Sovereign Debt News Update No. 137: Kenya’s Insatiable Debt Swap Appetite as a ‘Debt Management Tool’

By:

The African Sovereign Debt Justice Network

04 June 2025

Background

The Kenyan economy continues to bear a considerable external public debt burden that has been growing in recent years to over KES 10 trillion (appx $ 77.4 billion), divided almost equally between external and internal lenders. The Kenyan government has argued that debt swaps are a debt management tool. The Kenyan government has therefore set in motion negotiations for several debt swaps. A debt swap is a financial instrument that provides conditional debt reduction in exchange for agreements by the debtor to invest the freed-up resources in specific areas, such as education, health, climate change mitigation, adaptation or environmental protection. All the publicly known debt swaps that have been reported have been secretly negotiated and entered into.

This includes one announced in April 2025 with the World Food Program.

This update highlights Afronomicslaw's ongoing case at the East African Court of Justice (EACJ); Wanjiru Gikonyo v The Attorney General of the Republic of Kenya (Reference No 19 of 2024). The case filed against the Kenyan government is seeking transparency and accountability in Kenya's debt swaps arrangements. The reference filed on 18 April 2024 challenges Kenya's debt swap arrangements as part of its public debt stock management strategy, and the government's subsequent failure to disclose to the public intricate and vital details of the arrangement. The government had indicated its intention to establish sovereign debt swap arrangements through the Medium-Term Debt Management Strategy 2023 (MTDMS). It also indicated that it was considering debt swaps, particularly debt-for-nature swaps and debt-for-food-security swaps, to finance the medium-term budget through the 2024 MTDMS.

The applicant in the case, Euginia Gikonyo, working with the Afronomicslaw team led by Prof. James T. Gathii and Dr. Harrison Mbori, contests the limited information that rendered public participation on the issue of debt swaps. It contends that this lack of information is in contravention of the EAC Treaty and public finance management safeguards under the Kenyan Constitution. These safeguards include openness and accountability in the process of setting up debt swaps. The reference is premised on the allegation that the Kenyan Government is violating Articles 6(d) and 7(2) as read together with Article 8(1)(c) of the EAC Treaty. These provisions require Partner States to ensure the principles of good governance, accountability and transparency reflected in the African Charter of Human and Peoples Rights as well as the Constitution of Kenya 2010 as part of the right to access information.

In response to the reference, the Kenyan Government, through its Attorney General (AG), denied engaging in debt swap transactions and thus denied breaching the EAC Treaty. The Kenyan government stated that it had adhered to the principles of transparency and accountability by publishing the 2024 MTDMS on its website, which included information on debt swaps. The Kenyan government has described debt swaps as a 'creative alternative funding mechanism to finance sustainable development projects in low-income countries.' In its response to the Afronomicslaw's case, the Kenyan government revealed that the National Treasury had received a proposal on the debt for food security from the World Food Program (WFP) which requires a guarantee from the Development Finance Cooperation (DFC) and an advisory firm for bond issue. While no further details on the proposal were offered, the respondent argued that since there was no contract nor agreement on the operationalization of debt swaps, then there was no cause of action as the government could not reveal information that did not exist.

In response to the Kenyan government’s argument, Afronomicslaw argued that the process of drafting the 2024 MTDMS did not fulfil the requirements of transparency and accountability, and cited low civic participation and non-adherence to the principles of public finance management provided in the Kenyan Constitution. Afronomicslaw through the Applicant, Wanjiru Gikonyo, pointed out that the respondent’s arguments were untenable. This is because it makes no logical sense to argue that there were no debt swaps nor proposals in place, and then argue that public participation and transparency requirements had been met. For what would the public participation and transparency be for, if the debt swap arrangements are not in the process of negotiation and operationalization? In addition, Afronomicslaw in response emphasized that the respondent’s revelation about the World Food Programme (WFP) proposal after the fact validated the claim on violation of transparency requirements. Throughout the case, Afronomicslaw has emphasized that there are risks arising from debt swaps present, including high transaction costs that are often not revealed. The Case before the East African Court of Justice, therefore demands public debt transparency, especially considering that the information regarding the WFP swap was first revealed through outlets that provide limited information. The hearing of Afronomicslaw’s debt swap case is still pending as of early June 2025.

Recent Developments in Relation to Debt Swaps

Kenya’s debt has exceeded key debt sustainability thresholds.[1] This means that the country’s debt will likely be unsustainable, and the country may face difficulty in paying principal, interest and other applicable amounts on its debt stock when due.[2] It is important for Kenyans that the country’s debt and the cost of servicing remain sustainable.[3] The government has reportedly received many proposals for debt swaps which run into hundreds of millions of shillings including a debt for nature and debt for food security swap.[4] To address public debt, the Kenyan government, through the National Treasury and Economic Planning Cabinet Secretary John Mbadi, recently revealed that Kenya has advanced plans for a ‘debt-for-food security’ arrangement with WFP even though this latest announcement demonstrates that the government is still proceeding with secrecy, which was precisely the reason for Afronomicslaw’s ongoing EACJ case. According to recent media reports, the Kenyan government is in advanced stages of exploring a WFP-brokered debt-for-food security swap.[5] National Treasury Cabinet Secretary John Mbadi, describes debt swaps as ‘a tricky way of managing debt’ that requires clear analysis to check for its effectiveness, yet reports that the public management office is looking into a debt swap arrangement.[6]

From the recent media releases, there is only a general indication of the existence of debt for food security swaps negotiated by the WFP. This situation is consistent with the facts that underlies Afonomicslaw case relating to the lack of transparency, accountability, and public participation in why and how the government decides to enter into them. The meaning of ‘advanced stages’ remains intentionally vague, with no further information on the debt value in question, the benefits to Kenya, who precisely are the creditors as well as the costs of entering into these swap transactions. Afronomicslaw’s case argues that this information must be publicly available to meet even the lowest threshold of transparency, accountability, and public participation. According to media reports, information on the debt swap is vague and generally lacking in detail. The reports also reference other WFP-brokered debt arrangements for food security by Mozambique and Egypt. It is thus vital to analyse the WFP-brokered debt swaps with these two countries to assess whether similar arrangements would be viable and effective for Kenya.

According to the 2025 Budget Policy Statement, Kenya’s public debt remains sustainable as a medium performer but has an elevated risk of debt distress because the present value (PV) of debt is at 63% of the GDP. This exceeds the benchmark threshold, which is 55% of GDP. To reduce debt vulnerabilities, the government will continue with implementation of its fiscal consolidation program and optimize the financing mix in favour of concessional borrowing to finance capital investments. The statement generally provides that the government should be proactive in public debt management by exploring various Liability Management Operations (LMOS) aimed at extending the maturity of existing debt, thereby reducing the immediate financial burden and managing cash flow more effectively. For climate change mitigation, the government mentions debt for climate swaps amongst its strategies to tap into the global climate finance opportunities. This is consistent with the 2023 Budget Policy Statement, in which the government presented debt for climate swaps as part of green and climate financing mechanisms to be developed and implemented.

The 2025 budget policy does not stray far from the 2024 Budget Policy Statement. In fact, it takes into account the policy resolutions made in the latter, including deficit financing strategy and public debt mix as required by the Public Finance Management Act, 2012. In the 2024 budget policy statement, the government mentioned exploration of alternative sources of financing including climate Fund financing options, Debt for Nature Swaps, Samurai and Panda bonds depending on the prevailing market and macroeconomic conditions under its deficit financing policy.

A Budget Policy Statement outlines the government's short-term fiscal priorities, including spending and revenue targets, while the Medium-Term Debt Strategy complements it by detailing how the government plans to manage its debt sustainably over the medium term. Together, the frameworks reflect the broader fiscal consolidation agenda and signal the government's approach to balancing development needs with debt sustainability. The Medium-Term Debt Strategy (MTDMS) outlines how public debt will be managed to support the macroeconomic objectives articulated in the Budget Policy Statement. It is meant to enable the government to make informed decisions regarding public borrowing and public debt management.

In the 2025 MTDMS, the government identifies potential sources of funding that are to be explored as emerging funding instruments. These include debt swaps, diaspora bond, sustainability linked bonds and Environmental, Social and Governance (ESG) debt instruments that will fund budget deficit and manage public debt. This is predictably similar to the 2024 MTDMS where as part of the public debt management reform, debt swaps are mentioned as a liability management operation targeting the debt portfolio. The Treasury further provided that emerging funding sources such as debt swaps especially debt for nature swaps and debt for food security swaps would be under consideration between the government of Kenya and the United Nations Development Partners to fund the budget deficit for 2024/2025 financial year. Debt swaps were also an example given for LMOs that would target the debt portfolio. This approach was similar that used in the 2023 MTDMS that presented ‘debt for climate/nature swaps’ as opportunities that would be pursued under the then proposed Government water dams investment/funding programme, with eligible creditors. The MTDS also identified the development of capacity in the use of derivatives in a DSA would be a cost and risk mitigation strategy for public debt.

The government argued in the EACJ case that mere publication of information about the debt swaps constituted compliance with principles of transparency and good governance.[7] However, these debt swaps are only vaguely referenced in the MTDMSs, with no substantive details provided. Vague references of debt swaps as a funding mechanism and debt management strategy to be considered cannot be sufficient to meet the requirements of transparency, and accountability required even at the lowest threshold. Considering the significant fiscal and developmental implications of DSAs, the government has a duty to provide clear, detailed, and timely information to the public. Transparency requires more than vague references in policy documents and media reports. Rather, it demands the highest level of transparency in terms of the structure and related costs including fees, commissions, and interest differentials of the DSA. Without transparency, it is impossible to adequately assess the true benefits of swaps.[8] Furthermore, lack of transparency prevents citizens from engaging in informed public debate on the merits of the deals before they take place and provides opportunities for corruption and fraud.[9]

The Mozambique and Egypt Debt-for-food Security Swaps

In 2017, Mozambique undertook a debt swap arrangement with Russia that covered USD 40 million of the debt, which was the largest debt swap by the WFP.[10] The United Nations WFP used the swap to support the government of Mozambique in providing school meals for 150,000 children for five years. Negotiations on the swap began in 2013 and continued in 2015, spanning approximately two years.[11] One of the challenges that was addressed during the negotiations of the swap was the identification of where the money should be invested in order to guarantee that the debt relief gains would not be squandered through inefficiency and corruption. As expected of DSAs, the negotiations were complex due to their multi-party aspect, and the discount rates applied were not revealed.[12] This demonstrates that the transparency and accountability challenges in these arrangements are real and have already been experienced in existing arrangements.

The debt swap coincided with a debt crisis in Mozambique. Mozambique had a debt crisis in 2016 caused by the revelation of a $2 billion loan that was revealed which had been undisclosed. The loans had been taken by three companies and received sovereign guarantee without parliamentary approval.[13] The loan amount was above the limit set by the legislature for that year and the loans breached the International Monetary Fund (IMF) program in place at the time as well as the International Development Association’s non-concessional borrowing policy.[14] This led the government to struggle in meeting its obligations and forced it to consider options such as debt restructuring and debt bundling.[15] In 2016, Mozambique was grappling with the consequences of fiscal mismanagement, which caused the IMF to halt its program and the World Bank to suspend disbursements.[16] Bilateral donors also terminated general budget support. As a result, the national currency, depreciated sharply, losing 40% of its value in two months. Amidst the crisis, Mozambicans had no way of knowing how the money borrowed was spent, or what assets remained unaccounted for given the secrecy surrounding the transactions that had led the country to the problem it was facing. In early 2017, Mozambique defaulted on all three loans. The debt swap was therefore being implemented at a time when Mozambique’s debt sustainability rating had sharply deteriorated.[17] The country was also implementing other debt management mechanisms to salvage the state’s economic situation.[18]

The experience for Egypt was considerably different. In 2009, Egypt signed a debt swap agreement with Italy that was brokered by WFP. The swap channeled approximately USD 15 million worth of Egyptian debt towards a school feeding project implemented by WFP to significantly improve nutritional outcomes and educational participation. The swap was for five years and lapsed in 2014. Later in 2020, Egypt swapped debt for food security with Germany that covered €15 million debt service. That was 0.1% of Egypt’s total debt to Germany which ran to 2.6 billion U.S Dollars. Through the swap, Egypt would pay USD 83.8 billion over the next five years in debt service.[19] Egypt has embraced bilateral debt swap arrangements that can be traced back to 1995. In 2001, Egypt had signed a US$149 million debt-for-development agreement with Italy to be conducted over five years. The Italy-Egypt Debt Swap Agreement (IEDSA) focused on three objectives: human development, poverty alleviation and environmental protection.[20] Egypt's 2023-2028 country strategic plan published by the WFP reports that there is an agreement for a new German-Egyptian Debt Swap Program to be implemented with the UN Children's Fund (UNICEF) totaling € 14.5 per agency.

Just like the current situation in Kenya, Egypt's approach to negotiation and implementation of debt swaps was surrounded by an extreme lack of transparency, with the government making no public statements, nor informing any media outlets about the details of the debt swap agreements.[21] Even though Egypt has signed several debt swaps with foreign creditors, there are no public details of the agreement.[22] The debt swaps undertaken by Mozambique and Egypt demonstrate that the extent of debt relief through debt swaps depends on various factors unique to each agreement. These factors include; the scale of the debt written off, the discount rate provided by creditors, the conversion rate and the spread of payments for new conservation or social spending in countries.[23] This then necessitates a consideration of specific conditions and provisions specific to the Kenyan context.

The Pitfalls in the Gabon Debt-For-Nature Swaps (DNS)

In 2023, Gabon completed the largest debt-for-nature deal in Africa, exchanging US$500 million of its external debt for a commitment to enlarge its marine-protected areas.[24] Though touted as an innovative tool to address the perennial debt unsustainability of African countries, DNS have some serious pitfalls. First, the historical assessment shows they have only marginally reduced debt levels. They offer limited debt relief compared to the high transactional costs involved, for some, like the Gabon one, the environmental protection aims are unclear, and in many cases are implemented without adequate transparency and accountability.[25] In early 2025, it emerged that Gabon is now facing mounting arrears in its debt portfolio and was at the risk of default. This current situation only goes to further show that the DNS are not the be-all and end-all when it comes to the debt unsustainability challenges that African countries continue to face.

Conclusion

In the meantime, the African Sovereign Debt Justice Network has mapped many of the debt swaps African countries have entered into in the recent past. That mapping will be used in the upcoming Afronomicslaw MasterClass on Climate Finance, the Green Transition, and Sovereign Debt to be held in Accra, Ghana 28th to 29th of July, 2025. Applications are still welcome until June 15, 2025.

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