



MINISTRY OF FINANCE

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REPUBLIC OF KENYA
MINISTRY OF FINANCE

SESSIONAL PAPER NO. 3 1994

GOVERNMENT OF KENYA

The following Information is laid before the National Assembly.

1. The Government of Kenya, in accordance with the provisions of the Guarantee (Loans) Act Chapter 461 of the Laws of Kenya provided several guarantees in respect of aircraft purchases by Kenya Airways Limited, a corporation wholly owned by the Government.
2. The Government's liability under guarantees issued in respect Kenya Airways Limited as at 31st December 1993 amounted to Kenya Shillings (Kshs.) 4.5730 billion equivalent in foreign currencies, in respect of loan arrears for aircraft purchases.
3. During the period between 1990 and 1993 Kenya Airways Limited was unable to meet its financial obligations to external lenders due to the effects of the Gulf War, increased air traffic competition particularly with the liberalization of air transportation in Europe, and the fall over recent years in the value of the Kenya shilling. The financial ability of Kenya Airways to service its debt obligations has been further

compromised by the previous poor financial controls, absence of clear corporate objectives, weak market strategies and an unmotivated workforce.

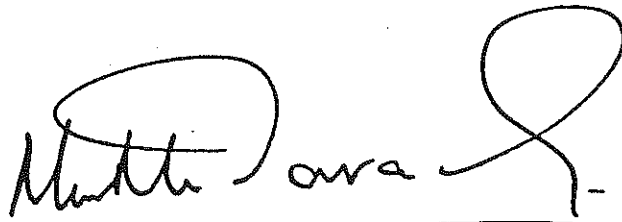
4. To improve the operations and profitability of Kenya Airways, the Government has undertaken several measures including, additional injections of loan and equity capital, the appointment of consultants to conduct a management audit and inquire into the management and financial situation of Kenya Airways, the appointment of a Government Probe Committee, the exemption of Kenya Airways from the provisions of the State Corporations Act, the termination of commercially unfair contracts, and the recruitment of a new management team with a clear mandate to commercialize the airline's operations. In July 1992 the Government decided to privatize Kenya Airways.
5. The Government of Kenya, in accordance with its guarantees has been servicing the aircraft purchase loans by making direct payments to the lenders of the principal interest accrued thereon on behalf of Kenya Airways. The total amount of money advanced to Kenya Airways by the Government in the form of external debt servicing and related obligations was, as at 31st March 1994, approximately Kshs.1.6 billion.
6. Efforts by the Government to commercialize the operations of Kenya Airways have been successful. The Board of Directors of Kenya Airways Limited approved a break-even budget for 1993/94 and in fact achieved an audited trading profit of Kshs.398 million for the period. The Board also approved the 1994/95 for the year starting April, 1994 for an estimated profit of approximately Kshs.900 million, subject to movement in exchange rates.
7. Following the Paris Club Agreement in December 1993 Kenya

Airways Limited has sought no further support from the Government and is now paying all current debt maturities as they fall due.

8. The Government of Kenya has converted the loan and interest referred to in paragraph 5 above into equity. The terms of the debt for equity conversion have resulted in the Government being issued a further 80,364,082 ordinary shares of Kshs.20 each credited as fully paid up in the capital of Kenya Airways.
9. The Government has, under the Paris Club Agreement, assumed the external loans owed by Kenya Airways Limited in respect of aircraft purchases which amount to Kshs.4.573 billion, as referred to in paragraph 2 above.
10. The decision by the Government to convert the said debt into equity and to assume the said aircraft loan arrears of Kshs.4.573 billion has been prompted by the following considerations:
 - (i) The need to redress the under-capitalization of Kenya Airways Limited and to eliminate losses accumulated over the past 17 years which had rendered the airline insolvent. This will improve the Balance Sheet and credit rating which facilitate Kenya Airways' access to new capital;
 - (ii) As part of the Government's stated aim to privatize Kenya Airways the need to attract potential investors in the airline business (which is widely seen as essential to survival in the international airline business);

- (iii) The need to effectively assist in the implementation of new management's mandate to fully commercialize the airline's operations;
- (iv) The need to fully discharge the financial obligations of the Government of Kenya in accordance with provisions of its guarantees.

11. Accordingly, the National Assembly is hereby requested to note the decision by the Government of Kenya to convert the said Kshs.1.6 billion outstanding loan and interest owed to it by Kenya Airways into equity and to further note the Government's decision to assume the said external aircraft loans amounting to Kshs.4.573 billion. The National Assembly is hereby requested to approve these measures taken by the Government to facilitate the privatization of Kenya Airways.



~~HON MUSALIA MUDAVADI, EGH, M.P.,~~
MINISTER FOR FINANCE.