



KPMG True Value Case Study Safaricom Limited



Safaricom measures the value it creates for society in Kenya

ABOUT SAFARICOM

Safaricom Limited is the largest mobile operator in the Kenyan market. It serves over 23 million customers: more than two thirds of the Kenyan market.

Safaricom's services include mobile and fixed voice, SMS, data, internet and M-PESA, a mobile phone-based money transfer service. The vast majority of Safaricom's services (97 percent) are prepaid by the customer.

Safaricom's goal is to transform lives through providing unmatched products and services that meet the needs of Kenyans.

Safaricom aspires to use its mobile telecommunications products and services to improve the quality of life and contribute to sustainable livelihoods for people throughout Kenya.

The company wanted to understand how successful it has been in achieving this goal and how it can increase the value it creates for society in Kenya still further.

In order to do so, the company chose to partner with finance and sustainability professionals from KPMG member firms and to apply KPMG's True Value methodology.

The methodology "monetizes" the socio-economic and environmental impacts of an organization and its products and services, i.e. it quantifies them in financial terms.

Monetization is gaining momentum as an approach that helps companies to understand and increase the value they create for society.

Safaricom is the first major company in Africa to monetize and publicly communicate the value it creates for society in this way.

"This True Value Report expands the way in which we assess and communicate our "Transforming Lives" mission. It is important for us to understand how our business operations, our environmental footprint and our social investments impact our ecosystem and the Kenyan economy as a whole"

Bob Collymore, CEO, Safaricom



The approach: quantifying the value Safaricom creates for society

Safaricom used KPMG’s True Value methodology to identify the company’s most material socioeconomic and environmental impacts and to quantify them in financial terms. The net of the monetized positive and negative impacts gives an indication of the total value that the company created, and reduced, for Kenyan people in the year ending 31 March 2015.

In conjunction with the Safaricom team, professionals from KPMG member firms identified material impacts for inclusion in the analysis. The selection was based on a review of sustainability trends in the

telecommunications sector, Safaricom’s annual report and sustainability report, and input and validation from key internal stakeholders.

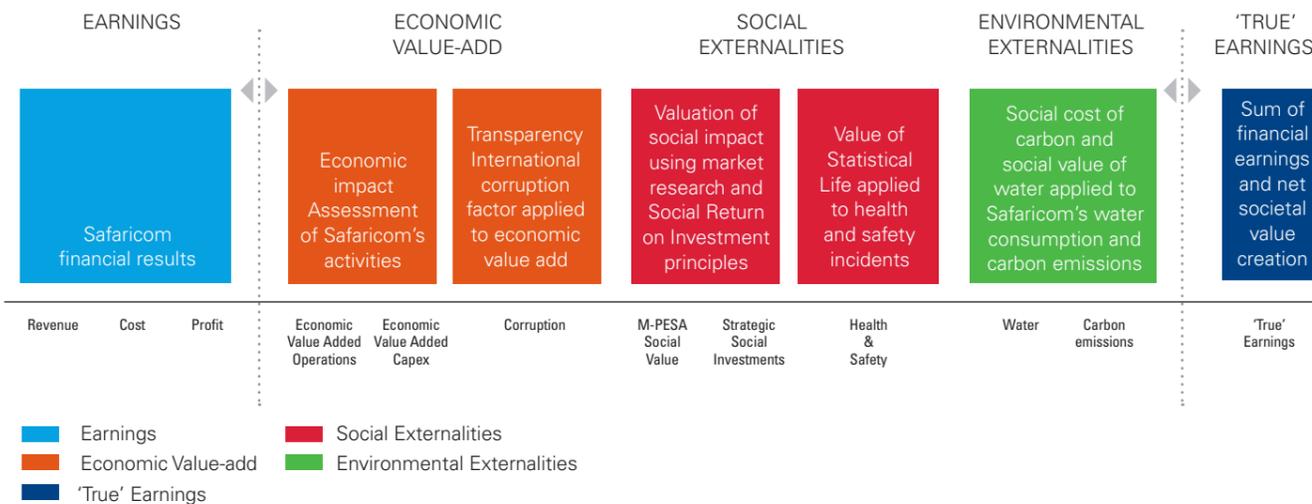
The team then applied a practicality lens to ensure it was possible to monetize the selected impacts using Safaricom data and available proxies.

Where existing data was not available for material impacts, the team conducted primary research:

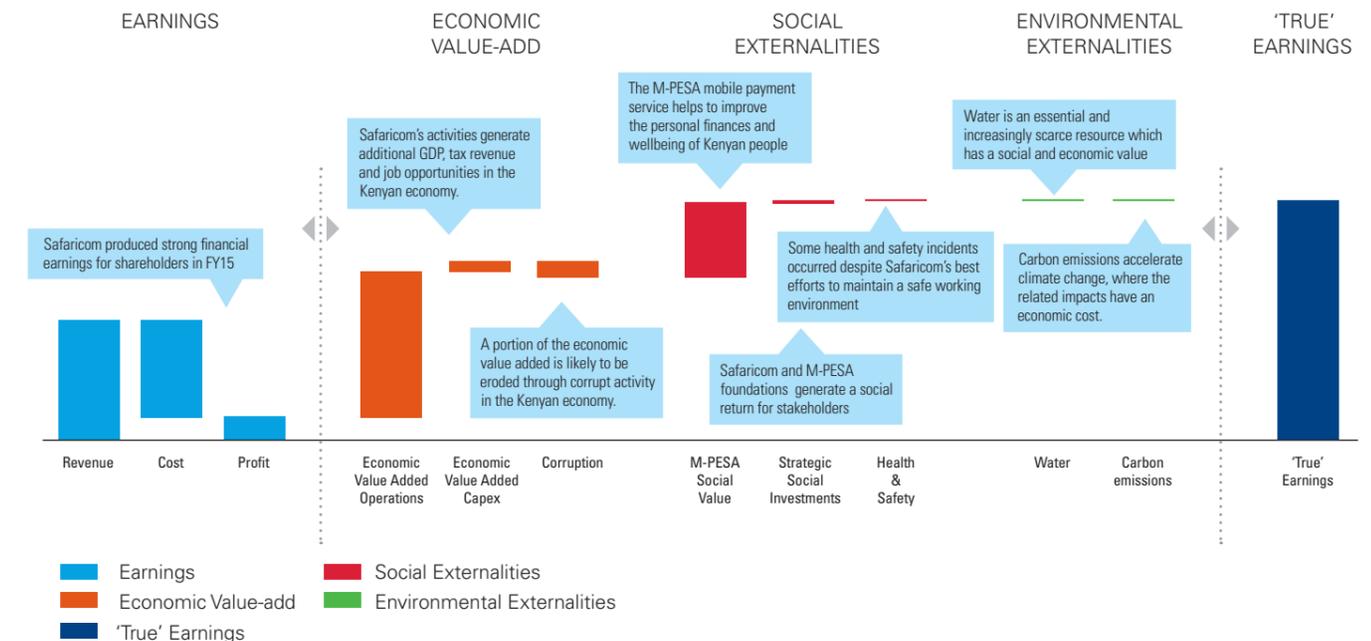
- **Safaricom’s economic value added:** An **Economic Impact Assessment Methodology** was used to measure

the **economic activity** resulting from **Safaricom’s footprint** in Kenya over FY15

- **Social value of M-PESA: Social Return on Investment (SROI) principles¹** were used to quantify the social value created for stakeholders through using Safaricom’s M-PESA’s product offering. Market research professionals from **TNS RS** carried out an extensive data-gathering exercise to validate the extent to which impacts were experienced by stakeholders.²



The results: total value created for society is worth almost 10 times the financial profits



The value bridge above shows that the total value Safaricom created for Kenyan society in FY15 was estimated at around 10 times greater than the actual financial profit the company made in the same period.

The company creates the greatest value for society through the added economic value

it generates from its operations and capital expenditure and through the positive impacts of its M-PESA mobile money transfer service.

This value is eroded by corruption in the Kenyan economy. This is not directly related to Safaricom’s operations, but the assessment should acknowledge that

corruption is likely to prevent some of the economic value Safaricom creates from reaching the people.

Health and safety incidents and carbon emissions from fuel and electricity consumption further reduce the value created.

Examples of monetization data used in the analysis

IMPACT	COST	NOTE
Corruption	9.5% of economic value added	Value was derived from Transparency International’s 2014 Corruption Perceptions Index for Kenya combined with OECD and the Asian Development bank research on GDP loss due to corruption ³
Strategic social investments	Multiplier ranging from 1 to 3.85 of spend, depending on theme	Original KPMG research on similar themed projects
Carbon emissions	29 USD per tonne CO ₂ -e	Social cost of carbon of USD 25 with a baseline year of 2007, 2013 Environmental Protection Agency report ⁴
Water consumption	5.4 USD per m ³	Water externality price is based upon scarcity level. The scarcity price is derived from a 2013 Trucost study on behalf of the TEEB Business Coalition ⁵

¹ The SROI principles and full SROI methodology can be accessed at <http://socialvalueuk.org/wha-is-sroi>

² Focus group discussions were held with representatives of each stakeholder group, telephonic interviews were carried out with 1707 customers, 112 merchants and 201 agents. Detailed one on one discussions were held with representatives of 10 Partner organisations.

³ <http://www.transparency.org/whatwedo/publications/>, <http://www.oecd.org/site/adboecdanti-corruptioninitiative/40838411.pdf>

⁴ <http://www.epa.gov/oms/climate/regulations/scc-tds.pdf>

⁵ <http://www.trucost.com/published-research/99/natural-capital-at-risk-the-top-100-externalities-of-business>

Safaricom's economic footprint in Kenya

Impact of Safaricom's operations on the Kenyan economy

Safaricom's increasing presence in the Kenyan market has supported **economic development** by helping to grow the mobile industry, increasing Kenya's Gross Domestic Product (GDP) and creating jobs.

 Safaricom's operations generated **KES 144 billion in additional direct and indirect economic activity in Kenya** in FY15. If the wider effects on the economy are included this number increases to **KES 315 billion, 6 percent of Kenya's GDP**.

 Safaricom sustained over 112 000 **direct and indirect jobs**. If the wider effects on the economy are included this number increases to over **682 000 jobs** over FY15.

 **Safaricom directly contributed KES 54.8 billion to Kenyan government revenue in FY15**. If the economic activity generated by Safaricom's operations is taken into account, this increases to **KES 127 billion**.

Safaricom helps to alleviate poverty in Kenya: **5% of additional household income** it generates flows to low income households.

Impact of Safaricom's capital expenditure on the Kenyan economy

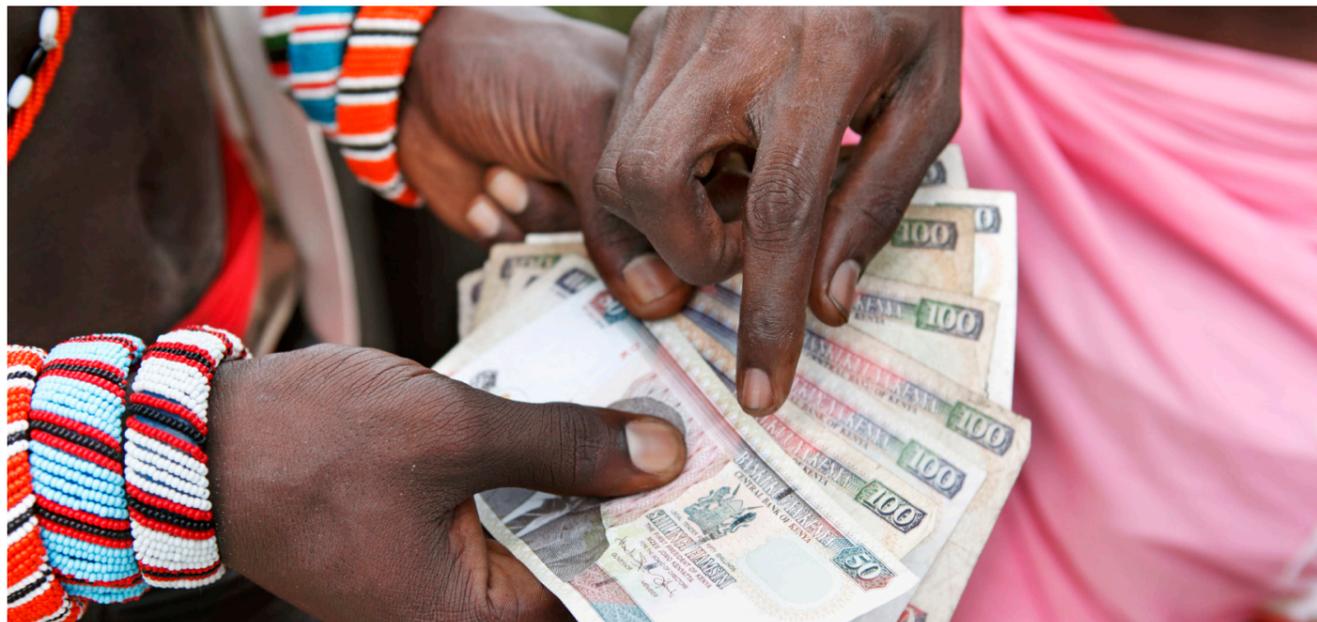
Safaricom's investment in mobile networks has improved the quality of service and reduced costs for **a large portion of the Kenyan population**.

 **Safaricom's capital expenditure in FY15 generated KES 13 billion in additional direct and indirect economic activity in Kenya**. If the wider effects on the economy are included this number increases to **KES 22 billion**.

 Safaricom's capital expenditure sustained on average **27 000 direct and indirect jobs over FY15**. If the wider effects on the economy are included this number increases to **57 000 jobs**.

 **The company's capital expenditure increased government revenue by KES 5.7 billion over the year**, through both the collection of direct and indirect tax revenue by Safaricom, as well as the broader fiscal impacts generated by the infrastructure investment in other economic sectors.

Safaricom's capital expenditure has a **poverty alleviation impact** for the Kenyan economy, in that **6 percent of the additional household income** generated flows to low income households.

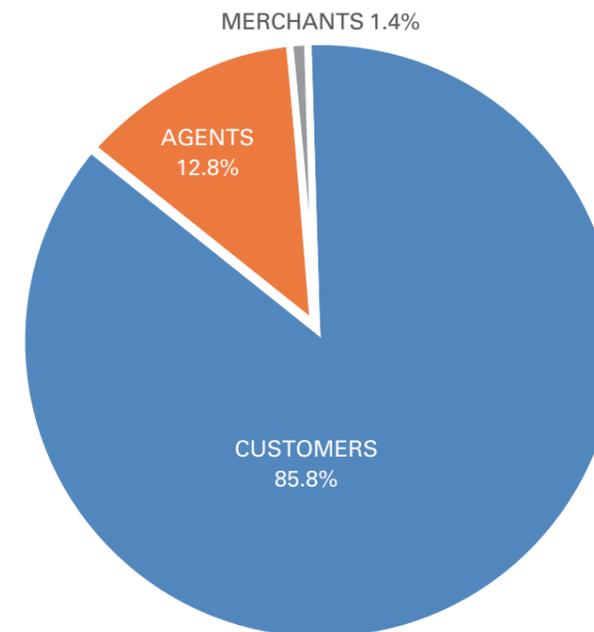


Measuring the Social Value of M-PESA

The KPMG True Value analysis estimates that M-PESA created total societal value of **KES 133.8 billion during FY15**. This is **4 times the M-PESA transaction fees earned by Safaricom** in the same period, and means that M-PESA creates **KES 79 of value for Kenyan society with every transaction**.

Most (86 percent) of the positive social impact created by M-PESA was in the form of increased personal savings for customers.

Breakdown of M-PESA Social Value By Beneficiary

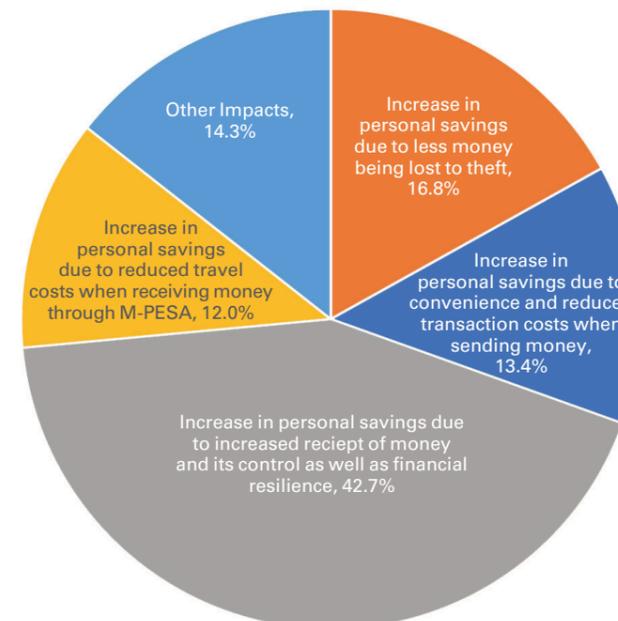


ABOUT M-PESA

M-PESA is one of Safaricom's flagship products. It is a platform that allows money to be transferred from one mobile phone to another, and has revolutionized personal finance in Kenya.

M-PESA was launched in 2007 and has grown into a sophisticated system that accounts for 98 percent of all mobile money transactions in Kenya.

Customers benefited mostly due to increased personal savings, lower transaction costs and less theft.



While customers benefit most from the value M-PESA creates for society, M-PESA agents and merchants also benefit from:

- Increased sales
- Reduced operational costs because they no longer need to carry cash
- Less theft and fraud
- Improved ability to track money

What next?: KPMG True Value as a strategic planning tool

Safaricom aims to transform the lives of Kenyans, to support sustainability and to create shared value for both shareholders and society. The KPMG True Value assessment will help Safaricom to achieve these goals by providing a basis for the company to further increase the value it creates for society and to continue to reduce its negative impacts.

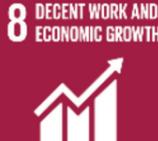
The analysis shows that the greatest potential for Safaricom to drive positive economic and social change in Kenya lies in the continued innovation of services that help people to improve their financial and personal wellbeing.

It also highlights how corruption could erode the socio-economic value that Safaricom creates in Kenya. This finding emphasizes the importance of Safaricom’s initiatives to uphold ethical standards, monitor behaviour and implement effective anti-corruption measures.

Next steps

Safaricom will use the KPMG True Value assessment as a platform to develop further initiatives to create shared value in Kenya. The company may deepen the analysis in future years to cover additional positive and negative impacts in order better inform decision-making and to promote stakeholder dialogue.

Safaricom will also use KPMG True Value as a tool to measure its contributions to achieving the UN’s Global Goals for Sustainable Development, launched in September 2015, with a focus on the following goals:

 <p>1 NO POVERTY</p>	<p>Goal 1: End poverty in all its forms everywhere</p>
 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>	<p>Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all</p>
 <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	<p>Goal 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation</p>
 <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<p>Goal 12: Ensure sustainable consumption and production patterns</p>
 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	<p>Goal 16: Promote just, peaceful and inclusive societies</p>

WHAT IS KPMG TRUE VALUE?

KPMG True Value is a tool to understand how the value a business creates and reduces for society is likely to affect the value it creates for shareholders. This knowledge provides a new lens for decision-making to improve performance, inform strategy and increase influence. KPMG True Value is a 3-step process that can be applied across sectors and geographies. It is scalable and can be applied to a whole company, a division or a specific project.

- STEP 1:** Identify the value a company creates and reduces for society through its externalities and express this in financial terms
- STEP 2:** Assess how the internalization of externalities is likely to affect future earnings (through regulation, stakeholder action and market dynamics)
- STEP 3:** Develop business cases that build and protect future value for shareholders by increasing the value created for society

Where has KPMG True Value been applied?

Cement:
Holcim/Ambuja Cement (India)

Holcim subsidiary Ambuja Cement used KPMG’s True Value methodology to quantify risks to its future profitability. As a result, Ambuja has identified projects that will benefit society and boost future profitability. Holcim has also applied the KPMG True Value methodology at other subsidiaries and at corporate level.

Retail:
Kingfisher (Europe and Asia)

Kingfisher is a leading home improvement retailer with 1176 stores in 11 countries. KPMG member firms have provided assurance on Kingfisher’s reporting of its Net Positive initiative which aims to make a positive contribution to people and the environment, while growing a stronger, more profitable business.

Finance:
private equity (Europe)

KPMG True Value has been used at the private equity arm of a global financial institution to quantify social and environmental risks and opportunities at a number of portfolio companies. The analysis has helped the firm identify strategies to reduce risk and build long-term value within its portfolio.

Food production and retailing:
major food retailer

KPMG member firms worked with an international food retailer to quantify the societal value the company creates and reduces through its food products. This analysis has helped the company to develop its corporate responsibility strategy.

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www.kpmg.com/truevalue

www.safaricom.co.ke

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