

Vulture Funds: The Facts

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What Is Debt Cancellation?

Twenty-two countries have completed the G8 expanded Heavily Indebted Poor Countries (HIPC) initiative, and up to 18 more are eligible to do so. Countries completing this enhanced version of HIPC secure cancellation of most debts to wealthy nations, the World Bank, International Monetary Fund (IMF), and the African Development Bank (ADB). This cancellation is highly beneficial, freeing up funds that poor nations can use to invest in essential services, such as education and health. But companies known as “vulture funds” represent a challenge to this debt cancellation.

What Are “Vulture Funds”?

Vulture funds are companies that buy defaulted “bad” debt of highly-indebted poor nations at a cheap price. Many of these companies seek debt that is about to be written off by debt relief or cancellation. Vulture funds buy the debt from the creditors at a large discount before restructuring takes place. These funds seek repayment of these debts via litigation—suing for the full value of the debt plus interest to garner much higher paybacks and a tremendous profit.

Who Are These “Vulture Funds”?

These funds often operate in secret, through shell companies based in tax havens. Some are owned by large U.S.-based financial institutions such as hedge funds. It has been shown that these companies are often set up simply to pursue one debt, then shut down again. Donegal International Limited (DI), for instance, the company that sued Zambia, is registered in the British Virgin Islands, and its only business is to pursue the Zambian debt. Donegal’s director is a man called Michael Sheehan, who owns a company called Debt Advisory International, based in Washington D.C.

Are “Vulture Funds” Legal?

Yes, since the vulture funds buy the loan from the creditor, not the debtor, the vulture fund can technically claim payment of the full amount, even if it paid only a fraction of the value. When the vulture fund negotiates with the debtor, the corporation is careful to ensure that the contract enables the company to have the flexibility to sue for the full amount, plus interest and penalties, in the case of non-payment or any other deviation from the contract. So the vulture funds are able to buy a debt that is on the brink of default and then sue the debtor for as much as ten times the amount, even when the debtor finally has debt cancellation by multilateral institutions and wealthier nations.

How Many Lawsuits Are There?

There have been at least 40 lawsuits by commercial creditors against HIPCs, many still outstanding.