World Bank to Increase Support to Curb Vulture Fund Actions

Contacts:
In Washington: Alejandra Viveros (202) 473-4306
Aviveros@worldbank.org
Geetanjali Chopra (202) 473-0243
Gchopra@worldbank.org

WASHINGTON, May 31, 2007—The World Bank today said it is taking a step forward to try to limit the damage of the so-called vulture funds on heavily indebted poor countries (HIPCs), and announced the extension of its Debt Reduction Facility for another five years to help such countries reduce the commercial debts they owe.

In addition to the World Bank, the Paris Club creditors, governments, legislators and civil society organizations around the world have announced they are taking action to protect HIPCs from the activities of these funds, which buy sovereign debts of the poorest countries from other creditors at deep discounts and then attempt to obtain a settlement with the debtor on substantially better terms.

"Vulture funds are a threat to debt relief efforts," said **Danny Leipziger, World Bank Vice-President for Poverty Reduction and Economic Management.** *"Their increasing litigation against countries receiving debt relief will penalize some of the world's poorest countries unless we tackle this aspect of commercial debt more actively."*

Vulture funds are buying commercial debts knowing that multilateral debt relief has put the governments of the HIPCs in a better position to pay and hoping that they will therefore be persuaded to settle with them. They frequently engage in litigation in the courts of rich nations to obtain judgments against the debtor and then attempt to attach the government's assets abroad.

The World Bank estimates that more than a third of the countries receiving debt relief have been targeted with lawsuits by at least 38 litigating creditors, with judgments, awarded in 26 of these cases, of some US$1 billion.

"We will intensify our support to the heavily indebted poor countries through the Debt Reduction Facility to try to eliminate their past commercial debts," said **Leipziger**.

Leipziger announced that the Debt Reduction Facility, which provides grants to HIPC countries to buy back commercial debt, will be extended for another five years (from July 31, 2007 to July 31, 2012).

Since its creation in 1989, the Debt reduction Facility (DRF) has played a significant role in extinguishing commercial external debt for low-income countries where high debt burdens have constrained economic growth and poverty reduction. Up to now, the DRF has supported 22 completed buy-back operations in 21 low income countries, resulting in the extinguishing of some US$8 billion of debt.

The DRF is managed by the International Development Association, the World Bank's arm that provides concessional credits and grants to the poorest countries in the world. It is financed as a trust fund from transfers from the International Bank for Reconstruction and Development (IBRD), which lends to middle income countries, and grant contributions from donor countries.

"We call on all official and commercial creditors to provide their share of debt relief to HIPC countries and to avoid selling their claims on HIPC countries to other creditors who do not intend to provide debt relief under the HIPC Initiative framework," said **Leipziger.** *"And we will work with others, including governments and those commercial creditors who play by the rules, to find specific actions to protect countries from vulture fund activity."*

There are 41 countries recognized by the World Bank and the International Monetary Fund as eligible for support under the Heavily Indebted Poor Countries (HIPC) Initiative. The World Bank has already delivered more than US$40 billion in debt relief to 30 of these countries under the HIPC Initiative and the parallel Multilateral Debt Relief Initiative (MDRI); and many other multilateral and bilateral creditors are also playing their part.

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