Sovereign Debt News Update No. 142: Assessing the Security in Securitization - Insights and Questions from Kenya’s Collateralization of Future Revenue

By:

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In a significant development, Kenya’s Roads and Transport Cabinet Secretary Davis Chirchir confirmed that the government used part of the Road Maintenance Levy Fund as collateral to raise KSh175 billion (USD$1.353 billion) through securitization. This marked the first official confirmation of the securitization plan, a financial strategy that has drawn criticism and fueled conversation over transparency in Kenya's public debt management.

In the spirit of transparency and accountability, part of this criticism has come from Kenyan lawyer Kiroko Ndegwa, who wrote to Treasury Cabinet Secretary John Mbadi, requesting information on the securitization of the country’s future

income from the Sports Fund and Fuel Levy to take loans. Additionally, he publicly challenged the government's recent financial strategies, arguing that they violate fundamental constitutional principles of public finance. His critique centers on the government's use of market-based financing tools, specifically the securitization of public levies and the issuance of a bond to fund a new stadium, which he claims sidesteps transparency and places a future debt burden on citizens. This update examines the feedback to the country's recent debt securitization initiatives as well as the facts of the situation. More importantly, it addresses how this relates to cardinal principles of debt transparency and accountability.

Background

In July 2025, Kenya's Roads and Transport Cabinet Secretary Davis Chirchir confirmed that the government used part of the Road Maintenance Levy Fund as collateral to raise KSh175 billion (USD$1.353 billion) through securitization. In a typical future-flow securitization structure, the originator transfers its rights to anticipated cash flows to a Special Purpose Vehicle (SPV) in exchange for an upfront payment. To finance this purchase, the SPV issues debt securities—generally denominated in the same currency as the underlying receivables. The future cash flows are then pledged to service the repayment of these securities. In Kenya's case, a Special Purpose Vehicle (SPV) was created to unlock KSh 175 billion (USD$1.353 billion) upfront to settle verified contractor arrears and revive over 580 stalled road projects across the country. Hence, Kenya Roads Board (KRB) reportedly securitised Ksh7 (USD0.054) out of every Ksh25 (USD0.193) per litre collected at the pump as a levy. According to Business Daily, this arrangement will continue with the proceeds collected from the Road Maintenance Levy Fund for the next decade.

Hence, Ndegwa's primary concern is the government's move to securitize the Road Maintenance Levy, expressing concerns that this strategy not only compromises future revenues but also undermines the potential for fuel price stability, placing a heavy financial burden on Kenyans already grappling with a high cost of living.

Similarly, Kiharu Member of Parliament Ndindi Nyoro reportedly criticized the government for incurring a Sh44.8 billion debt via the Nairobi Securities

Exchange. The Talanta Infrastructure Bond, issued on Wednesday, July 23 2025 by Linzi FinCo, is intended to finance the construction of the Talanta Sports Stadium in preparation for the 2027 Africa Cup of Nations. While Kenya's president William Ruto has stated that the bond is part of a broader innovation in public finance that aims to strengthen Kenya's ability to fund major infrastructure projects using local capital, and cut reliance on foreign loans, this has been criticized by the former budget chair as reckless. In his words as reported in The Standard, 'The Kenyan government has borrowed Sh44.8 billion. That money is money to be spent today but paid through taxes for the next 15 years. The interest rate is 15.04 percent. At that rate, it means the government from the Sports Fund will be paying around 3.4 billion after every six months. According to a report, an investor notification that accompanied the bond's issuance stated that the state will be obliged to promptly reimburse bondholders for their money if the fund's term is not renewed. Such a notification will be characterised as a default of the 15-year-old bond.

On the other hand, Ndegwa has asserted that this approach bypasses the principles of public finance outlined in Article 201 of the 2010 Kenyan Constitution, which requires openness, accountability, and public participation. He argues that the government's actions, which are driven by an urgent need to pay pending bills and fund stalled projects, do not justify saddling future generations with debt. He has requested the Finance Cabinet Secretary to provide a comprehensive list of levies securitized by the government, including references to the enabling Acts of Parliament, details of the public funds established for levy collection, and the total amount borrowed against these revenues. Additionally, he has sought disclosure of the lenders' identities, the utilization of the borrowed funds, applicable interest rates, the projected repayment burden on Kenyan citizens by the end of the loan term, and the conditions attached in the event of default. Ndegwa also inquired whether these loans have been accounted for within the national debt, whether they carry sovereign guarantees, and requested access to feasibility study reports that justify the securitization arrangements.

Analysis

The Kenyan government's moves must be understood against the context of its debt management practices, as documented in the One Hundred and Thirty

Seventh Sovereign Debt Update on Kenya's Insatiable Debt Swap Appetite as a 'Debt Management Tool'. Hence, the lack of public disclosure and scrutiny surrounding the terms, conditions, and long-term implications of these deals are important valid questions that arise from the situation.

While the Kenyan government frames its securitization initiative as a way to use local capital and reduce foreign loan reliance, it arguably violates the core principles of public finance and transparency, especially in context of Article 201 of the Kenyan Constitution, which mandates openness, accountability, and public participation in all financial matters. The lack of public disclosure and parliamentary debate on these deals is a central point of Ndegwa's critique. For a complete and accurate picture of a nation's debt, all liabilities, including those from securitization, must be fully disclosed, and it does not appear that this is the case. These non-traditional financial instruments can obscure the true extent of a country's financial obligations. The use of private entities (like Linzi FinCo and the SPV) to issue debt can create a layer of distance from direct government accountability, making it harder for the public to monitor how funds are being used and repaid.

Additionally, by securitizing the Road Maintenance Levy and the Sports Fund, the government is essentially mortgaging future national income. This places a long-term financial burden on citizens and future administrations, who will be forced to divert these funds towards debt repayment instead of using them for their intended purposes. The high-interest rate on the Talanta bond further exacerbates this issue. The absence of key details, such as the identities of lenders, the full terms of the loans, and feasibility study reports, prevents effective public and parliamentary oversight. Above all, Ndegwa's formal request to the Treasury Cabinet Secretary for this information underscores the lack of transparency surrounding these transactions.

Conclusion

In response to these concerns, Ndegwa is demanding comprehensive accountability and transparency from the government. He is requesting detailed information on all secured levies, the specifics of the loans, the identity of the lenders, and how the funds have been utilized. By raising these issues, Ndegwa is not only questioning the legality of the government's financial maneuvers but also highlighting a broader debate over whether Kenya's

current economic state justifies financially risky strategies that could burden future generations. The scenario underscores the critical need for transparent and responsible financial management in the face of the country’s debt management challenges. Hence, by using private entities and failing to fully disclose the terms of these deals, the government appears to have bypassed key constitutional principles of public finance, accountability, and public participation. This approach burdens future generations with long-term debt and undermines effective oversight, raising serious questions about the integrity of the country's debt management practices.

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