



**Nairobi
Metropolitan
Area Transport
Authority**



ESTABLISHING THE LINE 2 BUS RAPID TRANSIT BUS OPERATING COMPANY

INDUSTRY DISCUSSION DOCUMENT

JAN 2022

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DEFINITIONS AND ABBREVIATIONS

BNs	Billions
BRT	Bus Rapid Transit
BOC	Bus Operating Company
CA	Contracting Authority
CBD	Central Business District
CRS	Central Railway Station
FAQs	Frequently Asked Questions
FPTS	Federation Public Transport Sector
GoK	Government of Kenya
ITDP	Institute for Transportation and Development Policy Africa
KES/Kshs	Kenya Shillings
KNH	Kenyatta National Hospital
km	kilometers
L2	Line 2 Simba
L2 BOC	Line 2 Bus Operating Company
LED	Light-Emitting Diode
MIC	Matatu Investment Company
MNs	Millions
MRTS	Mass Rapid Transit Systems
NaMATA	Nairobi Metropolitan Transport Authority
NMA	Nairobi Metro Region
NMT	Non-motorized Transport
NTSA	National Transport Safety Authority
OEM	Original Equipment Manufacturers
PIM	Preliminary Information Memorandum
SACCOs	Savings and Credit Cooperatives
TBC	To Be Confirmed
TBD	To Be Determined
US\$/USD	United States Dollar

PREFACE

The proposed Preliminary Information Memorandum (PIM) aims to serve as a precursor to industry discussions on the proposed Bus Operating Company (BOC) structure, establishment, and capitalization. The final form of the proposed BOC will be determined with the incumbent operators taking into account NaMATA licensing regimes and Transport Service Contract (TSC), amongst others.

DISCLAIMER

This PIM proposal or any other information supplied in this document is not intended to provide the complete basis of a final decision by the incumbent operators, nor should it be considered a recommendation should a prospective investor decide to participate. Each investor contemplating purchasing any Shares should independently investigate their financial condition and affairs and make their own appraisal of the offer. Neither this document nor any other information supplied in connection with this document constitutes an offer or invitation to buy.

1. INTRODUCTION

Bus Rapid Transit (“BRT”) is increasingly recognized as amongst the most effective solutions to providing high-quality transit services on a cost-effective basis to urban areas, both in the developed and developing world. The best BRT systems achieve a high quality of service not only because of the “hardware” (buses, stations, busways, and other infrastructure) but also because BRT systems redefine the way public transport services are managed and regulated.

The Government of Kenya (GoK), with an acknowledgment of the less-than-ideal urban connectivity situation in Nairobi, has rolled out the Mass Rapid Transit System (MRTS), which includes the Bus Rapid Transit (BRT) starting with the Line 2 pilot project. In the past, most of GoK's investments in the transport sector have catered to private vehicles' movement. The Government now seeks to facilitate the movement of people en masse in an affordable, accessible, and effective way. The creation of NaMATA as a Nairobi metro transport authority is thus part of the deliberate action by GoK to introduce effective MRTS, which includes the development of a BRT system.

GoK has invested public funds in the preparation of Line 2 on Thika Road's median lane. The median lane will be used for a BRT corridor complete with a service depot, stations, and park and ride facilities located at strategic locations to ensure ridership.

NaMATA is implementing the initial BRT pilot, starting from Ruiru Station Depot to Kenyatta National Hospital (KNH) Terminal through Nairobi Central Business District (CBD) with a total length of about 27 km. Along the line on Thika road, there will be ten (10) intermediate stations on the existing footbridges. The footbridges will be modified to add staircases and ramps in the middle to allow passengers to enter and exit the stations. The Project will also have three (3) terminals at KNH, Ruiru Depot, and Kasarani Depot.

The Project will be constructed in two (2) phases:

- Phase I: Kasarani - Nairobi CBD Section
- Phase II: Ruiru – Kasarani & CBD –KNH

The Project commenced on 4th August 2020 with the design works for the depots and stations with expected completion of Phase I expected before June 2022 and the entire line completed by December 2022.

2. NAIROBI METROPOLITAN TRANSPORT AUTHORITY (NaMATA)

2.1. About NaMATA

The Nairobi Metropolitan Area Transport Authority (NaMATA) was established to address urban transportation challenges in the NMA by the Government of Kenya vide NaMATA Order, Legal Notice No. 18 of 2017. NaMATA is a body corporate with the mandate to oversee the development and implementation of an efficient, effective, and integrated public transport system within the Metropolitan Area, extending over 32,000 km across five (5) counties with a population of 10.4 million people.

At present, the primary law that provides for the operation of a Bus Transit System in Kenya is the above Legal Notice No. 18 of 2017 establishing the Nairobi Metropolitan Area Transport Authority.

2.2. NaMATA's Objectives for the BRT Project

NaMATA high-level objectives and aspirations for the BRT project are underlined below for discussion and alignment purposes:

1. Create a system for moving people and not vehicular traffic.
2. The industry operators are to be grouped into a private Bus Operating Company (the BOC") and NaMATA as the contracting transport authority, contracting with the BOC to operate the transport services.
3. The BRT project is to be financially viable.
4. The current public transport operations will eventually transition from its current informal system into an MRTS (BRT and Commuter Rail) system.
5. Ensure that no existing operator that will transition is unduly disadvantaged.
6. Minimize risks of transition delay to achieve pilot operations by July 2022.
7. Meet the fundraising objectives of the incumbent operators timeously.
8. Service delivery that is of a very high standard.
9. To ensure a NaMATA and operator partnership model supporting the transition.
10. Allows step-in rights for NaMATA to safeguard the investment of the asset (physical and rolling stock) and operations of the system.

3. THE SITUATION AND OPPORTUNITY ON THE ROADS



Figure 3.1: Situation and Opportunities on Nairobi County and Metro Roads

1: The gridlock experienced today

2: The opportunity lies in displacing vehicular traffic currently not with matatus transitioning to BRT

3: The vibrant transit and traffic scene in Nairobi County and Metro Region

4: Aerial view of Thika Road with visibly high commuter demand on Simba Line 2

The above situation captures the challenges experienced on the roads today and equally demonstrates the opportunity to transform the sector. The Line 2 corridor captured above is a densely populated route with significant commercial opportunities for investors in the new BRT system that Government will roll out.

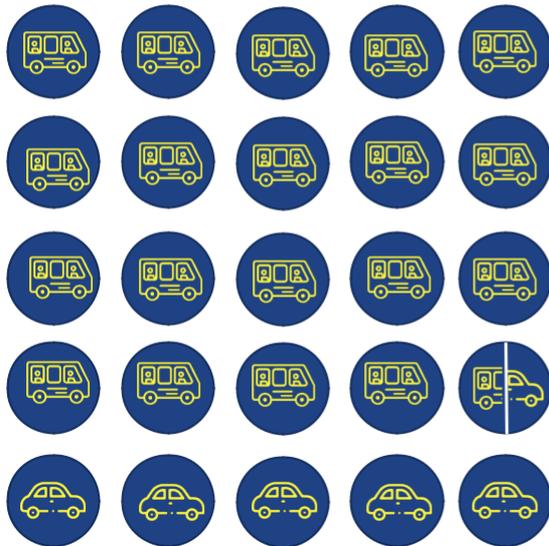
Private transport moves just over a fifth of travelers while accounting for nearly two-thirds of the total traffic volume. The need to accommodate parking facilities for the ever-increasing private car poses a great challenge due to the limited land resources available.¹

An effective transport system forms a key component of creating a competitive business environment and a means to achieve various economic, social, and environmental objectives. The current inefficient urban transport system generates substantial congestion costs and lost resources. Increasing travel speeds could save more than US\$50 million a year, the current cost of congestion in Nairobi. The value of time lost to travel in Nairobi is estimated at between US\$0.8 million and US\$4 million per month, based on the 47 minutes' travel time of an average trip in Nairobi. Daily time costs per capita, valued as a share of household income, amount to some \$0.25–4.00.²

¹ Transport Mode Share 2004

² World Bank Urbanization Review, 2016

78% of passengers utilize public transport while only 22% of passengers utilize private cars...



... and yet public transport comprises only 33% of vehicle traffic volume while private transport accounts for the remaining 67%.

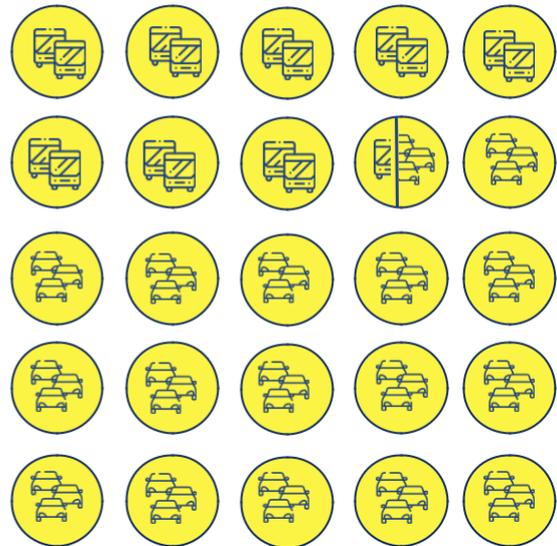


Figure 3.2: Traffic share - public vs. private transport

The current economic growth coupled with high population growth rates and unreliable public transport services has led to a significant increase in private motorization. As of 2017, motor vehicle registrations reached six private cars per hundred inhabitants within the Nairobi Metropolitan Area. As both these trends continue, it is anticipated that growth in private car use will continue to increase and further exacerbate the heavily congested traffic conditions in Nairobi.

4. DRIVING TRANSFORMATION IN URBAN MOBILITY

The Government of Kenya has been making significant investments in infrastructure and urban mobility over the last 20 years. Recognizing the importance of facilitative infrastructure in development and growth, GoK has increasingly paid attention to how its citizens move and access their places of work, business, and homes. Noting the importance of public transport to urban mobility, the Government has made significant investments in mass rapid transit systems, particularly in developing Bus Rapid Systems in the NMA.

4.1. Government of Kenya Investment in Brief

Beginning with master planning for MRTS and building into the feasibility and design studies, Government has laid down the necessary groundwork for the system. As part of actualizing the harmonized MRTS plans, the Government has made significant investments that should factor in the analysis of the investment offering below. Concerning BRT, specifically, Government's contributions have been around the development of infrastructure, safeguarding public benefit, and managing impacts for existing current operators.

Government has invested in the BRT system including funding:



- Feasibility and design studies
- Infrastructure for the corridors
- Depots
- Systems
- Universal access facilities

The investment has key benefits for the public:



- Promoting an efficient BRT system
- Reduction in emissions
- Decongesting the roads
- Improving traveler safety

It also has an impact on the existing transport system and its operators:



- Prioritizing fleet acquisition which is now a key consideration
- Addressing environmental concerns in public transport as informed by sustainability imperatives of the day

Figure 4.1: Summary of how GoK is driving transformation in the BRT system

4.2. Why BRT?

BRT and the BOC owners will play a critical role in moving passengers instead of what we have today, which is a system primarily designed to move vehicles. The diagram below illustrates the power of BRT in converting new passenger vehicles into a transport network. These will be new customers to the BRT fleet over and above those already riding on the existing network.

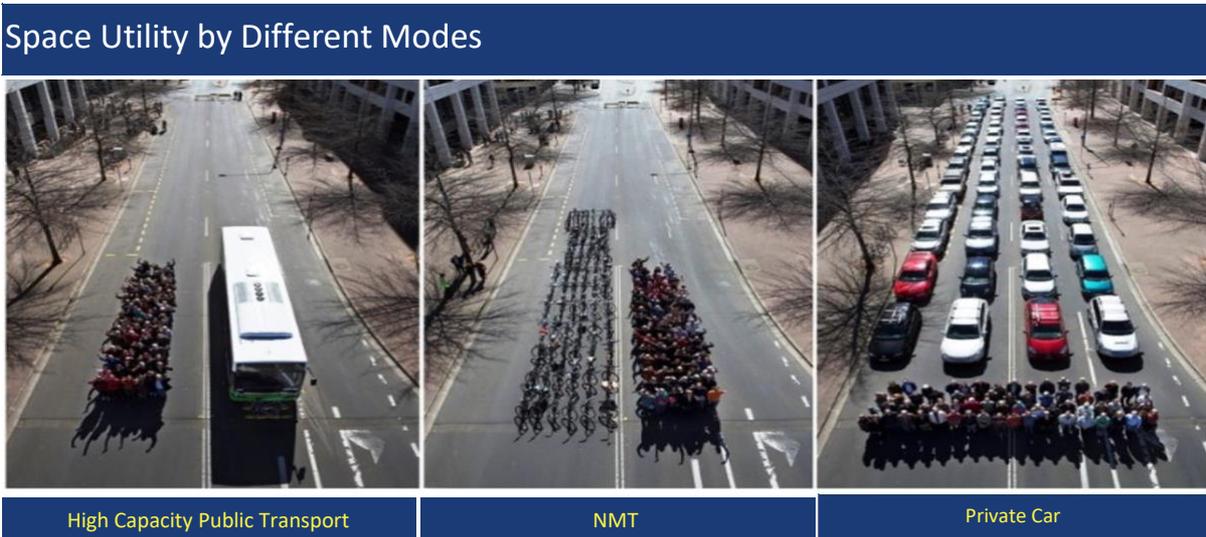


Figure 4.2: Demonstration of space utility by different transport modes

4.3. The Future BRT System and the Broader Opportunity

NaMATA and GoK have undertaken extensive investment in planning the future BRT network detailed below, which will offer significant opportunities across the entire network for the industry.

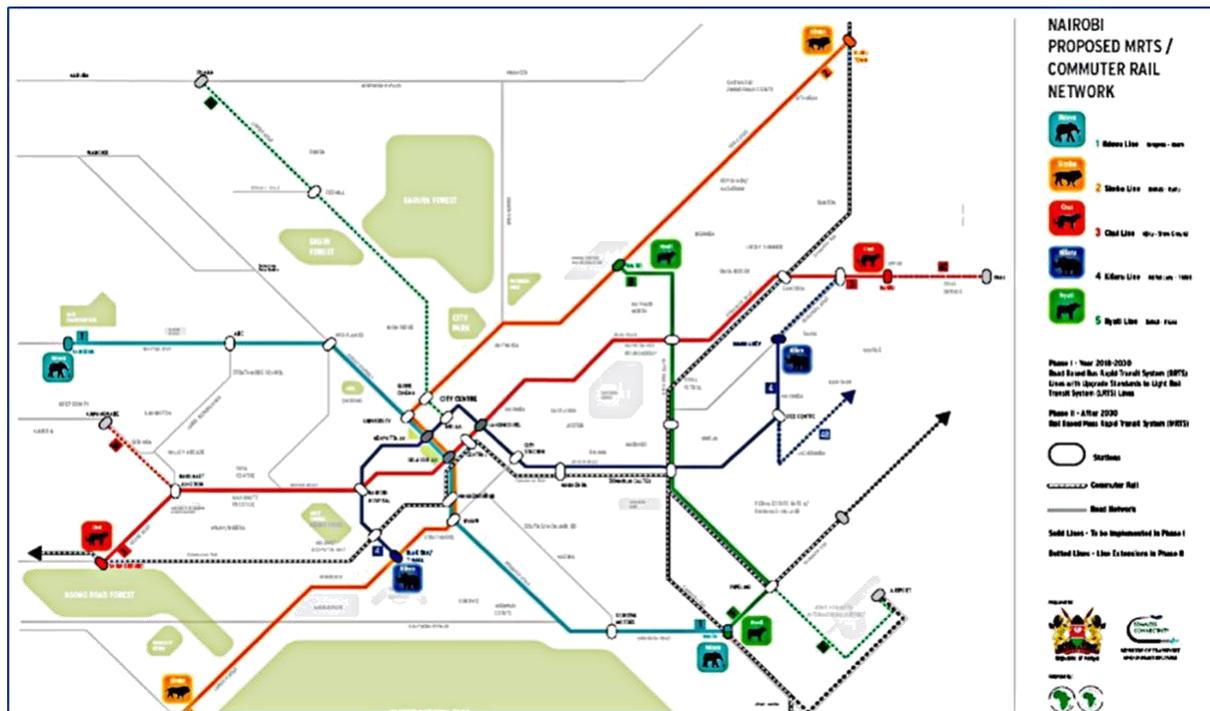


Figure 4.3: Nairobi Proposed MRTS/Commuter Rail Network

Beyond planning, NaMATA and the GoK are investing heavily in physical infrastructure, with Line 2 being the most advanced. Once the network is complete, GoK directly and through various development partners will have invested over Kshs 150bn in infrastructure and related services.

Table 4.1: Brief on proposed BRT Corridors

NAME		DESCRIPTION		STATUS	COST (KES)
SYMBOL	LINE	PHASE I	GAZETTED		
	Line 1 Ndovu	Kabete Police Station to Kangemi	Limuru - Kangemi - CBD - Imara Daima - Athi River – Kitengela	Preliminary Design prepared	TBD
	Line 2 Simba	Ruiru to KNH	Rongai - Bomas (Langata Rd) - CBD - Ruiru - Thika – Kenol	Pilot BRT under implementation by GoK	5.6B
	Line 3 Chui	Dandora to Hospitals	Tala - Njiru - Dandora (Juja Rd) - CBD – Showground (Ngong Rd) – Ngong	Design completed by Dec 2021 Construction 2023	37B
	Line 4 Kifaru	TBD	Mama Lucy Hospital - Donholm (Jogoo Rd) - CBD - T Mall - Bomas - Karen – Kikuyu	Design to be reviewed	TBD
	Line 5 Nyati	Allsopps to Imara Daima	Ridgeways (Kiambu Rd) - Balozzi (Allsopps) - Imara Daima	Korea Exim Bank	80B

4.4. The Pilot BRT Project

Construction of the Bus Rapid Transit (BRT) system is ongoing with five (5) gazetted lines under different stages of development. On Simba Line 2, significant progress has been achieved in completing the construction of the stations, depot, routes, and acquisition of the fleet. Summarized below are the critical components of the pilot project.

4.4.1. Roads and Traffic

The modification works on Thika Road to facilitate the operation of a segregated BRT lane entail the redesign of the two innermost lanes of the existing road into BRT lanes and the erection of 10 middle island stations accessed using the existing median strips and footbridges. The works will also include the construction of an exclusive ramp towards the designated BRT depot at Ruiru. For the urban sections of the corridor, the works will consist of the construction of a BRT station at Khoja on Tom Mboya Street and a BRT transfer station at the Central Railway Station (CRS) on Moi Avenue to improve the operating speeds of the BRT. The design speed of the BRT lanes will be an average of 30 km/h, achieving one of the highest average speeds globally, leading to significantly shorter travel times on the BRT corridor.



Figure 4.4: Progress on the Pilot BRT Project - Simba Line 2
1 & 2: Several stations at advanced stages of construction
3: Stations, disembarkation, and disability ramp at an advanced stage
4: Business Management Center Station Building, Kasarani

4.4.2. BRT Depot

The BRT Depot will be built at Kasarani. It will provide a maintenance workshop, business management rooms, and a dispatch room. Other facilities provided include waiting galleries, platforms, and bus washing sheds.

4.4.3. Intermediate Stations

The infrastructure scheme includes the construction of a total of 10 intermediate stations. Each station will have an equipment room and a ticketing room. The stations will have an engineered steel structure and flat roofs to provide a canopy for the passengers. The intermediate stations are Safari Park, Kasarani Roysambu, Githurai, Kahawa Barracks, Kenyatta University, Garden City, Kenya School of Monetary Studies, Utalii, Muthaiga, and Ngara.

The platforms will be 4m in width and equipped with intelligent systems including sets of HD network infrared waterproof cameras; sets of HD network infrared high-speed spherical cameras; sets of HD network dome cameras; sets of outdoor waterproof column speakers; short-range communication equipment paging broadcast microphones; ordinary microphones and sets of light-emitting diode (LED) displays. In addition, the platforms will have two entrance and exit gates with the space between them to be used as a manual passage for disabled passengers and oversized luggage. Boarding and alighting movements will be done at-level, reducing access and egress times to a low platform BRT fleet. Stations and terminals, passenger areas, and platforms will therefore be designed to a standard matching height.

4.4.4. BRT Fleet

The estimated ridership for the BRT Pilot is 163,040 passengers per day, and the initial fleet is sized at 100 buses growing to 660 buses when the operations peak on the entire Line 2. The buses will have a combined capacity of seated and standing passengers of 94 pax and are assumed to operate at a 58% occupancy rate on average. In terms of dimensions, the buses are 12m in length and will have either biodiesel or electric propulsion. The economic life of the fleet is assumed to be 12 years, with a midlife battery overhaul schedule for electric buses (or general rehabilitation for biodiesel). In addition, the buses are to be designed to open to the right to permit boarding and alighting on the median-aligned platforms.

5. ORGANIZATION OF PUBLIC TRANSPORT INDUSTRY

Prior to 2014, individuals could own and operate public transport vehicles, following which there was a move towards self-regulation. This move resulted in the establishment of Savings and Credit Cooperatives (SACCOs) and transport companies. These SACCOs would, in turn, be issued route licenses by NTSA with a requirement that each SACCO/Company would have a minimum of 30 vehicles. Today, the SACCOs and various companies, including bus operating companies, aggregate the largest part of the transport and matatu industry. As key stakeholders in public transport, they have a critical role in the sector today.



Figure 5.1: Organization of the public transport sector

Over time the SACCOs have co-mingled the role of the operator and Savings & Credit functions with varying degrees of success. As we work towards BRT Line 2 operations, some SACCOs have multiple route operating licenses.

The figure below highlights some of the functions currently being undertaken by the SACCOs.



Figure 5.2: Some of the functions of SACCOs in Public Transport

6. TRANSITIONING TO A FORMALIZED BUS OPERATING COMPANY

With the backdrop of the current industry set up, as the industry prepares to transition, a key consideration for the industry to address is how best to organize for the upcoming change.

The following is proposed:

1. The industry is already organized within SACCOs and Companies. This is a practice that industry players are already familiar with, and their SACCOs/Companies have been managing the sector for decades.
2. The registered SACCOs/Companies will be the primary mobilizers of the individual members during this transition to BRT.
3. The registered SACCOs/Companies will be invited to participate as shareholders. They would take primary responsibility for organizing their individual members to participate in the capital raise.
4. The respective affected SACCOs will be offered a share for each license held on Line 2.

5. The SACCOs may establish Matatu Investment Companies (MICs) for investing into the BRT BOC. This would allow the SACCOs to continue with their core functions.

Additional considerations on governance structures have been provided in **Appendix A: Representation and Governance at the BOC.**

7. PROPOSED STRUCTURE FOR BRT SIMBA LINE 2 BUS OPERATING COMPANY

7.1. Classes of Shares

To achieve inclusivity of affected operators and other interested stakeholders, including incumbent operators, painters, mechanics, sound system providers, to name a few, it is proposed that a new company be established and various classes of shares created for the L2 BOC.

The proposed classes of share include:

- Class A: Directly affected Line 2 Operators with proposed 25% shareholding
- Class B: Operators within Nairobi Metro Area (NMA) with proposed 40% shareholding
- Class C: Experienced operator to be identified with proposed 5% shareholding
- Class D: Special interest groups with persons with disabilities and women offered a proposed 10% shareholding
- Class E: Strategic institutional investor groups 20% with a minimum hold of 5% to each investor in this category

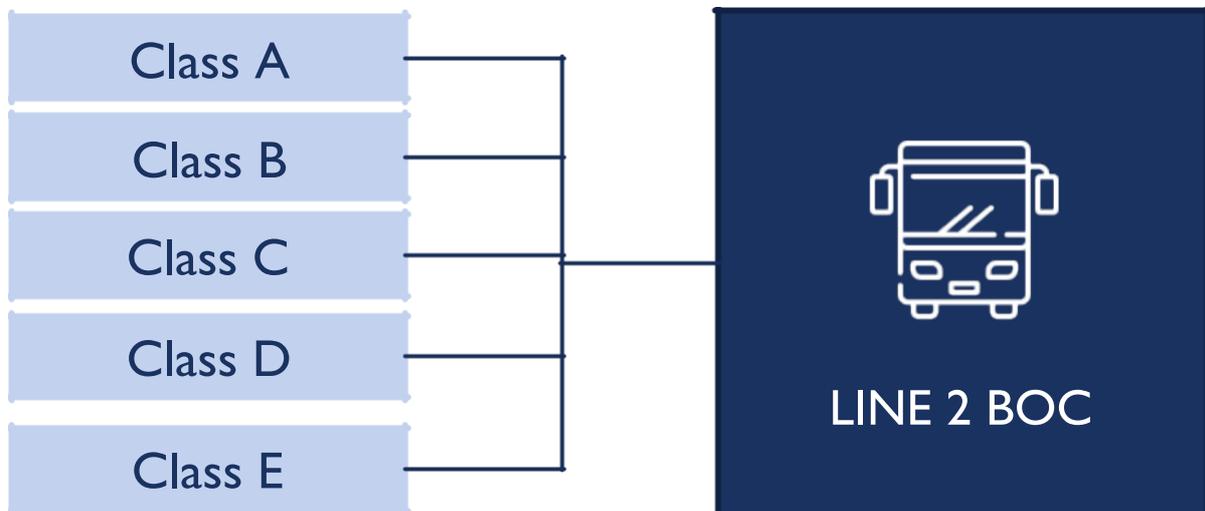


Figure 7.1: Classes of Shares in Proposed Simba Line 2 BOC

The various classes of shares, respective rights, and obligations would be detailed in the Memorandum and Articles of Association.

7.2. Industry Capitalization of the Proposed BOC

7.2.1. Authorized Share Capital Requirements for the BOC

The authorized share capital/total number of shares required to float the BOC will be determined based on a combination of the:

- number of licenses in place for Line 2,
- capital expenditure for the fleet acquisition,
- working capital requirements, and
- headroom for future issuances.

7.2.2. Subscription for Ordinary Shares

The subscription price for the ordinary shares in the BOC will be Kshs 500,000.00 a share, payable over three (3) years.

1. Immediate paid-in capital by June 2022 – Kshs 150,000.00
2. One (1) year from June 2022 – Kshs 150,000.00
3. Two (2) years from June 2022 – Kshs 200,000.00

7.2.3. Proposed Capitalization

The Line 2 BOC to be capitalized to a target of Kshs 2.5 BN by June 2022 along the lines below:

7.2.3.1. Nairobi Metro Area License Holders

The number of licenses in the Nairobi Metro area is 15,000. These are assigned to various SACCOs and Companies.

7.2.3.2. Line 2 BRT Class A – Affected Operators

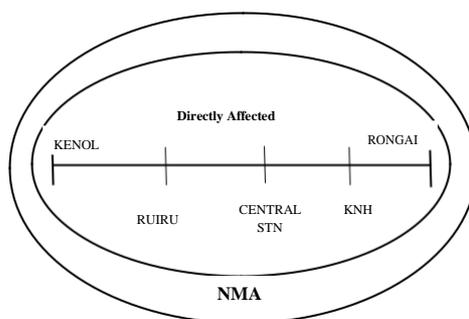
The number of licenses issued along the Line 2 is 3,000. These are assigned to various SACCOs and companies. It is proposed that the respective SACCOs be offered the opportunity to purchase shares through their members.

7.2.3.3. Class A – Affected Operators Benefits

As immediately affected operators on Line 2, it is proposed that the identified license and registration holders be entitled to a 20% discount (Kshs 100,000.00 discount) on the shares taken up by June 2022, i.e., they would be paying Kshs 400,000.00 on a Kshs 500,000.00 share if locked in by June 2022.

Kshs 150,000.00 would be required to be fully paid up by June 2022, with the balance of Kshs 250,000.00 paid in two (2) installments over two (2) years for the Class A investors who lock in an early discount by June 2022.

7.2.3.4. Class B – Other Operators Within Nairobi Metro Region (NMA)



40% of the share capital will be offered to the NMA region license holders and stakeholders.

These are operators from the Counties of Kajiado, Kiambu, Machakos, Murang'a, and Nairobi City.

Figure 7.2: Class B Shares for Operators within NMA

7.2.3.5. Strength in Numbers - Class A & B Combined Scenario

An important aspect of the proposed rationale for the Class A & B shareholding was to effectively capture the power of aggregation of the industry.

Combining the shareholding of directly affected operators (Class A shares) and that of operators from the feeder network (Class B shares) allows significant shareholding participation by the incumbent operators in the new BOC.

Noting that the Class A shareholders in Line 2 are limited by their numbers, there is considerable strength in the two classes of shareholders coming together and fundraising a larger pool of the required capital. Collectively, Class A and Class B shareholders will be able to secure a more significant combined shareholding in the BOC, ensuring that ownership is in favor of incumbent operators.

7.2.3.6. Discount Offer for Class B Shares

It is also proposed that Class B shareholders also benefit from a discount over three (3) years. Subscriptions paid up by June 2022 should ideally benefit from a 15% discount (or lower, as will be determined), resulting in a paid-up capital of Kshs 170,000.00 per share by June 2022.

7.2.3.7. Combined Fundraising of Class A & B by June 2022

CLASS A 3,000 X Kshs 150,000.00 = Kshs 450,000,000.00

CLASS B 12,000 shareholders X Kshs 170,000.00 = Kshs 2,040,000,000.00

The combined strength of both Class A and B shareholders allows the BOC to scale up using the power of aggregation of shareholders to raise a combined Kshs 2,490,000,000.00

7.2.4. What Does This Mean for SACCOs/Companies in the Fundraising Process?

SACCOs/Companies will be the primary mobilizers and point of contact for fundraising.

It is proposed they establish MICs for purposes of investing in the BOC. This could mean that they consolidate into groups for investment purposes rather than replicate the current SACCO numbers into MICs.

Concerning the number of Class A shares that would be made available on a specific route, this will be determined by the number of licenses that the specific SACCO has on BRT Line 2 or, for that matter, future BRT lines.

It is important to note that the SACCO/Companies will also have access (and are encouraged) to purchase additional shares as Class B NMA shareholders.

SACCO Investment Example

If SACCO X has 100 vehicles with ten (10) licensed to Line 2, they would be entitled to 10 Class A shares of the 3,000 shares allocated towards Line 2.

Given the benefits embedded in Class A, including a discount on the share subscription price, it would be highly encouraged that the SACCO elects to take up its ten (10) shares. If the SACCO takes up the shares, they would be required to raise Kshs 5,000,000.00 over 3 (three) years, with Kshs 1,500,000.00 paid up by June 2022.

7.3. Other Shareholders

7.3.1. Class C – The Experienced Operator

A BRT operation is a highly specialized and complex service with unique aspects that need an Experienced Operator, particularly in the early years of implementation. The Experienced Operator would focus on, amongst others running a:

- Professional specialized scheduled service
- Growing the revenues and profits of the business
- Ensure that minimum to Nil penalties is enforced by the CA
- Importantly attract financing from financial institutions and Government

The Experienced Operator would enable operations to achieve breakeven and profitability quicker. Over time and on a sliding scale arrangement, it is proposed that there would be mandatory skills transfer to local operators that would allow the local operators to eventually develop skills to run the BRT system in the NMA region. Ultimately, the operators could utilize this learned expertise in other metropolitan areas within the country and even export it to other countries.

Given the high investment in technology, including a command center, the Experienced Operator could, as an option, be invited to provide funding for technology which could be recouped over years of running the operations.

7.3.2. Shareholding for Class C shares

Securing an Experienced Operator into the BOC operations is crucial, particularly in the early transition years, to ensure the operations are profitable. In addition, they bring in investment into technology together with necessary management experience and support.

7.3.3. Class D – Special Interest Groups

Broad participation and inclusion of special interest groups will send a strong message that the vast numbers of women, people with disabilities, and others involved in the industry have room and are strongly encouraged to be owners of the Bus Operating Company. This class of shares could also be reserved for future entrants.

7.3.4. Class E – Institutional Investors

As noted earlier, with revenues for Line 2 estimated at over KES 21 billion and fare revenues for the rest of the network increasing exponentially, there is an attractive opportunity for the BOC owners in the future to sell shares to strategic investors at a premium. Potentially interested investors include financial investors, original equipment manufacturers (OEMs), and others. This class of shares could also be partially listed in the future on an exchange at a premium and allow the BOC to enjoy the benefits that come with a listing.

7.4. Use of Proceeds for the Proposed Equity Raise

The proceeds of the proposed capital raise will be used for the following purposes:

- Capitalizing the Bus Operating Company for Line 2;
- Bus acquisition;
- Working capital;
- Investment in the initiatives of the BOC and related business lines; and
- Supporting the value chain business activities.

The BOC could appoint an interim trustee bank to ensure that the funds raised are safely held in custody for the intended purposes.

7.5. Summary Key Terms of the Proposed Equity Raise

For the proposed equity raise, the following are key terms:

- Minimum Subscription Amount: Kshs 500,000.00
- Paid-up capital due by June 2022 for Class A shares: Kshs 150,000.00
- Paid-up capital due by June 2022 for Class B shares: Kshs 170,000.00
- Available Investment Channels for saving:
 - MPESA
 - Participating Banks
- Commitments to subscribe for Class A and Class B prospective shares are due by 15th March 2022

A sample offer letter providing further details on the key terms is provided in **Appendix C: Sample Offer Letter**.

8. KEY INVESTMENTS CONSIDERATIONS

We believe there is a significant and compelling commercial and revenue opportunity to support the industry in transforming to a BRT system. Key investment considerations for industry transformation efforts to take root are set out below.

8.1. Demand for Line 2 BOC

Thika Road is one of the busiest traffic corridors in the NMA region. Currently, it has over 170 SACCOs operating in the route. The corridor has opened a once closed-off part of the metropolitan region, and more and more land is being developed. This will continue into the future as the NMA urbanizes and more residential and office buildings come up.

In 2019, surveys by ITDP in partnership with NaMATA revealed high passenger volumes at peak hours, with as many as 26,000 passengers per hour moving on one route. For example, at Ngara before Globe Cinema Roundabout, there is a demand of 16,000 passengers per hour in one direction in the morning. This is very high demand by any standard worldwide.

The BRT services of 100 buses will not be anywhere near meeting the demand - at this level, it can only meet 27 percent of this demand. This means that the current demand will allow operations of *matatus* to continue and provide room for even more expansion of the BRT service into the future. Further, as Thika Road attracts more developments, more and more passengers will need to use the public transport system.

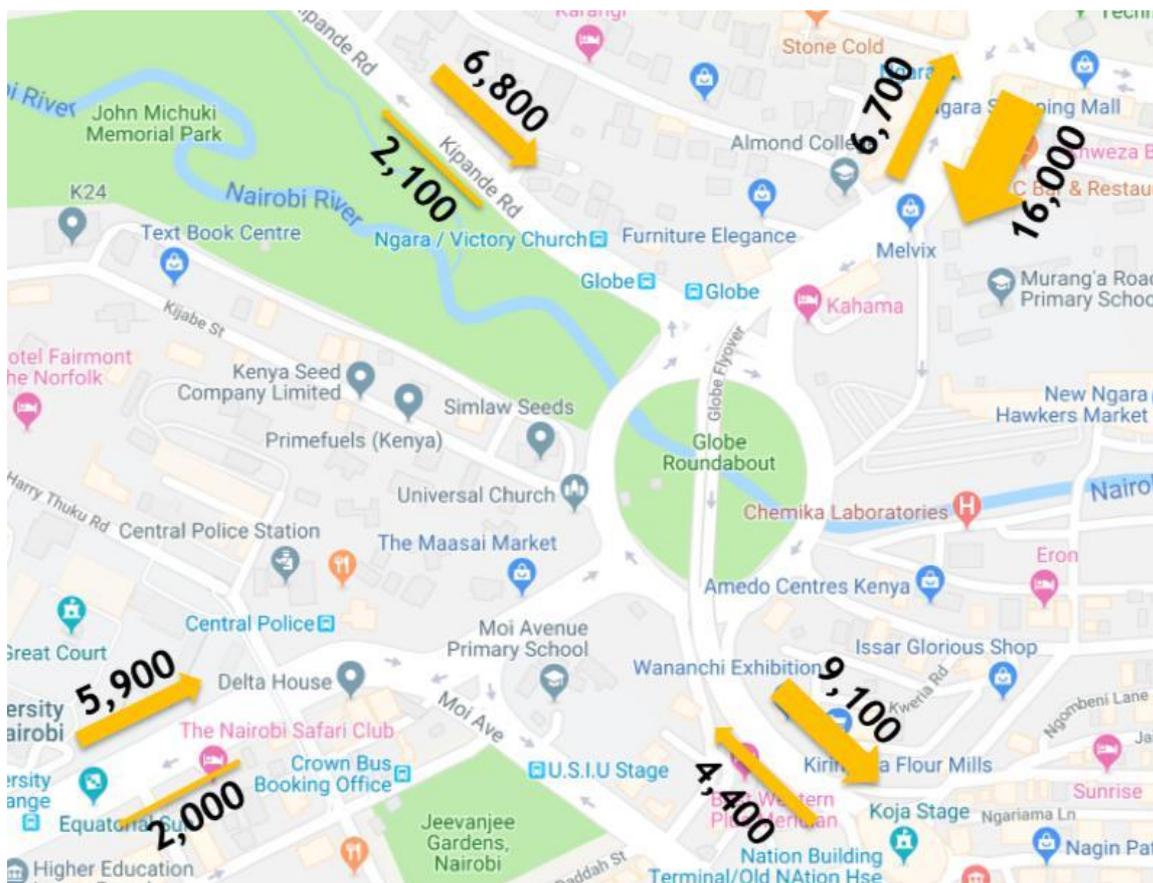


Figure 8.1: Peak hour passenger volumes (pphpd) for Fig Tree, Kipande Road, Koja, and University Way

More people will also leave their cars and start to use public transport, primarily because the BRT service will be safe, clean, and fast. Currently, speeds of travel along the route are very slow. At some parts of the corridor, including closer to the CBD, average speeds fall to as little as 5km/h. The BRT service benefits from dedicated lanes, median busway alignment, platform-level boarding (which allows for rapid entry and exit onto the bus), off-board fare collection, and intersection priority. All this dramatically improves average speeds. This means with the BRT service, average speeds across the whole corridor will be as high as 32km/h, based on current calculations. The BRT service is an attractive alternative for a car driver because a trip from Ruiru to the CBD will take almost half its time. BRT will therefore not only rely on current public transport users to use it, but it will also add on more users who at present avoid public transport. BRT does not feed on the current cake, but it, in fact, grows the cake!

8.2. Income and Revenue Estimates

There are opportunities to build and develop vehicle production lines for an initial 100 buses identified for the pilot. This need for buses will increase as the entire BRT network of four (4) more corridors is rolled out. The BRT service will have an estimated KES 1.8 billion in fares annually for the pilot service and a further estimated KES 21 billion-plus for the entire 12-year contract of the pilot. In addition, as the other BRT lines are rolled out, and a modal shift from private cars to the BRT system occurs, fare revenues are expected to increase exponentially.

There are numerous business opportunities related to connected services, such as ticketing systems, vehicle tracking systems, station management, security, etc. These are estimated at over KES 1.2 billion for the bus contract period for the pilot alone. Further, the bus maintenance contracts are worth over KES 4 billion for the bus contract period.

8.3. The Feeder Network

The feeder network is to be incorporated as shareholders in the BOC [under Class B], ensuring that no one is left behind.

There will be a collaborative engagement process with NaMATA to ensure maximum participation through the network

The feeder network will contribute significantly to attracting ridership to the Line 2 operations and thereby growing the revenues of the BOC

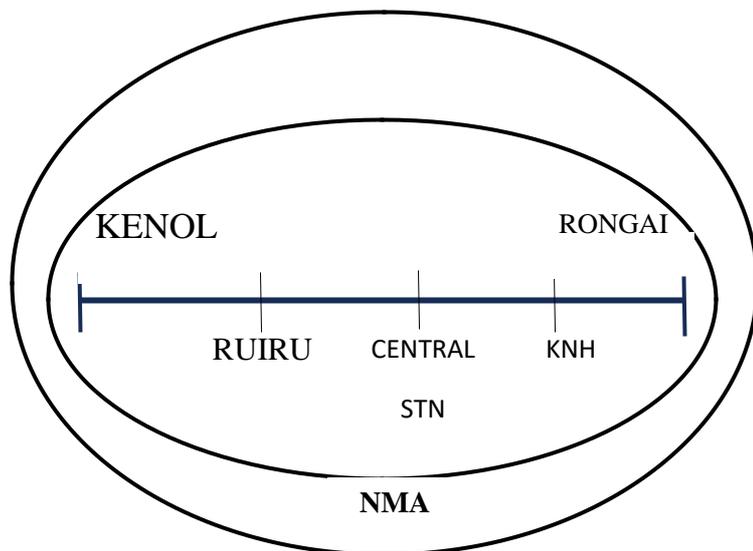


Figure 8.2: Feeder Network on Simba Line 2

8.4. Reciprocity and Access to Shareholding in the Larger BRT System Network

No one is left behind. The proposed various classes of shares ensure that the current industry stakeholders, including operators, painters, mechanics, sound system providers, etc., are invited and encouraged to participate. As the other lines in the BRT network (Ndovu Line 1, Chui Line 3, Kifaru Line 4, and Nyati Line 5) go live, Class A and Class B shareholders will continue to have opportunities to invest and enjoy ownership in the wider BRT system. As such, affected and NMA operators can hold shares in more than one BOC across different classes across the five (5) gazetted routes with independent future BOCs and enjoy the benefits of an expansive Bus Operating Company where they are shareholders.

8.5. Value Chain Opportunities

Significant revenue-generating opportunities will arise for the BOC in the wider BRT system value chain. These include, amongst others, cleaning of depots and stations; cleaning of fleet buses; security for the stations, depots, and fleet; advertising, etc. Participation in these service-related works will provide employment and income creation opportunities for industry stakeholders.



Figure 8.3: Value Chain Opportunities through the BRT BOC

9. TIMETABLE

EVENT	DATE
1. Meeting with industry representatives and document release on the proposed Bus Operating Company (BOC) to industry	28th January 2022
2. Industry responses on the BOC proposal	11 th February 2022
3. Symposium with industry to respond to BOC proposal	15th February 2022
4. Market sounding investor conference	28 th February 2022
5. Subscription of capital by Matatu and bus investors to the BOC	15 th March 2022
6. Commence savings towards bus acquisition	IMMEDIATELY
7. Close of offer period round 1	30th June 2022
8. Training for bus drivers to commence	May 2022
9. Training for value chain opportunities	May 2022
10. BRT Line 2 service commences	July 2022

10. CONTACTS

Name	Organization	Contact Detail
1. BOC enquiries	NaMATA	boc@namata.go.ke

11. APPENDICES

Appendix A: Representation and Governance at the BOC

Appendix B: Frequently Asked Questions (FAQs)

Appendix C: Sample Offer Letter

Appendix A: Representation and Governance at the BOC

The proposed structure needs to attract the confidence of the current operators and equally other experienced operators, financiers, and the Contracting Authority.

Timing for fleet acquisition is critical, and the BOC would need to be established immediately to ensure an order is placed and delivery of fleet in place by July 2022. The BOC would also need to execute a Transport Service Contract (TSC) to run the operations and services of the BRT in line with the TSC. Towards establishing a governance framework, the following are proposed as initial building blocks:

- The individual members of the SACCOs/Companies elect members of their SACCO leadership through the SACCO/Company AGM system.
- Shareholders to device a system of electing board representatives
- The SACCOs/Companies will then elect their representatives at the BOC level.
- It is envisaged that the BOC will have between 11 and 15 board members.
- Rotation system to be developed for board members with maximum term limits
- Class A shareholders for Line 2 BOC will have reserved no. of seats.

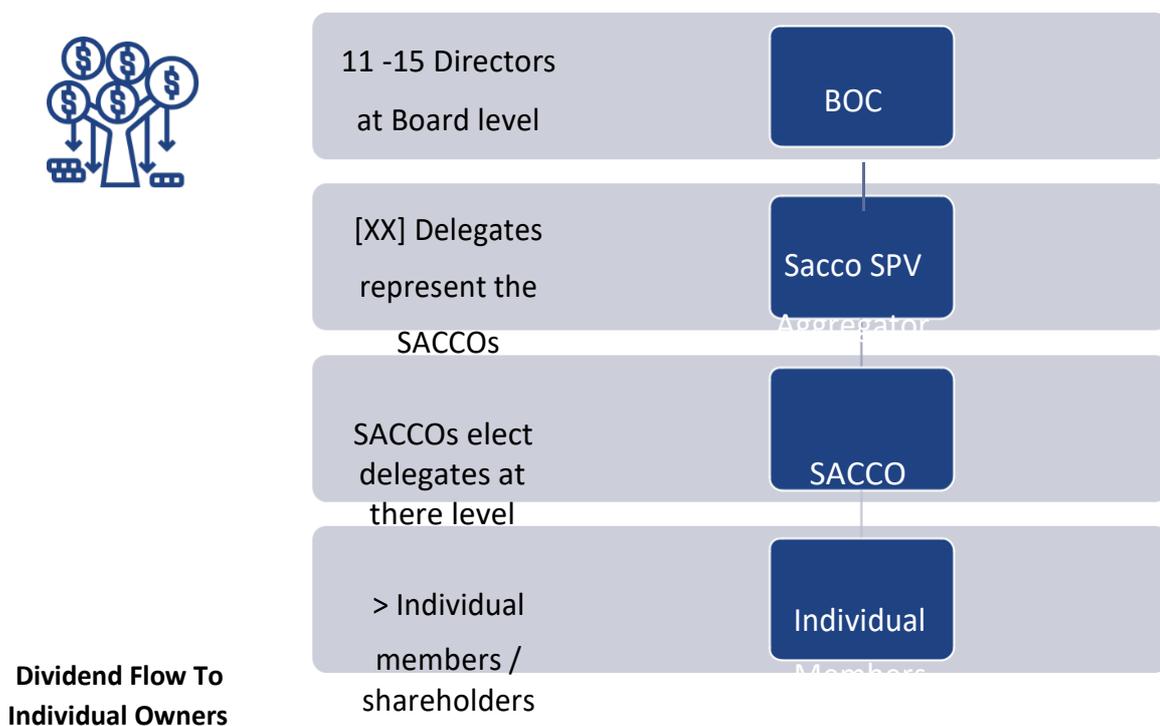


Figure 11.1: Proposed Representation and Governance Structure for the BOC

Appendix B: Frequently Asked Questions (FAQs)

	QUESTION	NOTES
1.	What counties make up the NMA region?	<ul style="list-style-type: none"> ▪ The NMA comprises Kajiado, Kiambu, Machakos, Murang'a, and Nairobi City counties.
2.	Who is NaMATA?	<ul style="list-style-type: none"> ▪ NaMATA is the Authority mandated to oversee the establishment of a safe, integrated, efficient, effective, and sustainable public transport system within the Nairobi Metropolitan Area (NMA). ▪ (NaMATA) was established by an Executive Order through Legal Notice No.18 of 17th February 2017
3.	What is the role of NaMATA in the BOC?	<ul style="list-style-type: none"> ▪ To act as the contractual representative of the Government (to protect governmental interests) in performing obligations and enforcing the rights of the Government in the contract. ▪ To monitor the performance of the private partner in providing the services specified in the contract. ▪ To liaise with the private partner in achieving the project objectives. ▪ To manage the changes (variations and amendments) to the contract in accordance with public policy and law. ▪ To liaise with and promote cooperation between governmental structures in all spheres of Government in relation to the Project.
4.	Will NaMATA play a role in identifying the experienced operator?	<ul style="list-style-type: none"> ▪ Yes. NaMATA will set minimum standards for the experienced operator
5.	What other functions will NaMATA undertake in the process?	<ul style="list-style-type: none"> ▪ NaMATA will issue a concession to the operators to operate the dedicated corridors for an agreed period ▪ Providing a dedicated corridor to the affected operators and investors (which will provide a revenue stream to the investors on a dedicated route) ▪ NaMATA will maintain the BRT infrastructure

	QUESTION	NOTES
6.	Will GoK be a shareholder, and what is the role of the Government in the BOC?	<ul style="list-style-type: none"> ▪ GoK will not be a shareholder in the BOC ▪ However, NaMATA will represent Government in the BOC. ▪ The Government will have a golden share that will confer certain entitlements noting the significant investment as the asset owner. ▪ The Government will also have a crucial role in overseeing the public interest.
7.	What is the role of the Government in the Transport Service Contract?	<ul style="list-style-type: none"> ▪ To manage any disputes that arise under the contract. ▪ To monitor the performance of the BOC in providing the services specified in the contract and to enforce the payment or penalty mechanism associated with the performance monitoring. ▪ To ensure that financial instruments such as securities and insurances are properly maintained.
8.	Who is an affected operator, and how will the various affected and Nairobi Metro investors be represented on the BOC?	<ul style="list-style-type: none"> ▪ An affected operator is a SACCO/Company who has been assigned a license on a specific route that is impacted by the respective BRT line. ▪ An affected operator will have priority to invest in Class A shares with benefits, as detailed on <i>page 18</i>.
9.	Why limit the level of shareholding of Line 2 Affected Operators to 25%	<ul style="list-style-type: none"> ▪ The 25% is a proposal, and the affected operators are free to propose a different and or higher value. However, the 25% was proposed to allow large enough participation of the affected operators at a level that does not overburden the individual investors' contribution. ▪ As proposed, the value of one share is affordable and within reach of the incumbent operators.
10.	How will other Nairobi Metro investors be represented on the BOC?	<ul style="list-style-type: none"> ▪ Other investors in the Nairobi Metro region can invest as Class B shareholders, which has an allocation of 40%. ▪ The Class A and B shares and access will be replicated in future lines as they become operational.
11.	Is there a discount available for Class B shareholders?	<ul style="list-style-type: none"> ▪ Yes, for shares subscribed and paid up by June 2022, there is a one-off discount of 20% on the issue price of Kshs 500,000.00

QUESTION	NOTES
12. Can a shareholder take up the shares not acquired by other shareholders?	<ul style="list-style-type: none"> ▪ Yes. A shareholder can subscribe for more shares.
13. What is the role of the experienced operator?	<ul style="list-style-type: none"> ▪ Given the nature of the specialized service and the need to focus and drive maximum efficiency and throughput in the BRT service, the investors will, through their own process, identify and appoint an Experienced Operator.
14. What is the role of the Federation Public Transport Sector (FPTS)?	<ul style="list-style-type: none"> ▪ FPTS will continue playing a key advocacy role in the sector's transformation.
15. Will I be able to operate my Matatu on the route parallel to the dedicated BRT?	<ul style="list-style-type: none"> ▪ Yes, as the BRT service will not be able to move all the traffic from the trunk routes, Matatu's will run alongside the BRT, where you will also be a shareholder and receive an additional income stream.
16. I am currently compensated daily; how will I be paid in the BOC?	<ul style="list-style-type: none"> ▪ Once the operations of the BOC settle, they will be able to pay monthly or more frequently.
17. Can I pay for the shares in installments?	<ul style="list-style-type: none"> ▪ It is possible to pay for the shares in installments. Kindly indicate in the Offer Letter the preferred frequency of payment (i.e., daily, monthly, quarterly, etc.).
18. What is the duration of the capital raise?	<ul style="list-style-type: none"> ▪ The capital raise will be three (3) years with annual capital calls.
19. Will people lose jobs as a result of the BRT?	<ul style="list-style-type: none"> ▪ No. There will be significant employment opportunities from the value chain opportunities

Appendix C: Sample Offer Letter

**SIMBA LINE 2 BUS OPERATING COMPANY
SHARE SUBSCRIPTION FORM**

APPLICANT DETAILS

A.	NAME			
B.	LICENCE NO.		C.	SACCO/COMPANY NAME
D.	TELEPHONE NO.		E.	MOBILE NO.
F.	ADDRESS			
G.	CITY		H.	COUNTY
I.	EMAIL			

SUBSCRIPTION INFORMATION

	Class of Shares Subscription	Number of Shares	Apply for an Early Discount	Price per Share (KES)	Subscription Amount (KES)
	<i>Class A Shareholding is strictly reserved for operators who operate along Line 2</i>		YES NO	500,000.00	
<input type="checkbox"/>	<i>Class B Shareholding is reserved for operators who operate along other designated BRT Lines</i>		<input type="checkbox"/> YES <input type="checkbox"/> NO	500,000.00	

PREFERRED PAYMENT METHOD

FREQUENCY OF PAYMENT

<input type="checkbox"/> BANK	DAILY	<input type="checkbox"/>	MONTHLY	<input type="checkbox"/>
<input type="checkbox"/> MPESA	WEEKLY		QUARTERLY	

1. **Payments Details for Bank and or MPESA will be provided once consultations are completed.** The Minimum Subscription Amount due by June 2022 is KES 150,000.00 as per the payment schedule indicated in the document.
2. I hereby subscribe for and agree to purchase shares in the Line 2 Bus Operating Company.

NAME _____

SIGNATURE _____

DATE _____