



07 JUL 2009

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Richard Burden Esq MP  
House of Commons  
London  
SW1A 0AA

Your ref: WRT\120609\WHI

2 July 2009

Dear Richard,

As you know, your letter of 15 June 2009 to Douglas Alexander, regarding correspondence from a number of your constituents, about Vulture Funds has been passed to the Treasury. I am replying as I have Ministerial responsibility for this policy area.

The UK Government shares your constituents' concerns about so-called 'vulture funds'. The Government thoroughly deplores these funds and we have taken a leading role in combating the damage caused by their activities. We have concentrated our efforts in two areas: preventing debts from falling into the hands of vulture funds, and helping countries to defend themselves.

The most successful part of our strategy has been to help countries buy back their commercial debts at a substantial discount. This means that, with the help of donors, these debts are written off and can no longer fall into the hands of vulture funds, and court cases get dropped. For example, we have helped Liberia buy back its debt for only about 3 per cent of its face value. US \$1.2 billion of Liberia's commercial debt – that's equivalent to 4 times its Gross National Income - was cancelled. This significant reduction of Liberia's debt burden will help the country get back on track for economic growth and development and make a difference to all its citizens. In another example, we supported Nicaragua to buy back its commercial debt, which led to all legal proceedings against the country being dropped.

More than \$10 billion of poor countries' debts have already been cancelled in this way. The Government has therefore recently committed more funds, up to £10 million, for future operations.

We have also won support from other countries not to sell on their claims to those who do not provide debt relief. As a result, Members of the Paris Club (an informal group of 19 governments) and EU member states have publicly stated their commitment not to sell their claims to creditors unwilling to implement the Heavily Indebted Poor Countries (HIPC) Initiative.



Finally, we are giving countries the legal expertise necessary to defend themselves from vulture funds. For example, the African Development Bank, with our support, is setting up an operation that will advise countries on how to avoid debts falling into the hands of vulture funds in the first place. If debts are already in possession of these funds, lawyers will help governments to fight legal cases. We have committed £5 million to support this and helped Zambia to pay its legal fees when it was targeted by a vulture fund in 2007. This case demonstrated the value of high quality legal advice: the court reduced Zambia's liability by around \$40 million. This represents two-thirds of the country's annual budget for primary schools.

Your constituents refer to the Developing Country Debt (Restriction of Recovery) Bill, introduced into Parliament by Sally Keeble in May 2009. Some have argued that such an approach would complement the actions we have already taken. In considering whether to use a legislative approach, we must also take account of whether and how the possible unintended negative impacts could be minimised. For example, such an approach would need to properly take into account the risk of undermining poor countries' access to new financing from financial markets, and thereby their economic growth prospects, and the impact on the rights of those creditors who are not vulture funds. The Government considers that the steps we have taken to tackle this issue have been effective in reducing the harmful activities of vulture funds but will keep options for addressing this problem under review.

Please pass on my thanks to your constituents for taking the trouble to make me aware of these concerns and I hope they find this response helpful.

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