



Sovereign Debt News Update No. 145 : Debt, Climate, and Development - President Ruto's Call to Action at the Africa Climate Summit

By:

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During the [second Africa Climate Summit in Addis Ababa](#) on September 8, 2025, Kenyan President William Ruto issued an [urgent call](#) for global action on Africa's sovereign debt crisis. In his statement, he argued that the continent's ability to tackle climate change and achieve its development goals was being systematically undermined by unsustainable debt burdens. [His remarks](#) emphasized that without immediate and effective financial reform, Africa's climate and development commitments will remain "*aspirational*" rather than attainable. He highlighted the critical link between macroeconomic stability and environmental action, urging the international community to move beyond mere discourse and implement tangible solutions for debt restructuring and

concessional financing for climate goals. These remarks have become even more pertinent within the context of a [Moody's report](#) which noted that borrowing costs in South Africa, Nigeria, and Kenya have surged over the past five years, driven by weak policy frameworks, inflationary pressures, and adverse market conditions. This update will examine Ruto's speech within this context and highlight the ways in which the international financial architecture can structurally accommodate the climate action objectives of developing countries on the African continent through a more proactive and inclusive debt restructuring posture.

Background

President Ruto's speech centered on the dire economic realities facing many African countries. He presented sobering data, revealing that at least 21 African countries [are either in or at high risk of debt distress](#). This crisis is not just an abstract financial problem; it has real-world consequences. On average, African governments are spending [13.5 per cent of their budgets on debt service](#), a figure that now exceeds spending on crucial social services like health and education. This unsustainable fiscal pressure not only limits African countries' ability to invest in climate resilience and renewable energy but also erodes the very social foundation of healthy and educated populations that is essential for sustainable development.

According to an analysis from [Moody's Ratings](#), this challenge is particularly acute in Sub-Saharan Africa's leading economies. The report, discussed by Senior Vice President Lucie Villa with [CNBC Africa](#), notes that countries like Nigeria, South Africa, and Kenya are struggling with persistently high borrowing costs due to underlying structural weaknesses. While bond spreads for Nigeria and Kenya have normalized [somewhat since 2022 to approximately 500 basis points](#), this does not represent what Moody's considers '*full normalisation*'. In contrast, South Africa's financial markets are more stable, though its sovereign credit profile still lags behind its international peers similarly rated 'Ba2' such as [Cote d'Ivoire](#), whose rating was upgraded by Moody's following what the agency [described](#) as *the country's progress in fiscal consolidation and its measures to meet fiscal deficit targets*. The Moody's report highlights that Nigeria's high borrowing costs are driven by inflation and limited savings, while Kenya faces challenges from policy unpredictability and a less-developed

market infrastructure despite having better-managed inflation. For the entire region, Moody's concludes that future borrowing conditions hinge on establishing robust, predictable, and effective policy frameworks that can inspire investor confidence.

These findings align with Afreximbank's earlier report titled '[State of Play of Debt Burden in Africa and the Caribbean](#)', which offered an in-depth analysis of public debt trends in both regions. Although the report anticipates a decline in Africa's debt-to-GDP ratio by 2028 (driven by stronger economic growth and the adoption of longer-term debt instruments), fiscal resilience is expected to remain under pressure due to persistently high borrowing costs, greater reliance on private creditors, and enduring sovereign risk. The report indicates that central government debt is projected to stabilize at just over 55% of GDP by 2029, marking an improvement from its peak of nearly 63% in 2020. However, as of 2025, [14 African countries have breached the 180% debt-to-exports threshold, while 25 have exceeded the 20% debt service-to-revenue benchmark](#)—clear indicators of persistent external vulnerability and fiscal pressure. This macroeconomic strain has significantly constrained access to new capital markets and hindered the ability to refinance existing debt on favorable terms, thereby posing a substantial barrier to advancing climate and development initiatives.

The Intertwined Crises of Debt and Climate

These challenges have spurred the emergence of solutions such as 'debt-for-climate swaps'. These arrangements have been designed with the [objective](#) of easing fiscal pressure by improving a government's ability to manage debt repayments, thereby helping to mitigate the socio-economic hardships linked to debt distress. Moreover, they have been [presented](#) as a vehicle for countries to allocate resources toward climate initiatives without adding to their existing debt burdens.

In the [One Hundred and Thirty Seventh Sovereign Debt Update](#), the concept of debt swaps in relation to Kenya was more critically considered. The Update highlights Kenya's [2025 Budget Policy Statement](#), according to which, Kenya's public debt is considered sustainable and is classified as a medium performer. Nevertheless, it underscores that the country carries a heightened risk of debt

distress, with the value of debt standing at [67.4%](#) of GDP as at December 2024- surpassing the benchmark threshold of 55%. To address these vulnerabilities, the government plans to advance its fiscal consolidation agenda and recalibrate its financing strategy to prioritize concessional borrowing for capital investments. Hence, in terms of climate action, the government identifies debt-for-climate swaps as a key instrument for accessing global climate finance without exacerbating debt levels. This approach aligns with the [2023 Budget Policy Statement](#), which similarly positioned debt-for-climate swaps within the broader framework of green and climate financing strategies to be developed and implemented. While the country has not initiated debt-for-climate swaps yet and has in fact only in September 2025 announced a pioneer [USD\\$1 billion debt-for-food swap with the World Food Programme \(WFP\)](#), it might be helpful to consider how this option might be useful, if at all, for the country's climate financing gaps, and even for those of other African countries.

To begin with, debt swaps often have a [track record of murkiness around the deal dynamics](#), a weakness which is more pertinent when considered against the backdrop of debt crises across Africa which have arisen from [underreporting and secrecy](#). This was evident in the debt-for-climate swap arrangements in [Mozambique and Egypt](#), where transparency was notably lacking. In both cases, the governments did not issue public statements or disclose details of the agreements to media outlets, leaving key aspects of the transactions opaque. This was the primary bone of contention in the case of [Eugenia Wanjiru Gikonyo v The Attorney General of the Republic of Kenya](#), a case in which claimants Afronomicslaw and Wanjiru Gikonyo filed a petition before the East African Court of Justice (EACJ) seeking greater transparency in Kenya's debt swap arrangements. The case calls on the Kenyan government to disclose comprehensive details regarding its planned and ongoing Debt Swap Arrangements (DSAs). The claimants argued that while the Kenyan government characterised debt swaps as an innovative approach to liability management, it failed to provide full disclosure regarding the specifics of these arrangements and did not subject the procurement process to public participation. In response to the case, the government contended that the mere publication of information concerning the debt swaps satisfied the principles of transparency and good governance, a stance which is rather wobbly. Hence, transparency concerns around debt swaps are not in fact alien to Kenya.

Furthermore, the high transaction costs, intricate conditions, and misaligned incentives, which often delay benefits for decades—make these mechanisms poorly suited to the urgent and immediate climate finance needs of African countries. To put the high level of these transaction costs for one into context, industry analysis suggests the costs of Gabon’s swap [approached 15-20% of nominal debt relief](#). Additionally, transaction costs [absorbed nearly 25% of Belize’s debt relief](#) while diverting resources from conservation spending to financial intermediaries. Moreso, the [2024 IMF-World Bank framework](#) identifies debt swaps as most suitable for nations experiencing moderate financial strain and short-term liquidity challenges, rather than those requiring full-scale debt restructuring. To buttress this point, [Debt Justice UK](#) released a report which showed that on average, debt-for-nature swaps have achieved debt reductions that are seven times smaller than those seen in orthodox restructuring efforts. While these swaps have lowered national debt by approximately 3%, the net relief in financial burden is closer to just 1%, as most of the freed-up funds are earmarked for environmental conservation initiatives.

More insight into the inappropriateness of debt swaps for comprehensive debt restructuring may be gained from the outcomes of countries which have undergone comprehensive debt swaps, such as [Gabon](#). In the [Ninety-Sixth Sovereign Debt Update](#), it was reported that on 14 August 2023, Gabon completed a USD \$500 million debt swap which was considered the [largest debt-for-nature deal](#) in Africa in which it repurchased three bonds, one maturing in 2025 and two in 2031, with a combined nominal value of \$500 million, representing approximately 4% of the country’s total debt. To replace them, Gabon issued a new \$500 million blue bond set to mature in 2038. The bond carried a coupon rate of 6.097%, which was lower than the rates on the retired bonds, previously ranging from 6.625% to 7%. However, Gabon was reportedly facing mounting debt arrears by January 2025 which led to the [World Bank suspending disbursements](#) to the country. Although it was [reported](#) that it repaid the USD \$29.8 million debt to the World Bank in March 2025, its debt vulnerability woes are far from over, as it continues to [have strains on domestic and external government liquidity](#) and a rise in arrears to official creditors and suppliers. Hence, this situation stands in sharp and critical relief to the promises of reduced debt burdens and/or improved climate conditions- the key pillars upon which the arguments for debt-for-climate swaps are built.

Hence, while Ruto's appeal is certainly commendable, it carries a note of irony given Kenya's active participation in [debt swaps](#) that, by most accounts, offer limited tangible relief. These mechanisms have failed to deliver meaningful fiscal breathing room, especially for a country like Kenya, where debt levels have reached troubling magnitudes. Hence, to forge a more effective path for climate financing, it is evident that alternative, holistic strategies must be explored.

The Path Forward: A Call for Global Financial Reform

A clear and actionable two-pronged approach is recommended for the international community to support climate and development goals in debt-distressed economies. First, urgent and effective debt restructuring and refinancing must be prioritized. This includes a comprehensive overhaul of the Common Framework to deliver genuine relief and unlock the fiscal space necessary for climate investment and sustainable development. Second, there is a critical need to replenish concessional financing mechanisms. Institutions such as the International Development Association (IDA) and the African Development Fund (ADF) serve as vital lifelines for developing countries and must be adequately resourced. While initiatives like the [African Development Bank's \\$750 million hybrid capital issuance](#) are commendable, they fall short of addressing the scale of the challenge. Multilateral Development Banks (MDBs) must play a central role in shaping the future of global climate finance. Without meaningful and large-scale reform, the climate ambitions of many developing countries risk remaining in the words of Ruto, 'aspirational' rather than achievable.

Conclusion

President Ruto's speech at the second Africa Climate Summit served as a stark reminder that Africa's climate ambitions are inextricably linked to its financial stability. The call for urgent debt restructuring and the replenishment of concessional financing mechanisms is not merely a request for aid but a strategic necessity. By demonstrating that debt service is consuming more than essential public services, he framed the issue not just as an economic problem but as a direct threat to human development and climate action. Without these fundamental financial reforms, Africa's potential to build a resilient, green, and prosperous future will continue to be held hostage by a system that prioritises

process over people. The path forward demands a commitment to fair, timely, and effective solutions, ensuring that the continent is equipped with the resources to not only survive the climate crisis but to thrive.

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