Sovereign Debt News Update No. 187: Kenya's $1 Billion Debt-for-Food Swap: Renewed Momentum, Unresolved Questions and the Continuing Transparency Challenge

By:

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Kenya's proposed $1 billion debt-for-food security swap has re-emerged as a significant development in the country's sovereign debt management strategy, almost one year after the Sovereign Debt News Update No. 147 examined the initiative. The renewed attention follows reports in late September 2026 that Citigroup was set to arrange a roughly $1 billion, US-backed debt swap that would refinance existing Kenyan commercial debt on *more favourable terms* and channel the resulting savings towards food-security programmes. The development is potentially significant as Kenya is attempting to manage a rapidly expanding public debt stock, elevated debt-servicing costs and substantial external refinancing needs while preserving fiscal space for

development and social spending. At the same time, the latest reports expose an important tension between market expectations and the Kenyan government's own public position. While market sources have reported that Citigroup is arranging the transaction, Kenya's Treasury has stated that Kenya is reconsidering the swap and no bank has yet been formally mandated to arrange the swap. The question, therefore, is no longer simply whether Kenya intends to pursue a debt-for-food swap. Rather, it is whether the proposed transaction has moved from policy intention and negotiations into a sufficiently developed financing structure, and whether its terms will be publicly disclosed in a manner that allows Kenyan citizens and other stakeholders to assess its costs, benefits and implications. These questions are particularly important in light of AfSDJN's earlier analysis and the continuing relevance of *Eugenia Wanjiru Gikonyo v. Attorney General of the Republic of Kenya* before the East African Court of Justice (EACJ).

Renewed Reports of a $1 Billion Citigroup-Arranged Transaction

The immediate development is the report that Citigroup is preparing to arrange a $1 billion US-backed debt swap for Kenya. According to the market report published on 29 September 2026, the proposed transaction would refinance existing sovereign bonds and free savings for food-support programmes. The reported structure is not a conventional syndicated new-money borrowing. Instead, it is described as a bank-arranged refinancing swap designed to replace existing sovereign debt with financing carrying more favourable terms, with the US International Development Finance Corporation (DFC) providing backing. The transaction is reportedly expected to involve one or more outstanding Kenyan Eurobonds, although the final bond or maturities to be included had not been determined. Market reporting indicates that the proposed operation could concentrate on shorter-dated and intermediate "belly" maturities, thereby reducing near-term external debt-service and rollover pressure. The importance of this structure lies in the fact that Kenya's immediate debt challenge is not simply the absolute size of its debt stock, but the cost and timing of repayments. A transaction that replaces expensive commercial borrowing with cheaper, guaranteed financing could reduce the amount of foreign currency required for debt service and potentially improve the country's refinancing profile. MSA Trader reported that the operation could narrow spreads on the affected Eurobonds, improve secondary-market liquidity

and ease pressure on Kenya's foreign-exchange reserves. However, the same report cautioned that the ultimate market impact would depend on the final terms, the maturities included and investor participation.

Do We Have a Deal or Not? Treasury’s Qualification Raises Questions About the Status

The apparent progress reported by financial-market sources is complicated by a significant qualification from Kenya’s National Treasury. In its 3 October 2026 report, The EastAfrican stated that Treasury Director-General of the Public Debt Management Office Raphael Owino denied that Citigroup had received a formal mandate to arrange the transaction. Owino stated: “*No bank is yet to be mandated to arrange the swap. When the country is ready for such a transaction, the Principal Secretary or Cabinet Secretary John Mbadi will inform the media.*” He further said that Kenya had been considering a $1 billion swap for more than a year but had not yet contracted an arranging bank. This is an important distinction. While the existence of market reports about Citigroup’s involvement does not necessarily establish that the Kenyan government has completed its procurement or contracting process, it may instead indicate that negotiations or preparatory work are sufficiently advanced for banks and investors to anticipate a transaction.

The reported preparations by Citigroup are therefore unlikely to have emerged in a vacuum, suggesting that some form of preliminary engagement or discussions with the Kenyan government may already have taken place; even if these have yet to culminate in a formal mandate. The conflicting accounts also demonstrate why transparency over the legal and financial architecture of the proposed swap is essential. If Citigroup is indeed involved in structuring or arranging the transaction, stakeholders will need clarity regarding the nature of its mandate, the parties involved, the identity and terms of the underlying creditor or creditors, the role of the DFC guarantee, the debt instruments targeted, the cost of the new financing and the conditions attached to the use of savings for food security. At present, those details remain incomplete.

The Proposal Sits Within a Much Larger Debt Management Problem

The renewed debt-swap discussions must be understood against the continuing deterioration in Kenya’s public debt position. According to The EastAfrican,

Kenya’s public debt increased by 9.22%, from KSh11.81 trillion (approximately US$91.4 billion) in June 2025 to KSh13.01 trillion (approximately US$100.7 billion) as at 30 June 2026. Earlier figures cited by Citizen Digital placed the public debt at KSh12.82 trillion (approximately US$99.0 billion) by March 2026, comprising KSh5.68 trillion in external debt (approximately US$43.9 billion) and KSh7.14 trillion in domestic debt (approximately US$55.2 billion). Interest financing obligations were reported at approximately KSh1.25 trillion (US$9.62 billion). These figures help explain why the government has increasingly turned towards liability management operations, including debt buybacks, refinancing, debt switches and debt-conversion instruments. Kenya's 2026/27 Annual Borrowing Plan expressly identifies non-market-based liability management measures, particularly debt-for-development swaps, as an important part of the government's strategy to restructure existing obligations without incurring additional debt.

Fresh Multilateral Financing and the Pressure on Kenya’s Budget

As highlighted above, Kenya’s proposed debt-for-food swap is being pursued alongside efforts to secure additional external financing to support the national budget, highlighting the government’s continuing struggle to balance debt-servicing obligations with expenditure needs. On 16 October 2026, Central Bank of Kenya Governor Kamau Thugge confirmed that Kenya was negotiating fresh financing with the World Bank and the African Development Bank (AfDB), with funds expected before the end of the 2026/27 financial year in June 2027. The discussions include a potential World Bank Development Policy Operation (DPO), although no new financing agreement or disbursement had been announced at the time of reporting. Kenya’s approved 2026/27 budget targets KSh247.2 billion (approximately US$1.9 billion) in net external financing, while the government is also seeking to limit its reliance on domestic borrowing amid substantial debt-repayment obligations. Thugge further confirmed that a debt-for-food swap remained among the options under consideration, although he provided no details of the negotiations. Separately, Kenya expects to make KSh51.9 billion (approximately US$400 million) available for emergency expenditure through the World Bank’s Rapid Response Option, which permits the redirection of eligible portions of previously committed but undisbursed project financing. These financing arrangements serve different purposes and should not be conflated: fresh multilateral loans would provide budget support,

the Rapid Response Option would redirect existing commitments, and the proposed debt-for-food swap is intended to generate fiscal savings by refinancing expensive debt. Taken together, these developments reinforce the need to establish how much additional fiscal space the swap would genuinely create and how the resulting savings would be allocated to food-security programmes.

So, Where Will the Debt-for-Food Swap Savings Go?

One Kenya Banking article asks a central question surrounding Kenya's proposed $1 billion debt-for-food swap; how the savings generated by refinancing existing debt will be allocated, managed and accounted for. The arrangement is intended to replace relatively expensive commercial borrowing with lower-cost financing, with the resulting fiscal savings directed towards food-security programmes. However, the distinction between the value of the debt being refinanced and the actual savings available for development expenditure is critical. The savings would not automatically amount to $1 billion, since the transaction's developmental benefit would depend on the difference between the costs of the existing debt and the replacement financing, after accounting for guarantees, transaction fees and other associated expenses. Kenya has previously identified food-security interventions, including agricultural development and school-feeding programmes, as potential beneficiaries of the initiative, while the World Food Programme has been associated with the original proposal. Nevertheless, the precise allocation formula, disbursement arrangements, implementing institutions and monitoring mechanisms require further clarification. It is therefore important that the government disclose how the savings will be calculated, whether they will finance additional expenditure or substitute for existing budget allocations, and how their use will be independently verified. Without such information, it will be difficult to establish whether the swap will generate meaningful additional resources for food security or primarily serve as a refinancing exercise.

Why do the Economics of the Swap Matter?

Taken together, while the attraction of the proposed transaction seems straightforward, it should not be overstated. If Kenya can replace expensive

commercial debt with cheaper financing supported by a US government development-finance guarantee, the transaction could reduce the interest burden associated with the refinanced debt and provide greater predictability over future repayments. This could also reduce the amount of foreign exchange required for debt service and lessen the immediate refinancing risk associated with Eurobond maturities. The market implications could be material if the swap covers relatively short-dated bonds. MSA Trader reported that reducing near-term external amortisation could compress spreads on affected Kenyan Eurobonds and improve secondary-market liquidity. Yet a debt swap does not, by itself, eliminate Kenya's underlying debt burden. Its value depends on whether the new liabilities are genuinely cheaper, whether maturity periods are extended sufficiently to reduce refinancing risk, whether guarantees reduce the sovereign's effective cost of capital, and what fees and contingent liabilities are associated with the arrangement. There is also a broader fiscal question. Kenya is increasingly using liability-management operations to refinance existing debt, but refinancing becomes less beneficial if new borrowing simply postpones the same debt burden at another cost. The government's reported FY2026/27 debt-service requirement of approximately KSh2.31 trillion, including interest and principal repayments, illustrates the scale of the problem. A successful swap may create breathing room, but it should not be confused with comprehensive debt restructuring or debt cancellation.

Transparency Cannot End at the Announcement Stage

Overall, the transparency question extends beyond disclosure of whether Citigroup has received a formal mandate. A meaningful assessment of the proposed swap would require disclosure of the financial and legal architecture of the transaction. This should include the identity of the creditor or creditors whose claims are being refinanced, the specific Eurobonds or other commercial liabilities being targeted, the amount of debt being refinanced, the interest rate and maturity of the replacement financing, the fees payable to financial intermediaries, the nature and cost of the DFC guarantee, and the expected value of the savings generated. Equally important is the mechanism through which those savings will be transferred into food-security programmes. The public should be able to determine whether the food-security component represents genuine additional fiscal space or merely a reclassification of expenditure that the government would otherwise have undertaken. AfSDJN's

debt updates have emphasised that a debt-for-food swap can potentially combine debt relief with investment in food security, but that this potential depends upon strong legal and regulatory frameworks and effective accountability mechanisms. The same principle applies to the latest development. If the transaction is presented as an innovative solution to Kenya's debt and food-security challenges, then its governance arrangements should be sufficiently transparent to permit public scrutiny. This is especially important because debt swaps can involve multiple actors, including sovereign governments, commercial banks, development-finance institutions, international organisations and private creditors. The involvement of additional financial intermediaries can improve the transaction's financial feasibility, but it can also make the underlying arrangements more difficult for citizens to understand and scrutinise.

What to Look Out for as the Transaction Develops

Several issues will therefore determine whether the renewed debt-for-food initiative represents a meaningful advance in Kenya's debt management or simply another refinancing operation. Public consultation being a key essential element preceding all, a number of factors will be relevant going forward. First, the formal appointment of an arranger will clarify whether Citigroup's reported role has moved beyond preparatory discussions. Second, the government should disclose which debt instruments will be included, particularly if the transaction targets near-term Eurobond maturities. Third, the pricing of the replacement financing and the precise nature of the US DFC support will determine whether the transaction produces genuine savings. Fourth, the public should be informed about the scale and timing of the resources expected to be released for food security and the institutional arrangements governing their use. Fifth, the relationship between the transaction and the WFP should be clarified, particularly given that the original proposal was presented as a WFP-linked debt-for-food initiative while the latest reports centre on Citigroup and the DFC. Finally, the government should address the transparency and public-participation concerns that lie at the heart of Afronomicslaw’s EACJ proceedings . These are not peripheral questions. The very features that make debt swaps attractive, including complex guarantees, multiple creditors, financial intermediaries and conditional expenditure commitments, also make public oversight more difficult. As the proposed transaction advances, Kenya has an

opportunity to demonstrate that innovative debt management and democratic accountability can operate together rather than as competing objectives.

Conclusion

Kenya's debt-for-food swap has clearly survived beyond the timetable initially associated with its proposed March 2026 implementation and has now returned to the centre of attention amid reports that Citigroup could arrange a $1 billion US-backed refinancing transaction. The latest development is significant because it suggests that a proposal which appeared stalled may be moving towards a more concrete financial structure. Yet the conflicting accounts surrounding Citigroup's mandate demonstrate that the transaction has not reached a stage at which its final terms can safely be treated as settled. Kenya's continued commitment to debt swaps, the DFC's reported support, the WFP's role in the food-security objective and Citigroup's reported involvement all point to a potentially important sovereign-financing operation. Nevertheless, the government's rapidly rising debt stock and exceptionally high debt-service obligations mean that the transaction should be evaluated principally on whether it produces measurable and durable improvements in debt sustainability and fiscal space.

Equally, the developmental dimension must be accompanied by transparency concerning how the savings will be generated and how they will be spent. AfSDJN's Sovereign Debt News Update No. 147 anticipated precisely this tension: the promise of innovative financing is real, but so are the governance risks. The continuing EACJ case reinforces that transparency is not an optional addition to an innovative financing transaction. As Kenya moves towards potentially concluding the swap, the government should make the structure, costs, guarantees, beneficiaries and accountability arrangements sufficiently clear for citizens and other stakeholders to evaluate the deal. In all fairness and in respect of the social contract and rule of law, the renewed momentum must be matched by greater disclosure and public consultation. The success of Kenya's experiment should ultimately be measured not merely by whether it secures cheaper financing, but by whether it demonstrates that debt management, food security and public accountability can be pursued together

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