

The perniciousness of Vulture Funds: Zambia's case

On 15 February 2007, The London High Court ruled that Zambia, a poor country emerging from unsustainable debt through the Highly Indebted Poor Countries (HIPC) initiative by the G8, should pay Donegal International, a "Vulture Fund", a substantial part (thought to be in the range of \$15M to \$20m) of its claim of some \$55m (inclusive of interest and costs) on a debt it bought at about \$3.3m in 1999 in dubious circumstances. This clearly demonstrates the pernicious and predatory nature of Vulture funds on vulnerable debt ridden poor countries. Sadly, there is no international regulatory framework to check such practices - a situation which must be redressed if such practices are to be stopped.

Newsnight on BBC2 of Wednesday 14 February 2007 had a clip on the lawsuit against Zambia by Donegal. Additionally, The Jubilee Debt Campaign website www.jubileedebtcampaign.org.uk has more details on this issue. The Newsnight clip can be watched by clicking on <http://news.bbc.co.uk/2/hi/programmes/newsnight/6362783.stm>.

For Zambia to pay even the reduced amount, it will have to severely curtail its spending on health, education and poverty reduction programs, resulting in unnecessary deaths and set the country back in its efforts to bring some benefits to its long suffering citizens and compromise the achievement of the Millennium Development Goals (MDG). This should not be allowed.

"Vulture funds" are companies that seek to make profit by buying up 'bad' debt at a cheap price, then trying to recover the full amount, often by suing through the courts. It's completely legal, but profoundly unjust.

In 1979, Zambia borrowed \$15m from Romania to buy tractors and associated spare parts. In subsequent years Zambia failed to service its huge external debt burden and began negotiating with creditors for debt relief and discounted debt payment. The Romanian debt was such a debt which was a subject of discounted debt payment negotiations. Before agreement between Zambia and Romania could be concluded, the discounted debt was 'hijacked' and bought by Donegal, a company incorporated in the British Virgin Islands, in unclear circumstances.

At the time Donegal bought the Zambian debt, it knew that Zambia was on the HIPC program. This meant that within a few years, Zambia would qualify for debt relief/cancellation and hence be able to save on its debt servicing. The money so saved would then be spent on priority areas like education, health and poverty reduction programs. Donegal figured that after HIPC completion point it would then pounce on Zambia for the full original debt inclusive of interest – after all Zambia would have money from debt relief/cancellation. This type of scheming is predatory and immoral and should not be allowed in a civilised world.

Zambia had to endure very punishing conditions imposed on its people to have reached the HIPC completion point in April 2005. For instance, in 2004, the Zambian Government froze salary increments, promotions, transfers and recruitment in order to meet the fiscal and budgetary HIPC benchmark. Nine thousand (9,000) teachers were not employed. It also severely limited spending to social services. Shortages of drugs in health institutions were rampant thereby compromising the delivery of healthcare to many people. The writer's daughter who graduates from the

Zambian medical school next month often relates dire needy situations of under resourcing at the University Teaching Hospital in the capital city, Lusaka, where she has been training as a medical doctor for the past six years.

Just at the time when Zambia is in the process of delivering some of the benefits of debt cancellation to its long suffering citizens, the carpet is pulled from under its feet by the Donegal case. This is devastating and will inevitably lead to more unnecessary deaths and to a continued spiral of poverty because the money which should have gone to the health sector and poverty reduction efforts will have to be paid to Donegal as ruled by the High Court.

Out of the country's population of 10.5m, 1.1m are orphans, many due to losing parents to AIDS. Forty thousand babies are born HIV positive and there are about 20,000, child headed homes. Many others are cared for by grandparents. HIV/AIDS and poverty are redefining childhood in Zambia. These areas need urgent attention by the Zambian Government using resources released by debt cancellation instead of paying well-off companies like Donegal. The Make Poverty History Campaign in 2005 was about addressing such desperate situations in poor countries like Zambia. Campaigners will be enraged by developments like the Donegal claim on Zambia.

Although Donegal has won a legal battle, the company should be compelled, through pressure from all concerned, to understand that it is totally unacceptable to take, by extortion, from a people, 80% of whom live under \$1 a day, the resources they need to survive. Donegal does not need this money to survive. It does not need it at all.

There is urgent need for the International community to put in place a regulatory framework to check such unfair and totally repugnant financial speculation. This, to quote the late UK Prime Minister Sir Edward Heath, is the unacceptable face of capitalism.

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