



Policy Brief

JUNE 2008

Vulture Funds: The Hidden Enemy

“Imagine your creditors tripled the interest they demanded on your loans without warning and then all of a sudden, all at once, called the loans in.”

The U.S.’ recession, fueled by the subprime lending crisis, touches virtually every one of its citizens. Millions of people have found themselves the victims of predatory lending and defaulted debt burden, and according to United for a Fair Economy, the crisis has sparked the “greatest loss of wealth for people of color in modern U.S. history.” Simultaneously, some banks and large corporations have reaped tremendous financial benefits. The transfer of wealth in the U.S. is a microcosm of what nations throughout the Global South have experienced for more than 30 years. For those nations a crippling debt burden has prevented countries from providing the basic human rights of health care, education, and even clean water. While many in the international community are dedicated to providing debt cancellation for countries incapable of servicing their excessive and illegitimate debts, a new enemy, the “Vulture Fund,” is rearing its ugly head.

Debt Cancellation

Numerous countries are saddled with unmanageable amounts of debt, and routinely pay more to service their debt to wealthy nations and International Financial Institutions (IFIs) than they receive in loans and international aid. For example, African nations pay creditors \$14 billion each year while receiving less than \$13 billion in international grants and loans.

As a result of years of pressure by the international debt cancellation movement, some countries have seen their debts reduced or totally cancelled. While there are still nuances being worked out regarding eligibility and conditions for completing the process, debt cancellation efforts have resulted in a higher quality of life for millions of people in the world’s poorest countries.

Enter the Vulture Funds

Portions of a country’s debt or sovereign debt can be traded in much the same way that domestic mortgages are transacted between banks, with little to no impact on the debtor nation. However, in recent years a number of private investment funds have begun to view countries that qualify for debt cancellation as a lucrative target, because a country that has its IFI debt cancelled then has money to pay other debts.

These private funds, also known as “hedge funds,” are not subject to SEC regulations and reporting requirements, and as a result, it is often difficult to monitor their transactions. Not all hedge funds are considered “Vulture Funds,” nor do all hedge funds that purchase sovereign debt exhibit Vulture behavior. It is the nature of the behavior that dictates that the funds be labeled as Vultures. Vulture Funds are hedge

funds that purchase debt for pennies on the dollar, while actively preying on countries that are likely to default on the loan. Using tactics including extortion and litigation, these Vultures then demand full payment on the debt. In some cases, Vultures have asked for interest payments dating all the way back to the original date of the loan, not from the date it was purchased by the Vulture.

The New Colonization: Economic Exploitation of the Poorest Nations

In 2005, Zambia's debts owed to the IFIs and many wealthy nations were cancelled. The Zambian government planned to spend the newly available resources on addressing deficiencies around poverty, health care, and education. In 2006, Zambia abolished user fees for health care, making basic health care available to millions of Zambians living in rural areas.

Donegal International, a Vulture Fund run by Michael Sheehan, purchased a \$15 million loan owed by Zambia to Romania for \$3.4 million USD in 1999. In 2006, months before Zambia was due to receive debt cancellation, Donegal International launched a lengthy and expensive legal campaign against Zambia, demanding \$55 million USD – *nearly 17 times the amount Donegal actually paid for the loan*. The UK courts granted Donegal a judgment of \$15.4 million USD, but made no secret of their disgust with Donegal's underhanded and deceitful tactics. Even though Zambia was not forced to pay Donegal the total amount claimed, \$15 million represented accessible health care and vital medical attention for some of Zambia's poorest citizens.

While a few Vultures, such as Elliott Associates and Donegal, dominate the headlines, others lurk behind the curtain, advertising under such innocuous descriptions as "Emerging Market Debt Recovery" services. On their website, Omni Bridgeway goes as far as to list the countries which they are targeting, a list which includes at least 24 countries presently working to qualify for debt cancellation, including Liberia and Sierra Leone. Omni Bridgeway claims to focus on "defaulted debt from political risk countries" and alleges to have an "integrated approach combining legal action with the identification of attachable assets in favorable jurisdictions worldwide."

Battling Back

Debt cancellation advocates worldwide believe that many countries, such as Liberia and the Democratic Republic of Congo (formerly Zaire), are at severe risk of exploitation and aggressive litigation tactics by Vulture Funds. It is vital to continue advocating for the cancellation of countries' illegitimate and odious debt, but we must also now join forces to stop the unethical actions of these Vultures. Although the tactics taken by the Vultures are not, by themselves, illegal, the ethical issues surrounding them are very real. Vulture Funds already operate under a shadow of secrecy – the continuous lack of accountability, along with allegations and proven examples of payments being made to governments and other officials, by these Vultures make battling them very difficult. However, as the public outcry against Paul Singer (Elliott Associates; Kensington International) and Michael Sheehan (Donegal) has shown, Vultures are aware that they are on trial in the court of public opinion.

Legislators are pushing for laws that would prevent Vulture Funds from litigating in U.S. Courts, as well as preventing U.S. companies and citizens from pursuing litigation in courts around the world. Debt cancellation advocates urge constituents to pressure their Senators and Representatives to support these pieces of legislation, and to hold the U.S. Congress, Treasury Department, and Administration accountable for the promises made in pursuit of debt cancellation.