



**HAWKAMAH**  
THE INSTITUTE FOR CORPORATE GOVERNANCE

***Mainstreaming Disclosure &  
Transparency – Hawkamah-S&P  
MENA ESG Index***

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## ESG in a Nutshell

- Environmental, Social and Corporate Governance
- Recognition that non-financial factors can materially affect a company's long-term performance.
- A sustainable company takes into account its shareholders, employees, customers and communities in which it operates.
- Risk management

## Why ESG Disclosure Matters?

*Corporate governance* - Board, audit, accounting standards, internal controls

*Environmental* – policies, targets, reporting

*Social* – health and safety, community initiatives, customer relations

- Enhances public understanding of a company's activities, policies and performance and generates trust.
- What gets disclosed gets management attention - What gets measured gets done; What gets rewarded gets done repeatedly.
- Not a compliance activity, but to demonstrate awareness of risks and their skill in managing them.

## Regulators and ESG disclosure

- Several jurisdictions have taken initiatives in recent years that are designed to raise issuing companies' awareness and/or to promote or require better transparency and disclosure on ESG-related performance and risk factors.
- EU Directive, UK Companies Act 2006 – enhanced business review
- Australian Securities Exchange
- Taiwan Stock Exchange - requires all listed companies to include CSR reporting in the corporate governance statement of the annual report and prospectus, including the information on the company's CSR system, measures adopted and performance.

## ESG Disclosure in Emerging Markets

- In Malaysia and Thailand, for example, the emphasis has been on promoting corporate social responsibility (CSR) concepts, including publication of annual CSR/sustainability reports on (initially at least) a voluntary basis.
- In China, the Shenzhen and Shanghai Stock Exchanges have issued CSR guidance for listed companies and have followed this with training programs.
- The measures taken by both the Shanghai and Shenzhen Stock Exchanges sit within a wider framework of government policy to harness the capital markets to foster environmentally and socially sustainable private sector development.

# Hawkamah-S&P MENA ESG Index

- **Environmental, Social and Corporate Governance (ESG) index for 11 countries in the MENA region.**
- **The companies that are concerned about their customers, employees, communities, and the environment are more likely to be sustainable in the long run.**
- **Screen up to 400 companies of the MENA region giving them scores on environmental, social and corporate governance parameters.**
- **Raise the profile of those companies that perform well along the three parameters when compared to their market peers.**
- **Create a market incentive for companies, while providing investors with a viable product to invest in.**

## Index methodology

- The index employs a unique methodology that quantifies a company's ESG practices and translates them into a scoring system which is then used to rank each company against their peers in the MENA markets.
- *Quantitative Score*. Each company is assigned a quantitative ranking based on three factors – transparency and disclosure on corporate governance, environment, and social governance as per the company's published information.
- *Qualitative Score*. The top companies with the highest quantitative score are selected for qualitative scoring on the basis of independent sources of information such as news stories, websites, and CSR filings.
- *Composite Score*. A composite score is calculated for each company by summing the qualitative and the quantitative score.

# ESG criteria: T&D Screening Framework

127 Corporate Governance (G) disclosure indicators identified

- ▶ Shareholder rights
- ▶ Audit Process
- ▶ Financial and operational indicators
- ▶ Board and management profile
- ▶ Ownership structure
- ▶ Business Ethics

70 Environmental and Social (ES) disclosure indicators identified

- ▶ Environment
- ▶ Employees
- ▶ Community
- ▶ Customers/Product

## ESG criteria: Qualitative Screening Framework

Corporate Governance	Environment	Employee Relations	Community	Customers / Products	Business Ethics
Ownership Structure	Environmental Pollution	Labor Rights	Human Rights	Product Safety and Quality	Business Ethics
Shareholder Rights	Natural Resources Use	Employee Health & Safety	Community Investment	Monopolistic Practices	Corruption
Transparency, Disclosure and Audit	Management Policy and Performance Indicators	Equal Opportunity		Customer Relations	
Board Structure and Effectiveness		Employee Relations			

## Why an Index?

- An Index relates companies ESG performance to stock market performance
- An Index can create incentives for companies to improve ESG performance
- An index has assets attached to it, raising the cost of capital for those that are not on the index
- An index creates a public list of leaders and therefore laggards, driving companies to be on “the list”

## ESG and Investors

- ESG factors can have a positive impact on portfolio returns, according to a growing body of academic research.
- In its report, *Shedding Light on Responsible Investment: Approaches, Returns and Impacts*, Mercer analyses 16 academic studies – the majority of which (ten) show a positive relationship between ESG factors and companies' financial performance, four show a neutral relationship and two show a neutral to negative relationship.
- A recent IFC survey: 82% of surveyed asset owners say that ESG assessment will become significantly more important in their research, portfolio management and manager-selection process over the next three years.

## A Tool for Investors

- Lack of resources, know-how - The Index helps investors adopt passive ESG policy
- Indexing is a low cost strategy which requires relatively little monitoring and management on the part of the asset owner, and the use of specialized indices is seen as a relatively easy way to incorporate ESG factors into a passive mandate.
- Enable international institutional investors such as pension funds to invest in the region
- Addressing the elephant in the room

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