Vulture Funds, Sovereign Debts and the Concept of Debt Relief

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VULTURE FUNDS, SOVEREIGN DEBTS AND THE CONCEPT OF DEBT RELIEF

By
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Program and Research intern
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WHAT IS A VULTURE FUND

- Depends on whose perspective you view it.

- Vulture Funds Perspective

- Developing Countries
Debtor Country defaults on debt held by Creditor

Creditor Loans Money to Debtor Country

Vulture Fund buys the default debt from the creditor at a discount

Vulture Fund Recovers Massive Profits from Debtor Country

Vulture Fund sues debtor Country

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CRITICS OF VULTURE FUNDS

- **Individuals**
  
  “It is like someone that is amputated and you say come and fight me”...
  
  A Liberian

- **Activists and Sub-Committees**
  
  “Devoid of any moral compunction, these vulture funds take advantage of ambiguous international and domestic laws to collection debts that were acquired by authoritarian regimes and that were not used in the legitimate interest of their people….This is morally reprehensible and exploitative”....
  
  Sub-Committee on Africa and Global Health, Washington D.C.

- **Journalists and Authors**
  
  “Under the U.S. Constitution, the president has the power to stop the vultures from collecting a penny in the U.S. Courts room...For some vultures, Liberia’s misery was an opportunity”...
  
  Greg Palast, BBC

- **Presidents**
  
  “Here is a country having two decades of debt and turmoil, now trying to find its was back, to give its young people a future, you should not be the one to become an obstacle towards the achievement of this. Have a conscience and give this country a break”...
  
  Ellen Johnson Sirleaf, President of Liberia
CRITICS OF VULTURE FUNDS CONT.

- **Prime Ministers**
  
  "We particularly condemn the perversity where vulture funds purchase debt at a reduced price and make a profit from suing the debtor country to recover the full amount owed - a morally outrageous outcome."...
  
  Gordon Brown Former Prime Minister of U.K.

- **International Economists**
  
  "Defaults are always painful, for debtors and creditors alike. And so they should be. Countries - just like companies and individuals - should honor their debts and suffer when they fail to do so. Otherwise people will not be prepared to lend to them and they will find it much more difficult to finance investment. But when a country's debts become truly unsustainable, it is in everyone's interest that the problem is addressed promptly and in an orderly way."....
  
  Anne O. Krueger

- **IMF and the World Bank**
  
  "the vultures interfere with the orderly restructuring of sovereign debt"
WHY SHOULD YOU CARE ABOUT VULTURE FUNDS?

- Activities of Vulture Funds affect many aspects of the global economy

- Finance
- Law
- Morality & Ethics
- Development
- Human Rights
WHY SHOULD YOU CARE ABOUT VULTURE FUNDS CONT.

• Importance of grants especially in view of the MDGs.
  * Goal 1: Eradicate extreme poverty and hunger
  * Goal 2: Achieve universal primary education
  * Goal 3: Promote gender equality and empower women
  * Goal 4: Reduce child mortality
  * Goal 5: Improve maternal health
  * Goal 6: Combat HIV/AIDS, malaria and other diseases
  * Goal 7: Ensure environmental sustainability
  * Goal 8: Develop a Global Partnership for Development

• Target 2015
Unintended Impacts

Vulture Funds

World Bank
& IMF

Grants to Debtor Country

Debtor Country

Pay your debt

✓ Schools
✓ Teachers
✓ Life-Saving Medicines

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SOME COUNTRIES AFFECTED BY VULTURE FUNDS

DRC, Ethiopia, Uganda, Cameroun, Argentina, Liberia, Zambia, Peru
ZAMBIA – DONEGAL INTERNATIONAL

- **Donegal International**

- The lawsuit triggered grave concerns worldwide.
- Elliot Associates.

- It blocked the restructuring of Peru’s debt and caused the collapse of the Government.

- The same strategy was applied in Argentina and Congo.
WHY DO GLOBAL FINANCIAL SYSTEMS ALLOW VULTURE FUNDS?

- Vulture Funds are legal.
- Moral issue.
- Enforce commercial legal transactions.
- Successor governments.
- White knights to bond holders.
- A contract is a contract.
- Bonds are Negotiable Instruments.
- Grants not Loans.

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STEPS THAT HAVE BEEN TAKEN

- Jubilee Debt Campaign
- U.K. Government after Zambia Case - Donegal International
- March 28, 2011 – Debt Relief (Developing Countries) Act 2010 made permanent
Impact of an Arbitral award

Section 7 of the Debt

Nothing in this Act applies to a foreign judgment or an arbitration award of a kind required by European Union law, or by an international obligation of the United Kingdom, to be enforced in full even in cases where such enforcement is contrary to the public policy of the United Kingdom.

What is the Debt Relief Act means for some countries

- Limited to HIPC countries only
- Peru
- Argentina not affected
### SO WHAT HAPPENS NEXT?

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<thead>
<tr>
<th>Creditor’s Interest</th>
<th>Debtor Country’s Interest</th>
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<tr>
<td>▪ We need to strike a balance.</td>
<td>▪ Restructuring with original creditor.</td>
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<tr>
<td>▪ Not proposing that debts should not be repaid.</td>
<td>▪ Repayment without Interest</td>
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<td>▪ Nor lack of accountability by developing countries.</td>
<td>▪ Instant payment but possibly at a rebate.</td>
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<tr>
<td></td>
<td>▪ Reduced payment on condition that certain terms are met e.g. milestones that aid development</td>
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QUESTIONS?

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