

STOP THE VULTURE CULTURE: UNDERSTANDING VULTURE FUNDS

PICTURE THIS

An impoverished country, struggling under poverty and crushing debt can no longer make its monthly loan payments. When the country admits it can't pay the debt back, the lender, usually another country or bank, makes a last ditch attempt to make some profit. It sells the poor country debt to a private creditor for pennies on the dollar.

ENTER VULTURES

The private creditor that bought the poor country's debt is what we call a "Vulture Fund," often part of a hedge fund. Usually, the Vulture Fund is a shell company, set up only to make money by buying poor countries' debts in default and often located in a tax haven like the Cayman Islands. Vulture funds are set up to protect the larger hedge fund they are often connected to. This smoke and mirrors purposefully makes it hard to track where the money flows, so they can avoid our outrage.

A PROMISING NEW START

Thanks to the efforts of people of faith and conscience around the world, rich countries as well as the World Bank and International Monetary Fund have agreed to cancel the debt of this poor country, as one of many impoverished countries around the world in the Heavily Indebted Poor Country Initiative (HIPC). Debt cancellation will give the country a promising new start, and the chance to reinvest in its own infrastructure, healthcare, and education.

But, Vulture Funds won't sign on to this deal for poor countries. Instead of participating in debt cancellation along with the World Bank, IMF, and rich countries, Vulture Funds are out only to make a profit. They hold out during debt cancellation efforts, sitting on their share of the debt until they see an opportune moment to swoop in and profit.

SWOOP! THE VULTURE ATTACKS!

When the poor country receives newly freed-up resources from debt cancellation, the Vulture Fund swoops in to seize the money. It hires an elite law firm to sue the country in French, British, or U.S. courts, because these countries have systems that usually help the creditor, not the debtor. They sue for much more than they bought the debt for, often suing for the original worth of the debt plus sky-high interest and legal fees.



VULTURE FUNDS PREY ON ZAMBIA

Before debt cancellation, millions of the poorest people in Zambia had no access to health care - even the small cost was too great. When Zambia's debt was cancelled, the country used the precious funds to eliminate user fees for primary healthcare and to give hundreds of thousands of people living with HIV/AIDS with life saving anti-retroviral drugs.

Decades before, Zambia took out a loan from Romania to buy tractors. Soon, Zambia defaulted (admitted they couldn't pay) on the loan. The two governments negotiated to settle the debt for \$3 million dollars. Just before the final negotiations, Vulture Fund Donegal International swooped in and bought Zambia's debt from Romania. This meant that Romania got a little money and no longer had to deal with the negotiations.

With the debt now in Donegal's hands, the Vulture bided its time until Zambia received debt cancellation. Once Zambia had some money freed up from this debt cancellation, Donegal sued Zambia for \$55 million in UK courts - the worth of the original loan, plus interest, and legal fees. The British court forced Zambia to pay Donegal International \$15 million, over 60% of Zambia's expected debt cancellation savings in 2006. The judge accused Donegal of excessive greed and granted a much smaller amount than their claim, saying it was morally wrong but legally right.

Take action today to stop Vulture Funds so countries like Zambia can use their precious resources to fight poverty.

Vulture Funds usually win these lawsuits because there is nothing illegal about their activity in U.S., French, and British law. Still, they are undermining the chance at a new start for millions in the impoverished country, and are getting rich off money intended to help the world's poorest people.

A 2007 report on Vulture Funds by the IMF showed that 11 out of 24 poor countries said they were involved in legal cases with Vulture Funds and other creditors not participating in debt relief worth a total of \$1.8 billion.

VULTURE FUNDS ARE SIPHONING OFF FUNDS THAT ARE SUPPOSED TO HELP THE WORLD'S MOST VULNERABLE. IN ZAMBIA, MONEY INTENDED TO HELP CHILDREN GO TO SCHOOL WAS TAKEN BY A VULTURE FUND.

STOPPING VULTURE CULTURE

Vulture Funds go after impoverished countries who receive debt cancellation because they can make an extraordinarily large amount of money—often tens of millions of dollars.

The **Stop VULTURE Funds Act**, H.R. 2932, introduced by Representatives Maxine Waters (D-CA) and Spencer Bachus (R-AL) stops Vulture Funds from profiteering off of poor country debt. Vulture Funds will no longer be allowed to get more than the amount they bought the debt for, and it caps annual interest at 6%.

In Zambia, money intended to help children go to school was taken by a Vulture Fund. If the Act was in place, the Vulture Fund wouldn't have been able to sue for huge amounts of money like it did—it couldn't charge double or triple digit interest rates and go after the original amount of the debt.

The **Stop VULTURE Funds Act** takes away the ability and incentive for Vulture Funds to make exorbitant amounts of money off of the most impoverished. The bill would also require private creditors to disclose much more information about their own business practices before they can sue a poor country in U.S. courts—including how much they paid for the debt in the first place. Requiring more transparency will shine a light on their underhanded dealings, stopping Vulture activity by simply showing the true, exploitative nature of the problem to the public.

The Act sends a clear message to Vultures—US citizens won't tolerate the misuse of their tax dollars and court systems to harm poor countries.

To learn more or get more involved, visit www.jubileeusa.org or contact Jubilee USA's National Field Organizer at 202-783-3566 or Brooke at brooke@jubileeusa.org.

STOP THE VULTURE CULTURE: TAKE ACTION TODAY

Contact your representative today and ask them to support the Stop VULTURE Funds Act (HR 2932)

Call (202) 224-3121 for the U.S. House of Representatives switchboard operator, who will connect you to your representative and tell them to cosponsor the Stop Vulture Funds Act (HR 2932). Here's a sample script :

"Hello My name is ____ from ____ and I am a constituent of Representative ____ . I'm calling to ask him/her to cosponsor the Stop VULTURE Funds Act (HR 2932). The Act would protect the world's poorest countries from the immoral practices of Vulture Funds, predatory hedge funds which sue poor countries for the money they've received from debt relief.

Because of this, these poor countries can't spend their limited resources on vital education and health care. The bill would take away the incentive for Vulture Funds to sue, solving the problem. Please protect the world's poor by cosponsoring the Stop VULTURE Funds Act."