to the cart to try on at home. Paired with the pandemic-fueled acceleration of businesses going online for the first time, higher returns may point to increased customer loyalty, where shoppers' growing comfort with e-commerce increases sales — and also repeat visits.

The rate of returns for online transactions grew from 2019 to 2023 but remained relatively unchanged in store. In the GCC, this was particularly pronounced, with the e-commerce rate of return increasing by 13.2% in the UAE.



Image: xxxxx

GOVERNMENTS IN FOCUS

ENABLING TRUST & SUPPORTING INCLUSIVE DEVELOPMENT

Governments are focused on building more inclusive, resilient, and sustainable economies. They are doing this in part by embracing digital technologies and leveraging strong public-private partnerships. Mastercard helps to forge highly productive partnerships across private and public sectors, focused on jointly solving important government challenges with the highest security standards to ensure citizen trust and confidence.

ECONOMIES IN THE MIDDLE EAST and North Africa (MENA) face significant challenges as they grapple with the impact of past and present regional conflicts and intensifying climate change. Yet, these challenges present the opportunity to build new social contracts and transform existing economic models – creating more jobs, lifting growth and ensuring the benefits of economic development can be enjoyed by all across their societies.

OVERCOMING CHALLENGES, EXPLORING OPPORTUNITIES

According to the International Monetary Fund (IMF), despite some pre-pandemic gains in poverty reduction, literacy and lifespans, many economies in MENA have struggled to ensure that the benefits of economic development and diversification accrue equitably to all segments of their populations.

In the wake of the pandemic, governments were faced with the most complex combination of challenges in living memory. While continuing to manage the impact on citizens' health, the severe economic implications and fiscal shock have mandated a renewed vigor to reconsider the infrastructure, services and support that are needed to drive recovery and growth.

Both energy and food prices remain high, exacerbated by con-

flict in the wider region. The former continue to hit energy importers in the region hard but swell the coffers of energy exporters; high food prices affect the whole region, yet states with ample financial resources should be able to manage and cushion those stresses, whereas resource-strapped countries are leaving their citizens increasingly food-insecure. For example, Morocco, as the one of the world's leading producers and exporters of fertilizer, might see some benefits from that increasingly valuable resource.

The recent challenges have put renewed focus on the digital economy's role in helping people and businesses stay connected, make safe payments for necessary products and services, and get paid to sustain livelihoods and economic activity. They have also highlighted the adverse effects of exclusion on the poorest and most remote communities, which is why digital inclusion and financial inclusion are more important now than ever before.

DIGITIZING ECONOMIES

As governments look to electronic payments to increase efficiency, convenience, security and economic activity, they need a partner who can develop and implement solutions that can do all of this while helping to address the financial needs of citizens.

Mastercard has diligently built its secure technology and re-

liable network over more than 50 years, making it the trusted partner, technology provider and policy advisor that can help governments to tackle this immense challenge – but also this extraordinary opportunity.

The company's framework enables governments to develop a digitization strategy that benefits all stakeholders, including consumers, businesses, merchants and financial institutions. An example is its partnership with Saudi Arabia's government to support the Kingdom's cashless drive with a multi-layered security mobile payment solution mada Pay and later by also teaming up to offer Apple Pay in the country.

Increasingly, Mastercard helps governments to connect more people and businesses to the digital economy through digital partnerships with telcos, retailers, fintech and financial institutions that make safe, secure and convenient digital transactions, payments and disbursements more accessible and more prevalent. This, in turn, expands economic activity and enhances citizen welfare, leading to the development of sustainable communities and happier, smarter cities.

SMARTER CITIES, FASTER URBANIZATION

Urbanization is increasing at a pace never before experienced. By 2030, the world will have 43 megacities, each with more than 10 million inhabitants. Combined with the overall growth of the world's population, the shift to cities will add another 2.5 billion people to urban areas by 2050, increasing the proportion of urban population from the current 55% to 68%.

While this presents an evolving set of challenges, rather than reacting to emerging technologies, administrators of the modern city could proactively introduce innovations designed to increase the happiness quotient of its inhabitants by making each transaction and interaction more efficient.

Mastercard has a collaborative and connected approach to

TRUSTED PARTNER TO GOVERNMENTS GLOBALLY

At the heart of every thriving, inclusive economy are interactions between its people, government and businesses based on trusted identities, obligations and rights to use and receive services. Mastercard has built a globally trusted network that facilitates these exchanges swiftly, securely and transparently.

INCLUSION

Enabling small businesses and citizens to participate in economic activities that incorporate identity, payment, payroll, savings and access to credit.

TRUST

Delivering services, payments and other public entitlements with global security standards and identity services to increase citizen trust and prevent fraud.

EFFICIENCY

Digitizing vital services and operational processes to better serve communities, drive greater inclusion and realize operational efficiencies.

ECONOMIC DEVELOPMENT

Strengthening policymaking by grounding decisions in aggregated and anonymized data to understand economic and social impact.

urban development and is working with over 150 cities across the world. Through its global expertise, the company is the ideal technology partner, aiding optimization of government spending, funds allocation, budgeting and access to economic opportunities.

Mastercard has launched a unique Digital City Partnership with Dubai's Department of Economy and Tourism (DET). The initiative leverages the company's multi-rail payments network and data-driven digital commerce technology, which connects over 100 million merchants globally, to address key priorities of the Dubai Economic Agenda (D33).

In addition, Mastercard has served as an architect of pioneering smart city and urban mobility solutions for over a decade. During this time, it has worked on more than 300 trailblazing mass transit projects around the world. Prime examples include introducing open-loop transit payment ecosystems in Amman and Karachi that enable seamless digital transactions, ensuring a hassle-free commute for the cities' passengers.

YOUTH, THE FUTURE

While cities grow rapidly and urbanization accelerates, unemployment is on the rise, especially among the youth. With high unemployment and the expected entry of 27 million young people into the labor force over the next 10 years, countries across the MENA region need to evolve their economic models to boost job creation and make sure that the benefits of economic development are shared more widely among all their citizens.

Mastercard's work in Africa is a great reference for the efforts in the MENA region among young people. The Mastercard Foundation, through its Youth Livelihoods portfolio, helped test and advance scalable models that provided access to financial services, skills and entrepreneurship training, job placement and mentoring for youth.

FORGING THE PATH AHEAD

Countries and governments need to embrace global trade and technological advances and evolving demographics at home as an opportunity to successfully implement policies that foster higher and more inclusive growth.

Among the main issues that remain unresolved are the high share of unemployed youth; large gaps in economic opportunities for women; fragmented social protection systems; and underdeveloped private sectors with tight regulation, absence of a

UN CLIMATE CHANGE CONFERENCE: A CATALYST FOR CHANGE

All climate policy roads in 2023 led to the UN Climate Change Conference (COP28), which the UAE hosted at the end of the year. The status of several climate obligations had considerable influence on the proceedings. COP28 saw the conclusion of the first global stocktake, a two-year process that started at COP26. The purpose of this exercise is to assess the progress that participating countries have made toward achieving the goals of the 2015 Paris Agreement. More importantly, based on these assessments, the stocktake provided direction on how parties should move forward, with the most direct implication being the countries' respective Nationally Determined Contributions (NDCs). Mastercard is committed to driving sustainability and climate action across its value chain, and is mobilizing the financial industry to reduce its environmental impact. In 2023, the company announced that from January 1, 2028, all its newly produced plastic payment cards will be made from more sustainable materials, including recycled or bio-sourced plastics. At COP28, Mastercard announced the UAE Sustainable Cards Pledge, which mobilizes the country's banks to switch to cards made from sustainable materials by 2025. This makes the UAE the first nation in the world to do so three years ahead of the company's global deadline. The initiative has witnessed a strong uptake among key industry players, which means that 80% of Mastercard cards issued in the local market from 2025 will be sustainable. As the world gears up for COP29, the role of the public and private sector remains more vital than ever.

level playing field and limited access to credit that stifle the creation of new firms and growth, employment and incomes.

In this context, Mastercard serves as a policy advisor that engages governments to shape a safe and balanced regulatory environment, which, in turn, ensures fair and healthy competition while promoting innovation and more citizen choice. ✖



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