

Standard & Poor announces launch of new index to track companies listed on Egypt's stock exchange

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CAIRO: Standard & Poor's (S&P), one of the world's leading financial market intelligence providers, announced on Wednesday the launch of the S&P/EGX ESG Index, the first of its kind designed to track the performance of companies listed on the Egyptian Stock Exchange (EGX) that demonstrate leadership on environmental, social and corporate governance ("ESG") issues.

The index was created and developed by S&P and a consortium including the Egyptian Institute of Directors (EloD), a research institution aiming to spread awareness about best practices of corporate governance in Egypt, and Crisil, one of India's leading ratings, research and policy advisory companies.

Launched by Egyptian Prime Minister Ahmed Nazif at the

Third Annual Conference on Corporate Social Responsibility in Cairo, the index includes 30 stocks drawn from the top 100 Egyptian companies by total market capitalization.

The index measures environmental, social, and corporate governing practices based on quantitative rather than subjective factors using a scoring system to rank each company against its peers in the publicly traded Egyptian market.

Each index constituent is given a quantitative score based on transparency, disclosure on corporate governance and on environmental practices. The companies with the highest quantitative score are then selected for qualitative scoring on the basis of praise in news stories, websites and CSR research findings. A composite score is then calculated using both these scores. This is meant to be a guide to in-

vestors who are starting to care more about corporate, social and environmental governance issues.

"By linking ESG to share price performance, the S&P/EGX ESG Index will enable investors to take a leading role in driving firms to enhance transparency and disclosure and ultimately improve reporting standards in Egypt," said Robert Shakotko, Managing Director of S&P Indices. "For the first time, environmental, social and corporate governance factors have been extensively quantified and translated into a series of scores, and the members of the Index are representative of the Egyptian equity market based on their size and liquidity."

A change in the Egyptian perspective

"Egyptian investors will eventually follow the index

more when making investment decisions," said Dr Ashraf Gamal, executive director of EloD. In the beginning, he explained, the stocks of companies listed in the index may be more desirable for foreign investors who have more awareness about corporate governance and environmental practices. "The most important thing is that more awareness is raised about these issues, particularly by the media, causing the Egyptian investor to acknowledge their importance".

Based on historical analysis, the average ESG score of the 100 largest Egyptian companies has improved by nearly 40 percent since 2006, and members of the S&P/EGX ESG Index have improved their score by approximately 80 percent.

The top 10 index constituents at launch are Commercial International Bank (CIB), Orascom Construction Industries, El Ezz Steel Company,

Telecom Egypt, Talaat Moustafa Group, EFG Hermes Holding Company, Lecico Egypt, Ezz Eldekhela Steel Alexandria, Orascom Telecom and Sidi Kerir Petrochemicals. It is still in question whether the index will have a positive effect on the business practices of these companies.

"This (business practice) is the whole idea behind the index. The index contains around 200 variables that are linked to business practices and to be competitive in the index, businesses will have to improve in these variables," said Gamal.

Ahmed El Gohary, advisor to the minister of investment on sustainable development and environmental affairs, said that the index will have a positive environmental impact as it will "encourage sustainable development practices".

"The index focuses on issues that are the main pillars

of sustainable development pushing investors to increase investment in sustainable environmental practices," said El Gohary. This will in turn encourage companies to decrease their carbon footprint and become more competitive in garnering investments in global markets where sustainable development practices are becoming more of a priority."

"Sustainability and transparency have become overriding corporate themes worldwide," said Jan Willem Plantagie, S&P's regional manager for the Middle East. "The S&P/EGX ESG index will set a new benchmark for improving sustainability disclosure in Egypt and set priorities for investor engagement in the wider region. As awareness of ESG increases, it will be essential for companies to delve into their business practices and strive to improve them."