The success of this joint venture led to the doubling of passenger traffic and cargo between 1995 and 2003 and a boost to tourism.
BACKGROUND

Kenya Airways was incorporated in 1977 as the country’s national flag carrier and was fully owned by the Government. Over the next 15 years, the airline accumulated massive financial losses, along with crippling debt arrears from its failure to service its loans. The basis for a nationwide privatization program was laid out in 1992, and Kenya Airways was one of the 45 companies to be privatized in the first stage of the process. Concurrently, a new board of directors was appointed and a high caliber management team was recruited. Under its leadership the company underwent a process of restructuring and commercialization: routes, fares and fleets were rationalized, management was overhauled and the entire staff was put through training.

The next step was to help bring about private ownership of Kenya Airways. The Government’s main objectives were to ensure the continued operation of Kenya Airways as the country’s national airline, to transfer the bulk of ownership of the airline to the private sector, and to allow the airline to build on its improved operating performance and profitability with support from the private sector.

IFC’S ROLE

The Government believed that IFC had the requisite combination of technical expertise, political sensitivity, and credibility required for the difficult environment surrounding the privatization. Consequently, in April 1994, it hired IFC to prepare a strategic review and options report and to develop and implement a privatization action plan. IFC’s undertakings included the following:

- Conducting a strategic review of the airline’s operations and financial condition.
- Producing a detailed action plan to reconcile the Government’s objectives and practical constraints with the commercial realities of the industry.
- Identifying the characteristics of potential investors.
- Determining financing needs as well as legal and regulatory requirements.
- Designing an equity structure.
- Evaluating the bids and negotiating with prospective partners.
- Recommending a preferred partner.
- Designing the public offer.

TRANSACTION STRUCTURE

To secure an alliance with an international airline, the Government and IFC agreed that an equity partnership was the best option, which resulted in a multitranche privatization, starting with the sale of a minority stake to a strategic partner followed by a public offering. As a result:

- The Government sold 26 percent of the company to KLM and offered the remaining 51 percent to the public (non-Kenyans were limited to a maximum of 49 percent of the total equity).
- Kenya Airways and KLM signed a cooperation agreement whereby they agreed to pool their strengths and achieve economies of scale by sharing resources, combining route networks, and assessing new markets in Sub-Saharan Africa.

POST-TENDER RESULTS

- The success of this joint venture led to the doubling of passenger traffic and cargo between 1995 and 2003 and a boost to tourism.
- The Government received more than $70 million from the sales and saw its remaining 23 percent minority stake increase in value.
- The service standards and reliability of Kenya Airways improved dramatically.
- The airline received a $15 million loan from IFC to modernize its fleet.
- The airline has been profitable ever since the transaction closed.

This story was originally published in 1995, and updated on 12/2008