

**UNCTAD Debt Management Conference**  
**Tuesday, 20 November 2007**  
**Relief and Sustainability**  
**Panel: “Vulture” Funds, Moral Issue or Real Threat?**

Presentation by Debt Advisory International LLC, Washington DC.

**PUTTING THE PROBLEM OF “VULTURE” FUNDS INTO PERSPECTIVE:**

Answering the question: “Vulture Funds: Moral issue or Real Threat?”

a) To put the economic issue in perspective:

As far as we know, no more than USD 200 million has been actually recovered worldwide by “vulture funds” since they started about ten years ago. This includes sums collected on judgments and on out of court settlements, and it compares to:

- Total African debt of USD215 billion;
- Total capital flows to developing countries annually in 2006: USD 647 Billion;
- ”Bribes received by public officials from developing and transition countries is estimated at \$20 to \$40 billion per year – a figure equivalent to 20 to 40 percent of flows of official development assistance” (excerpt from the joint report by UN and World Bank on Stolen Asset Recovery (StAR), June 2007);
- Cumulative capital flight since the independence years (\$400 billion) which represents close to double the debt of the continent (UNCTAD Report on Economic Development in Africa, September 2007);
- “For the first time, IANSA, Oxfam, and Safeworld have estimated the economic cost of armed conflict to Africa’s development at \$300bn since 1990 lost by Algeria, Angola, Burundi, Central African Republic, Chad, Democratic Republic of Congo (DRC), Republic of Congo, Côte d’Ivoire, Djibouti, Eritrea, Ethiopia, Ghana, Guinea, Guinea-Bissau, Liberia, Niger. (Joint Report of IANSA, Oxfam, and Safeworld “Africa’s missing billions: International arms flows and the cost of conflict”, October 2007.). This sum is equivalent to international aid from major donors over the same period.

These are very real issues that need to be addressed vis-à-vis Africa and severely indebted lower income countries.

On further financial aspects, the implications of outlawing the sale of sovereign debts to third parties for conversion or collection is that it will kill the secondary market for these claims as it will eliminate the buyers of last resort. The knock on effect of this will be that the cost to lower income governments of unsecured debt (trade lines, open invoice suppliers’ credits, construction loans) will rise substantially. Similarly, the cost of insurance in these markets will also rise. In essence, the price of unsecured sovereign debt will go to zero on default, something that never happens if the secondary market is functioning as it should.

b) To put the ethics issue in perspective:

A fact forgotten (sometimes purposely) by the critics of the so called “vulture” funds is that those funds looking for a financial return are not going after very poor countries that have no money and hard currency revenue. They are going after the countries that could quite easily restructure their debt, regain credit worthiness and develop thanks to important export revenues especially from mineral extraction activities (oil, copper, etc.).

The reality is that apart from an early recovery against Peru in 1999, vulture funds are attaching, and trying to be paid out of, assets that were stolen and hidden by the rulers of several mineral-rich countries in Africa whose principal objective is to enrich themselves and their clan and cronies.

If all the export revenues of those countries were duly entered into the budget and balance of payments accounts, and kept as state funds in central banks or commercial banks, they would be protected from lawsuits by the strict rules of sovereign immunity.

If the developed world’s governments and the International Financial Institutions they support had exerted the correct amount of pressure so that these dishonest rulers stopped plundering their own countries, there would be no hidden assets for the creditors to attach.

By conducting difficult searches to find those stolen assets and the various creative fraudulent schemes to divert state revenues, and filing costly lawsuits fiercely defended by the countries concerned, the “vulture” funds have done, for the purpose of making a profit, the work that should have been done by others for different purposes.

When stolen asset recovery efforts have been launched and supported by developed nations, they have typically targeted assets stolen by deposed rulers, which is a good thing but not sufficient to stem the permanent flow of public money stealing.

As unveiled by recent investigative journalism and well documented reports by important NGOs, developed countries’ governments did not do the clean-up work because of long standing entrenched interest, whether of political or economic nature or both, between them and the dishonest rulers.

They are happy to find scapegoats such as the “vulture” funds to defuse the blame that they should receive for not going after the continuing theft of assets. But they are also embarrassed, or should be, because several of their own highest courts of justice have ruled in favor of “vulture” funds after they found out (and reported in their judgments) how elaborate schemes were set up to defraud the respective states’ treasuries and the creditors.

Other private actors have launched judicial initiatives against dishonest rulers; see for instance the recently filed lawsuit in France which unveiled the huge real estate assets accumulated abroad by some of them.

Admittedly, those other actors are not filing those lawsuits to make a profit like the investment funds are. But the origin of the legal actions is the same: money stolen from the states by those who govern them.

Conclusion:

With the UN-World Bank StAR initiative we may at last see a real effort by governments and International Financial Institutions to stem the continuous flow of stolen assets and the schemes set up to divert public money. Such an effort will not go without a major fight from the kleptocrats, who will use ever more sophisticated means to conceal better what they intend to continue stealing.

**If the initiative is successful, it will very quickly end the activity of vulture funds.**

Actually, the latter could provide good advice to the StAR initiative.

---