

1934.

Kenya.

No. 23335

SUBJECT

C0533/452

Conversion of Kenya Loans.

Previous

23288/34 (Financial Position.)

Subsequent

38024/35 (Secret.)

C.F. Emmanuel

Loan conversion / Extract from The Times of 28 Nov 54.

~~DESTROYED UNDER STATUTE~~

2 Memo by Mr. Clauson

3 Mr. J. Dale (S.O.) _____ 14 Dec 54

Encls. copy of draft minutes of meeting of I.E.A.B

4 Extract from The Times of 10 Dec 54.

~~DESTROYED UNDER STATUTE~~

5 Mr. J. Dale (S.O.) _____ 14 Dec 54

Encls. condensed pages 6 & 7 of minutes of meeting of I.E.A.B

6 Mr. J. Dale (S.O.) _____ 14 Dec 54

Encls. calculations for possible conversion of Kenya Loans

7 E.H. Martin (S.O.) _____ 14 Dec 54

Encls. figures for the possible conversion of Kenya Loans

8 To Sir J. Byrnes (S.O.) _____ 18 Dec 54

9 To Sir B. Bonhillon (S.O.) _____ 18 Dec 54

To P.H. E. reed (S.O.) }
To A.P. Waterfield (S.O.) } _____ 18 Dec 54
To E.H. Martin S.O. }

10 A.P. Waterfield (S.O.) _____ 18 Dec 54

Furnishes further views on the possible conversion of Kenya Loans

~~DESTROYED UNDER STATUTE~~ Extract from The Times of 17 Dec 54

11 A.P. Waterfield (S.O.) _____ 17 Dec 54

Furnishes his views on the proposed conversion offer

~~DESTROYED UNDER STATUTE~~ Extract from Daily Express of 21 Dec 54

12 - - - - - The Times 21 Dec 54

~~DESTROYED UNDER STATUTE~~

Terms 1-10/5
to be taken in the
last issue

14 P.H. K. ... (S.O) _____ 21 Dec 54
Furnishes his views on the proposed conversion offer.

15 M. Harbey (S.O) _____ 21 Dec 54
Furnishes views of the Bank on the proposed conversion offer.

16 To Sir J. Sandeman Allen M.P. _____ 22 Dec 54.

17 To A.P. Waterfield (wife etc) _____ 24 Dec 54

18 To Sir J. Byrnes (S.O) _____ 24 Dec 54
Act No 2

19 To Sir J. Byrnes (S.O) _____ 24 Dec 54

Act No 10 on 23288/54 states views on Major Brogan's article

Act No 10 states that he will discuss the question of Ky renouals with Sir J. Byrnes

(1) Times

28 Nov 1934

(2) Memorandum by Mr. Lawson

I am sorry that this has been acci-
-dentally delayed by a hitch over the
registration.

We are aware of attempts which
are being made to draft a counter-
blast on currency devaluation for
the Times to publish and as that
counter-blast is to be strictly
anonymous, it will be better to
say nothing further about it now.

There is also the question of
being assured separately of
explaining to Mr. Hills, the City
Editor of the Times, who was respon-
-sible for the publication of the
article, exactly what the facts
about Kenya are & why Major Brogan's
proposals are nonsense.

A copy of the memo on that question
should be attached to this file for
reference in due course.

Otherwise, it may be

? subject.

G. L. Lawson
5/12/54

As relates to a questionnaire sent in by Mr. M. A. G. at 8 of 8's invitation and to the replies thereto, which have been sent off by Mr. Boyd today (~ E of pp.)

AP...
5/12

Major Grogan told me in September that there was a growing opinion in the City in favour of his idea of the devaluation of the East African shilling. and that he contemplated an article on the subject. I did not feel able to say more than that it seemed a bad way of helping Kenya's credit, but he said that his article would be perfectly general. Either he has not found that to be possible or his article has taken a different shape as the result of the note on the position in the City Notes of the "Times" of the 23rd of November which, with the resulting letters (one from Major Grogan) I have put at the back of the file. Actually the only effect of the generalisation is that, as Mr. Clauson points out, the general picture of the Colonial Empire is erroneous.

Major Grogan also mentioned to me his idea of liquifying the Kenya-Uganda Railway Betterment Funds, and asked for an opportunity of discussion with Sir John Campbell, which I arranged. I am passing this minute through Sir John Campbell.

- (1) From a currency point of view, I do not propose to add to what Mr. Clauson has said about the 1920 fixation, except that some ten years ago I asked Major Grogan what would have happened if we had done nothing. He said that the whole place (Kenya) would have "gone pop", (his phrase) with the falling rupee. Apparently he thinks that a deliberate devaluation would be better under control in its economic effects.

(2)

His scheme for devaluation is a matter for the Economists. I am convinced that it breaks down for Kenya, if only on the point of heavy external obligations, and the fact that Major Grogan couples it with debt charge reduction, confirms me in that view.

- (2) On the question of debt charge reduction, the figures for an ordinary conversion loan have been worked out and it was clear that the inducements would be so high that Kenya could only have a present gain by placing a large burden on posterity. Major Grogan clearly would not mind that, but he himself is in the position of posterity in regard to the 1921 loan and he does not like that position.

- (3) As to the 1921 loan, of the two main services, one (overdue) was expedited by the wish of the Secretary of State and another (the ^{Uasin Gishu} Usainingiro Railway) ~~is~~ demanded by settlers. Major Grogan held out hopes of providing ^{the} a new line with 20,000 tons of lumber traffic annually and he was an advocate of the more expensive route which would tap his forest area at the bottom instead of at the top.

The £600,000 item is in the nature of ~~a~~ repaying to revenue capital sums met out of revenue. It ~~was~~ ^{is} closely analogous to the liquification process now recommended for sinking funds, etc.

It was a serious drawback to the loan ^{and} it was essential to meet interest ^{for}

for three years out of capital: at 6 per cent.
that is no light matter.

(4) One great objection to Major Grogan's universal conversion scheme is that it requires the guarantee of the Imperial Government. Guarantee means invariably priority of charge, and any further independent borrowing must be on second mortgage. We have had to face that position twice in the case of Kenya (not in regard to guaranteed loans, but in regard to Exchequer borrowings, which also carry ~~priority~~ priority) by raising enough money as part of our independent loans to pay ~~for~~ the old loans, and that does not make for economy in the long run.

(5) We can, I think, dismiss from consideration either the possibility of borrowing without sinking fund provision, or of liquifying existing sinking funds.

Liquifying the Railway Betterment Fund expenditure is on a different footing - we have funded past capital payments met from revenue both in 1901 and since. I leave that point to Sir John Campbell. It is, however, important to remember that the money devoted to betterment was railway money and that the proceeds of liquifaction would fall to the railway. The proposal we must consider is to devote them over a period to assisting producers by a reduction of railway rates to an uneconomic level. How long this is to go on is not stated. The proposal suffers from the general objection that artificial assistance creates an expansion of activity which cannot be permanently

permanently maintained.

(6) Both as regards ~~guarantee~~ ^{currency} and as regards railway questions, it is impossible to separate Kenya from Uganda, which is in no need of drastic remedies.

6.25 7.12.30

In his talk with me, Major Grogan said very little about "betterment". He devoted his attention mainly to the general theorem that, as England was the "trustee", it was up to England to right the situation. There must be currency depreciation; and there must be a reduction of interest on the current loans. The methods did not concern him much. His main points were as in the "Times" article--not then published.

2. I put before him most--possibly all--the objections which have been taken in these minutes. We discussed the thing rather discursively. He left, evidently thinking that I was not much good; and I felt that he was mentally evading every real issue.

3. As to the "betterment" proposal, there is I think a theoretical case for "liquifaction". When things get really bad, one has to adopt all sorts of temporary expedients--wise or otherwise. One is impelled by hard ineluctable necessity. But that is only the beginning of the thing. Could the loan be raised, to liquify? If the money became available, what would local pressure insist on as regards its use? Kenya has always, in my experience, been paring every possible thing down to the bone; the tendency has been to put everything possible on to loans, to utilise every conceivable margin available. The money would, under the existing scheme of things, go to the railway--not to the

Colony. But in the general upheaval which Major Grogan contemplates that position would not stand. He wants the money for "Colonial" purposes. In practice, the settlers would not be content till it had been utilised, I think, for material export rate reductions, and for the repayment of existing debts. In the end, we would have built up, on borrowed money, an extremely unstable situation where production would be based on an insecure foundation, where the economic life of the country would have been distorted, and where the Govt. would be, to a large extent, the main mortgagee.

4. Taking the railway position as it stands, heroic measures such as Major Grogan proposes do not seem necessary--or in any sense advisable. The "betterment" monies, invested in the business is helping the existing difficult situation; it gives some desirable margin against adversity; it provides to some extent against the "obsolescent" factor; it helps to cover in some degree the absence of all reserves. If we could get the Treasury to agree to the 2% renewals provision, we would be, as things stand, on reasonably safe ground. (This agitation is what I feared, relative to the Treasury attitude to renewals. It seems to me short-sighted to stand out for rigid financial orthodoxy in this matter, in the existing circumstances. That may easily do very much more harm than good.)

5. In sum, I would regard any action towards liquidating "betterment" as a last resort measure; nor would I consider such action till it had been proposed and reported on by the responsible railway authorities, through the Governments concerned.

6. On the more general questions raised, I agree generally with the preceding minutes. My own view is--always has been--that the whole administration

of Kenya badly wants overhauling. The thing seems to me markedly top-heavy; but I must admit that I see but little of the daily work, and have formed my impressions from isolated and quite probably non-representative samples. The root of the matter is the constitutional position; and the preponderance of the settlers, as a political unit, vis-a-vis the Govt. and higher authority. You cannot run a cheap administration where you have organised European criticism all the time, largely directed to the advancement of sectional interests, and with means of very vocal criticism in Parliament and elsewhere. Kenya is never "left alone". It bulks too largely in politics. Every Kenya question of major importance becomes--or tends to become--a political issue. The administration has to be organised on that imposed basis:--there seems no help for it, as things stand. And that does not make for efficiency. There is the further major difficulty that, quite probably, Kenya cannot in fact develop satisfactorily on an "European settler" basis. That goes to the root of the whole matter. The whole tendency, now and in the past (so far as I am aware of the position) has been to give what seems to me an enormously exaggerated importance to the "settler" aspect of things; it is there that the heavy loan expenditure has been incurred; it is there that all the points of friction arise; it is there that we have the major lines of policy practically dictated. And if these lines are in fact wrong-----?

7. One last point. I saw both Major Grogan and Lord Francis Scott (whom I used to know in India.) Both, in varying degrees, made it quite clear that they thought but little of the capacity and administrative ability of the civil service in general. Major Grogan was contemptuous as regards

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I want to (warn) of both
Chambers to be informed -
officially of the Treasury - Bank
Bank - C.A. Discussions on the
possibility of conversion.

It is important that the Board when giving
vice of Ridgway should understand.

(a) that the cost on all the 6% & 5%
loans, etc £100,000 is a charge less
than paid by the R.G. & is not a charge
on Kenya budget.

(b) that Uganda traffic finds a large part
of this. ∴ it is not just a Kenya
problem.

I want to know myself what proportion
of the original revenue Uganda exports a
inputs) do contribute

PZ.L

31/12

To Ridgway.

Will you please ask A
the S. of the minute, returned
to me early?

To Ridgway

Will you please ask A
the S. of the minute, returned
to me early?

W.S. 21/12/35

Seen + noted
M. J. 4.1.35

Sir J. Maffey.

I attach the unofficial papers which have
been accumulating in the last fortnight.

On the points mentioned by the Secretary of
State, I wrote to Sir J. Byrne on December 24th (flag
A). I did not write to Sir B. Bourdillon on that
point and I think that it will be best for us to
telegraph to Sir J. Byrne asking him to send a copy of
my letter and its enclosures to Sir B. Bourdillon
with an intimation that he has been asked to tell the
latter to regard it as addressed to him also.

On the last point, please see my letters to
Sir J. Byrne and Sir B. Bourdillon of the 18th
December (flag B). You will see that I said that only
a little statistical work on the part of the
Railway Staff would be necessary in order to get a
figure of the value to the railway of the two
countries as customers. I feel no doubt that this
would, by itself, produce the information which the
Secretary of State asked for at the end of his minute,
but if we are telegraphing on the first point, it
would be well to include a specific request in the
terms indicated by the Secretary of State.

(You will see from Sir B. Bourdillon's

letter

(26) letter of December 28th that he has received my letter and will discuss it with Sir J. Byrne at the time of the Governors' Conference. I do not think that we need ~~raise~~, in itself, the second paragraph of his letter yet. The Uganda 1931 loan was not a high interest loan and I do not think that it would be worth while to think of embarking on the difficult waters of voluntary conversion in respect of it). My letter (B) did not rule out the possibility of a division of profits on a capital basis.

When Major Grogan was here yesterday (to say good-bye) he talked generally about his proposals and when I asked how, if money was realised under any of his schemes, he would propose to divide it between the two Governments concerned in the railway, he said that a basis for division had already been laid down. I am having search made into this point.

Major Grogan went at length into various matters which he had raised and in particular he developed more than previously his idea as to sinking fund money. He maintained that it was quite absurd that the money of the East African communities should be locked up in sterile securities and that if there were a simple guarantee by the Imperial Government that repayment of the loans would be made at ~~the~~ due date, that would be sufficient to protect us from any charge of breach of faith towards those who had invested their money on the assurance in the prospectus that there would be a sinking fund. He did not see that any trouble would arise with regard to such a guarantee by the Imperial Government. Personally I think that it is subject to the ordinary

ordinary objections which exist in the case of a definite guaranteed loan.

Major Grogan also pressed his point as regards the relief of the betterment fund money. He felt sure that there would be no difficulty in raising a fund for this purpose.

I asked him what he would do with the money if he got it and he said that he would apply it to a Real Land Bank which would lend money to settlers and save them from the incubus of bank mortgages. When we saw the Banks the other day, we put to them the point, which is becoming a matter of common apprehension in Kenya, that as soon as land values improve, the Banks would sell up the mortgagors in order to be able to get rid of the land to new people. There was a general disclaimer of any such intention, and I was surprised when Major Grogan told me that he had exactly this threat made to him by one of the Bank representatives who had met in my room three days earlier. I do not propose to carry this matter further as I have only a report of the conversation to go on and the possibility of an inexact report of what had passed and, indeed, of the Banker's statement not being made seriously, ^{is considerable} are too great.

Major Grogan was even more emphatic than I have known him on the unhappy state of producers, not only in Kenya (because he claimed that it was a world problem) in present economic conditions. The fall in the final value^{of commodities} coupled with the stationary or even increased charges for transport, etc. mean, according to him, that the native producer has to work ten times as hard, and the sisal producer 15 times as hard, to get the same result

was held by individuals, then the
 20% estimate was made.
 I don't understand the necessity of
 having £250,000 underwritten. 44
 don't want new money; & if we (P)
 anything like 30% of compliance,
 there wd. be ample stock to create
 a market.

PZK
 8/1

Sir C. B. ...

Mr. Lawson telephoned the following
 figures for which you had asked:

	Kemys 57	Kemys 62
Held by CA. (NCA, CO)	£ 1,559,000	£ 1,788,000

Holding in excess of £10,000:-		
(A) By insurance Co. etc.	£ 519,000	£ 519,000
(B) By private broker etc.	£ 520,000	£ 250,000
	<u>£ 1,039,000</u>	<u>£ 769,000</u>

Residue	£ 2,402,000	£ 2,445,000
	<u>£ 5,000,000</u>	<u>£ 5,000,000</u>

J. ...
 8/1

28 To A.P. Waterfield }
 29 To E.H. Martin } 50. ————— 9 Jan 34.
 30 To P.H. Eschel }

31. E. H. Martin (S.O.) _____ 10 Jan 36.

States his views on the probable response of holders to an offer of voluntary conversion of 5% & 6% loans.

32. P. H. Exechiel (S.O.) _____ 11 Jan 35

Furnishes his views on the proposed loan conversion & the probable response of holders thereto.

Sir J. Campbell.

Was discussed the question with Mr. Exechiel & Mr. Cannon this morning. They were quite addressing various alternatives with the idea, as being better, that there might be an opportunity of a discussion with the S. A.B. and you.

In the meantime, please a much deferred opportunity of letting you see the papers.

W.S.
18th. 35

Thanks,
[Signature]
14/1/35

33. A. P. Waterfield (S.O.) _____ 15th January 35

States his views on the probable response of holders to the proposed offer of conversion of 5% & 6% loans.

34. Sir J. Sandeman Allen (S.O.) _____ 15th January 35

States that the end of the week will suit him & gives his address.

35 To Sir John Sandeman Allen 17/1/35

(S.A. 14 & encl. - 7)

(See n 28024/35)

[Signature]
26/2

Mr. Boyd.

I annex papers with regard to the Kenya 1921 6% Loan which contain some points which may be of interest to the Secretary of State.

1. 41691/21. In my memorandum I referred in paragraph 1 to the Colony's deficit and this led to the provision of £600,000 in the prospectus to which Major Grogan has drawn attention.

2. 48952/21. Sir H. Batterberg's memorandum (paragraph 4) shows the justification for the figure of £600,000 and the formula in which, after discussion with the Deputy Treasurer, it was proposed to describe the item in the prospectus.

3. 41691/21. The enclosure to my memorandum already mentioned gives the terms of the bargain with the Treasury (slightly modified afterwards) made as a result of discussion between Ministers. The reference in paragraph 5 to Uganda Railway balances being applied towards the general expenses of the Colony, interesting in itself, was made obsolete when the Kenya-Uganda Railway was established as a separate Administration in 1926. But paragraphs 3 and 4 are also of interest as relating to the Colony's war debt. Paragraph 4 is obsolete since the question of paying off any part of the war debt has been postponed, like the question of the original capital cost of the Railway, first 1934 and ^{later to} second 1939. My reason for drawing attention to this question of war debts is that equally with the Railway debt it is a permanent nightmare in dealing with Kenya's ultimate future. It would be a good thing if it could be got rid of at the same time as the Railway debt but that

involves

We did just the same in the case of Tanganyika in 1951.

involves similar treatment being given to Uganda and Nyasaland in respect of their war debts.

An inter-departmental committee was set up under paragraph 3. It reported in 1944 and the Kenya share was assessed at about £1,500,000. The figures for Uganda (which had already paid a good deal of the war debt) and Nyasaland were much smaller.

*Mr. Beal's memorandum in 4040/33
is of interest on these points.*

*L.S.D.
11.12.34.*

*R. £ 1,405,016
U. £ 533,989 (net)
N. £ 738,541 (plus
side)*

C. O.

Mr. Sir Cecil Bottomley.

16/1/35

14 A 90
3/5

C
R 16 JAN.
D 17

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DOWNING STREET,

17 January, 1935.

~~J.F.~~

DRAFT.

SIR J. SANDEMAN ALLEN, M.P.

Dear Mr. Sandeman Allen

I now enclose the statement relating to possible terms of conversion of the Kenya 6% and 5% loans, which I promised you when you called. My recollection is that I then gave you a copy of the latest Kenya Government print on the position of the loans, so I do not enclose a copy now.

The typewritten statements may be communicated to your Committee, but only for their own information; they were supplied for the guidance of the Secretary of State and not for publication.

The Crown Agents' statement,

~~Sand. 14/1/35~~

FURTHER ACTION.

C. O.

Mr.
Mr.
Mr.
Mr. Parkinson.
Sir G. Tomlinson.
Sir C. Bottomley.
Sir J. Shuckburgh.
Parlt. U.S. of S.
Parly. U.S. of S.
Secretary of State.

DRAFT.

FURTHER ACTION.

15.

into a long term loan under United Kingdom guaranteed interest on Kenya's own credit. Their conclusion is that the advantage to Kenya would hardly be sufficient to counter-balance the objection, in their view, of admitting a principle which could hardly be applied in the case of Kenya only. There are also the objections that the guarantee would require the approval of Parliament which might be difficult from the mere timetable point of view and that, so far as past experience goes, that approval would only be given on condition that the charges ranked prior to those on any subsequent borrowing by Kenya. That objection might be got over, I don't know, but it would be a real one. Either subsequent borrowings would rank as a second mortgage, which we have always been advised would mean crippling terms of issue, or would have to cover enough

to

C. O.

Mr.

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DRAFT.

FURTHER ACTION.

10
unpopular: everyone wants short date
investments in the hope of being
able to change to something more
profitable when rates improve. The
~~point is still under close investi-~~
~~gation and it is by no means certain~~
~~that other means of providing some~~
~~relief to Kenya will not be suggested~~

Of course it will be under-
stood that any proposal for paying
off the loan before the due date,
must involve an increased burden for
East Africa later on.

As I pointed out when you
called, 6/7ths of the 6% loan and
the whole of the 5% loan are
primarily a railway liability and
the railway has never needed Kenya's
assistance to meet its charges in
respect of them. The immediate
relief arising from conversion (and
the ultimate burden) will accrue
to the railway and the question how
such

such relief would be passed on to the Kenya taxpayer is, in itself, one of some difficulty. Obviously Uganda is concerned and the point, at the moment, under consideration in East Africa.

You ask me about the present position of the sinking fund. I append figures showing the position at November 30th 1934. The figures cover the whole of Kenya's public loans, but we are only concerned now with the two bearing the highest rates of interest. Obviously any advantage to be obtained through converting the others would be much smaller than in the case of the first two.

Loan	Redemption Date	Sinking Fund (Market Value)
£5,000,000 (6%)	1946-1956	£ 924,121
5,000,000 (5%)	1948-1958	207,724
3,500,000 (4½%)	1950	142,796
3,400,000 (4½%)	1961-1971	17,800
305,000 (3½%)	1957-1967	3,276

C. O.

Mr.

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DRAFT.

That examination of the general question is still in progress and something may be helpful may yet emerge.

FURTHER ACTION.

I think that Major Grogan's proposal as regards sinking fund was that the amounts already set aside should be devoted to some form of assistance towards the Kenya mortgagors; the commitment (in the loan prospectuses) to the accumulation of a sinking fund of not less than 1% annually being replaced by guarantee by the Imperial Government that the loans would be repaid at the due date. Apart from the fact that such a guarantee would require Parliamentary authority, it is obvious that the sequestration of the sinking fund would increase the amount to be borrowed to redeem the loans.

You will understand
If I have left out any points on which you wish to be informed, please let me know by telephone.

Yours sincerely,

(Signed) W. C. BOTTOMLEY.



Telephone No. : WHITEHALL 1234.

In any reply
please quote Regd. No.

S. 39556.



33-18
TREASURY CHAMBERS,
WHITEHALL, S.W.1.

14th January 1935.

Dear Bottomley,

No 23

Thank you for your letter of the 9th instant about the possibilities of a Kenya Loan Conversion Scheme. I was much interested to see the more exact analysis of the holdings of the 5% and 6% loans which you have obtained, but I do not think that I should be inclined on the information now furnished to ^{increase} modify the estimate of a 20% response to a long term offer which our recent conference accepted as reasonable. On the contrary I think that you might have greater difficulty in dislodging the small investor who is more concerned with immediate yield, and that consequently the larger percentage which is now shown to be held by this class of investor ought, if anything, to lead us to reduce our estimate of the percentage of acceptances likely to result.

As regards your last paragraph, what I had

Sir Cecil Bottomley, K.C.M.G., C.B., O.B.E.,
Colonial Office.

in



Telephone No. 1 WHITEHALL 1234.

In any reply
please quote Regd. No.

S. 39556.



33
TREASURY CHAMBERS,
WHITEHALL, S.W.1.

14th January 1935.

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Thank you for your letter of the 9th instant about the possibilities of a Kenya Loan Conversion Scheme. I was much interested to see the more exact analysis of the holdings of the 5% and 6% loans which you have obtained, but I do not think that I should be inclined on the information now furnished to ^{increase} ~~modify~~ the estimate of a 20% response to a long term offer which our recent conference accepted as reasonable. On the contrary I think that you might have greater difficulty in dislodging the small investor who is more concerned with immediate yield, and that consequently the larger percentage which is now shown to be held by this class of investor ought, if anything, to lead us to reduce our estimate of the percentage of acceptances likely to result.

As regards your last paragraph, what I had

Sir Cecil Bottomley, K.C.M.G., C.B., O.B.E.,
Colonial Office.

in

in mind was that in order to induce large holders to convert, you would have to give them some assurance that there would be a market for the new stock: and that in order to fulfil this condition you would probably find yourself obliged to say that arrangements had been made to secure that holders of not less than 2500,000 of the existing stock shall convert their holdings. It would perhaps be sufficient to get the necessary assurance from the Crown Agents: but then the difficulty would arise of finding buyers for any stock which might be offered by other persons who had converted. However, at this stage it is perhaps unnecessary to go into these details.

Yours sincerely,

A. Waterfield

32¹⁹



4, MILLBANK,
WESTMINSTER,
LONDON, S.W. 1.
(VICTORIA 7730)

11th January 1935.

My dear Bottomley,

No 30

Your letter of the 9th about Kenya Loan
Conversion.

When you asked us before the discussion of the 14th of December for a note on the possibility of such conversion operations, we prepared calculations to illustrate the effect on present loan charges if the 6% and 5% Stocks could be exchanged for new 3% stock on certain terms which we assumed for the purpose of calculation. The terms assumed for exchange into a new 1946 stock were such as would have enabled us to support the operation in respect of holdings of the existing loans by other Colonial Funds; but we explained that this did not apply to conversion into a longer stock (1960/70).

2. We understood at the discussion that conversion into a 1946 stock would not be recommended to the Secretary of State because of the obligation which it would place upon Kenya to raise a large sum in that year whatever

Sir Cecil Bottomley, K.C.M.G., C.B., O.B.E.,

/were

R

were the market conditions. There remained the possibility of an offer of conversion into a long stock. We did not understand at the discussion that any estimate was arrived at of the extent to which such an offer would be accepted. Perhaps your 20% results from the fact that in our calculations we had shown the effect of the conversion of £1,000,000 out of £5,000,000 of each loan. But that was merely because we had to take some figure for the purpose. Again, our recollection is that nothing was said at the conference to indicate the extent to which the Kenya Loans were held by Insurance Companies and Investment Trusts.

3. My own view remains as it was before the discussion, that it is impossible for any one to say with confidence what response would be made to such an offer of conversion into a long dated stock. There are no real precedents and the results might be disappointing.

4. I should like to emphasize the fact that the calculations which we furnished before the discussion were put forward at your request merely as an illustration of the effect of certain hypothetical operations. If the Secretary of State decides that a voluntary conversion operation is to be tried, there are other varieties of such a scheme which might be considered in addition to

/that

that which we outlined as an example. Moreover, there are yet other courses which though open to various objections ought perhaps to be considered before it is decided to attempt any voluntary conversion operation which entails giving something away as an attraction to the stockholder. Thus, it would be possible to pass the burden on to a later generation either by borrowing new money in one way or another and using it to pay the whole or part of the existing loan charges for a time, or simply by postponing sinking fund contributions during a period.

5. All possible methods of escape from the Government's obligations under the terms on which the loans were issued must necessarily present objections and difficulties, but a straightforward voluntary conversion scheme on the lines already considered is not the only possible one.

Yours sincerely,

J.P. [Signature]

Not Dueson
Low Suiff

31 12

Bank of England

10th January 1935.

Dear Sir Cecil Bottomley,

No 29

I thank you for your letter of yesterday giving an analysis of the principal holders of the Kenya 5% and 6% Loans. I do not believe that the fact that nearly 50% is held by small investors would be likely to increase the probable response of holders to an offer of voluntary conversion: on the contrary, as it is usually the immediate income which appeals most to small holders, it might be that the estimate of a 20 per cent. response is too optimistic. I took the opportunity of discussing the matter with the Government broker and he confirms this view.

Yours sincerely,

Holland Martin

Sir Cecil Bottomley, K.C.M.G., C.B.

C. O.

Present

28-13

Mr. Freeston. 9/1

For Sir C. Bottomley's signature.

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley 9/1 f

Sir J. Shuckburgh.

Permi. U.S. of S.

Parly. U.S. of S.

Secretary of State.

Downing Street,

9 January, 1935.

No 28 and No 33
- No 31
- 29 - No 32
- 30

DRAFT.

S 2

1. A.P. WATERFIELD, ESQ., C.B.,
2. E. HOLLAND MARTIN, ESQ. *S 2*
3. P.H. EZECHIEL, ESQ., C.M.G. *S 2*

You will remember that at our discussion on the 14th December about Kenya Loan Conversion it was stated that the Crown Agents (to whom a long term scheme would not appeal) held about £1,400,000 and £1,500,000 of the 5% and the 6% Loan respectively; the rest of the Stock was thought to be largely in the hands of Insurance Companies and Investment Trusts whose response to a conversion offer was very difficult to predict. On this understanding it was conjectured that a long term offer would not meet with more than a 20% acceptance.

FURTHER ACTION.

- (1) and (2) We have now obtained
- (3) Ransom has now furnished

a more exact analysis of the holdings which may be summarised as follows:-

	Kenya 5%.	Kenya 6%.
1. Held by Crown Agents etc. as Trustees for Colonial Trusts <i>Trusts</i>	£1,559,000	£1,788,000
2. Holdings in excess of £10,000		
(a) by insurance coys. etc.	£519,000	£519,000
(b) by private trustees etc.	£520,000	1,039,000
		£250,000
		769,000
3. Residue.	2,402,000	2,443,000
	<u>£5,000,000</u>	<u>£5,000,000</u>

I must confess to some surprise

at the large proportion - nearly 50% - held by the small investor, and the Secretary of State, who has seen the above figures, has enquired whether the estimate of a 20% response still holds good in the light of the more exact analysis of distribution.

I am writing similarly to
 1. Holland-Martin and Ezechiel
 2. Waterfield and Ezechiel
 3. Waterfield and Holland-Martin
 and shall be glad of any view which you are prepared to put forward.

To (1) only.

In your letter of the 19th of December you referred to the importance of "underwriting" a substantial part of any conversion. ^{loan} As we should not be asking

C. O.

Mr.
 Mr.
 Mr.
 Mr. Parkinson.
 Sir G. Tomlinson.
 Sir C. Bottomley.
 Sir J. Shuckburgh.
 Perm. U.S. of S.
 Parly. U.S. of S.
 Secretary of State.

DRAFT.

asking for any new money we are not quite clear as to the meaning of your remark. ^{Did you mean} Possibly the intention was to suggest that, before making a public ~~conversion~~ ^{would have to} offer, steps should be taken to ascertain privately that holders of, say, £500,000 would definitely be prepared to ~~accept it?~~ ^{convert?}

Yours sincerely,

(S. M. Roberts)

FURTHER ACTION.

31867/7th Genl

15

C. O.

Mr.
Mr.
Mr.

Answered by NOK
on 18024/66
Jhe... 8PM.
5.1.35

27
R.D.
76

Sir C. Bottomley. 5.1.35
Sir J. Shuckburgh.
Sir G. Grindie.
Permt. U.S. of S.
Party. U.S. of S.
Secretary of State.

Personal
5th January following
for following copies.

(16) My letter of 18 December

DRAFT.

Governor
Kwibbe

railway profits Secretary of
State writes to know
that total production of
railway revenue is calculated
by Uganda exports imports
and internal traffic. I suggest
Please request General
Manager supply
figures and when
Governor of Uganda of
the copying of my letter

of 24 December please
and copy with enclosure to
General Lyanda as soon as
possible requesting him to
reply it as addressed therein
also. DWD

Secur

PERSONAL
BY AIR MAIL

26
25

GOVERNMENT HOUSE,
KENYA,
EAST AFRICA.

19th December 1934.

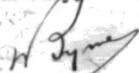
My dear Bottomley,

No 10
23288/314
Many thanks for your letter of 11th December enclosing the anonymous counterblast to Grogan's article in the "Times". Grogan is a clever and mischievous monkey with a superficial knowledge of these monetary problems. He is always a good target for anyone who has the knowledge and who can give the time to making a considered reply. We in Kenya do not take him seriously and I greatly regret that the "Times" has thought fit to give him publicity. I wish they could be persuaded to refrain from doing so.

His last article on Native Taxation which also contains grossly inaccurate statements on other matters is likely to do harm here as extracts therefrom have been published in the "East African Standard". There is nothing I should like more than to reduce the general rate of tax by 2/- but this would mean a loss of about £100,000 a year.....

a year with a consequential reduction in essential service. In practice I always lower the rate - sometimes halving it - for tribes who are "up against it". On the other hand tribes like the Kikuyu and the Kavirondo can well afford to pay even more than the current rate. It is interesting to note, however, that we are having the greatest difficulty in collecting taxes from these two tribes, the reason put forward being that they are copying their European brethren who object not only to any increased taxation but even to the taxes which they themselves volunteered to pay when they wished to escape Income Tax.

Yours sincerely,



SIR CECIL BOTTOMLEY, K.C.M.G., C.B., C.B.E.,
 COLONIAL OFFICE,
 DOWNING STREET, S.W.1.
 LONDON.

Personal

Approved By Nos 380 39/35

24

24th December, 1934.

My Dear Sir

The Secretary of State had intended, before he went to the country on Saturday, to write to you more fully than he had done about the possibility of converting the two high interest loans which had been suggested in Grogan's "Times" article. He was very much rushed at the end and I undertook to write to you by this Air Mail on his behalf.

The question is by no means new. It was considered fully in 1932 and it was then felt that the terms of a voluntary conversion would mean an extra burden on posterity after 1946 out of all proportion to the benefit before that date. It was felt then, however, that that might have to be faced if the financial position became worse.

We have had a full examination of the possibilities in conjunction with the Crown Agents, the Treasury and the Bank of England (who were in touch with the Government brokers on the subject) and I think that I cannot do better than

BRIGADIER-GENERAL

SIR JOSEPH BYRNE, G.C.M.G., K.B.E., C.B.

than send you the enclosed copy of a memorandum prepared by the Crown Agents on the subject, and also a copy of a letter from the Treasury discussing the effect of conversion by means of a guaranteed loan instead of loans on Kenya's own credit.

I have also had a letter from the Bank of England discussing the matter from their own point of view, but I do not wish to complicate things by sending you a third exposition, especially as the whole trend is in one direction.

It is perhaps desirable to explain that the Crown Agents' calculations so far as a short term conversion is concerned deal primarily with the position as it ~~will~~^{would} affect them as investors of the funds of other Governments and exempt from income tax. The terms which would best ~~just~~^{just} attract them in the case of a short term conversion should a little more attractive to the ordinary holder of Kenya stock, because, his net interest is lower and consequently the avoidance (under conversion) of a drop of capital value to par in 1946 or 1948 would relatively weigh more heavily with him than with the Crown Agents.

In relation to a conversion by means of a long term Kenya loan, the Crown Agents have left themselves out of account

account because they say (and the Secretary of State entirely agrees) that they would not be justified, under their regulation policy, in locking up any appreciable amount of any colony's money in a loan running to 1960 or 1970.

We had an oral discussion of the problem with the people I have mentioned and the conclusion was that, quite apart from the extra burden on posterity, conversion by means of short term loans expiring in 1946 or 1948 was open to the grave objection that these loans would have to be redeemed at a fixed date as compared with the ten years' margin of the present high interest loans. If we ~~find~~^{find} that after expanding the capital debt we had to re-borrow for redemption purposes again at a high rate of interest, our last state would be very much worse than our first. This weighs strongly with the Secretary of State.

As regards the alternative of ~~opening~~^{raising} a long date conversion loan now, there is the difficulty, felt strongly at the meeting, that very few people would take advantage of it. We should miss the Crown Agents' participation (which is always a very useful lever to the participation of others) practically

practically entirely, and it was not anticipated that
 ● should redeem at the best more than 1/5th of the loans.
 This would reduce the ~~present~~ ^{present savings} saving to a very small figure
 and the poor response would not, I believe, help Kenya's
 credit in any further borrowing.

Since the meeting I have written to the people who
 were there suggesting the possibility of a sort of open
 long term conversion so that if we only got, say, 20 per cent.
 converted at the first attempt, we could re-open the offer
 (probably with slightly different terms) a year later and see
 if there were any fresh volunteers. In this way it would seem
 as if we might convert by degrees a substantial amount of the
 loans. I do not attempt to define the arrangements very
 closely and my correspondents have perhaps some difficulty
 in grasping the idea, but they are, at all events, agreed
 that there is nothing in it, because the number of people
 who would respond to a once-for-all offer of conversion
 would be reduced by the number of people (probably very ^{large} ~~much~~)
 who would wait for something better. I do not think that
 there is any possibility of that idea being proceeded with.

As regards conversion by means of a guaranteed loan
 of long term date, Waterfields' letter will give you an idea
 of all events of the amount of additional advantage which

Kenya would obtain. Against that should be set the immediate objection that it would necessitate going to Parliament for authority and the further point as to its effect on any subsequent borrowing by Kenya. It is probable that the colony would not command the same credit after having had recourse to a guaranteed loan, but apart from that, there is the fact that, ~~as far~~ every guaranteed loan (like the Imperial loans which Kenya has received in the past) carry a condition that the charges must rank prior to those of any subsequent direct borrowing. That would mean that if Kenya borrowed later it would ^{be} obliged ^{to} offer a second mortgage on prohibitive terms or raise enough (possibly at a much higher rate of interest) to pay for the guaranteed loan. That process of paying for Kenya has been found very expensive in the past, but it has been possible by arrangement with the Treasury. In the case of a guaranteed loan, the loan can only be paid off by a process of voluntary conversion before the due date such as we ^{are} considering now and it might be found to be impossible.

The confidence of Secretary

The Secretary of State was inclined on Saturday to think that it might be possible to avoid the priority condition if the idea of a conversion by a guaranteed loan was proceeded with. It has, as a matter of fact, been taken up by the office in connexion with guaranteed loans for certain purposes (making good damage done by hurricanes, etc.) but so far without any response from the Treasury.

I think that the information which I am sending you must be regarded as confidential, but, of course, it will be available to your Colonial Secretary and Treasurer. The Secretary of State felt that it would be useful to you to have the information, as you will no doubt be subject to pressure on the point, especially perhaps after Drogan's return to Kenya.

On other points I may perhaps say, with regard to my letter of last week about the possibility of applying to ~~consider~~ ^{along} use part of the available current balance of the railway, the Secretary of State considers it will be found preferable that it should take the form of a distribution of profits, Kenya and Uganda being free to use the money either for revenue purposes or in helping their producers to meet railway charges as they may think fit.

Yours sincerely,
W. C. ...

Informed Mr. Waterfield 33
today by telephone. He had
not seen my letter but
my explanation he fully
agreed. 22
Wed
2/1/35

24th December, 1934..

Dear Waterfield,

I enclose a "first state" of a letter which the Secretary of State sent to Sir John Saldeman Allen, M.P. on Saturday. Some alterations were made before the letter was actually sent, but not on any substantial particular.

The Joint East African Board is a body of commercial and other people interested in East Africa who meet together in order to form a joint view on East African matters and, if necessary, to represent them to the Secretary of State. We have periodical meetings with them at which the Parliamentary Under Secretary presides.

As you will gather, they have formed a Committee which in due course will report to the Board the lines on which we ought to deal with our Kenya loan problems, and the Secretary of State is anxious that our position should not be made worse by impracticable proposals coming from a body which carries a good deal of weight.

Yours

A.P. WATERFIELD, ES., C.B.

34

You will see that when Sir John Sandeman Allen calls on me I shall show him the figures we have considered and tell him of the conclusions (which are indeed set out in the Secretary of State's letter), but as he will no doubt press for permission to communicate the information to the Committee, I shall be glad to learn whether you see any objection.

I may say that I have entire confidence that Sir John Sandeman Allen will, on the Secretary of State's letter, keep the Committee well in hand and I am not without hope that he will disband it on the ground that the work has been done already. But the disbandment process will be very much easier if he were able to impart the information to the members of the Committee.

SAS 65. J. Sanson
22nd December 1934.
Private and Personal

22nd December 1934.

I see that the Joint East African Board has appointed a committee to consider the question of Kenya loans. The Chancellor and I have been going very carefully into this, and have had the considered views of the Treasury, the Bank of England, the Government brokers, one of the big banks, and and Crown Agents. I think we have got as comprehensive and authoritative an opinion as possible of what terms it would be necessary to offer and what would be the prospects of acceptance of any offer. Briefly, it comes to this. An offer of a long term security would only be accepted by a very small proportion of existing holders. A short one maturing at the same date as the option would no doubt be accepted by a large number, provided the terms allowed fully for the value of the security they now hold. Of course any such offer would mean a large increase in the capital indebtedness. It will be

be very apparent to you how serious a proposition it would be to commit ourselves to a larger increased capital commitment falling due in 1946, when we can have no security as to the rate at which we should have to borrow at that time. What we all want is to do the best thing for Kenya (and Uganda) and to get the most authoritative agreed opinion on this. I think you ought to be fully informed as to all the information and advice we have secured on this subject, and I shall be very glad to arrange that you shall be put in possession of all this if you will come and see Bottomley. Subject to the Treasury agreeing, I think the members of your committee ought to have all this information in confidence.

I have mentioned Uganda above, ^{for} as you well know, practically the whole of the 5 and 6 per cent. loans, though technically Kenya loans, are in fact met as to interest and sinking fund out of the Railway revenue, to which, of course, the Uganda producer is a large contributor.

Bank of England
21st December 1934.

Dear Sir Cecil Bottomley,

No 13

Mr. Holland-Martin is away until after Christmas and I have therefore opened your letter of the 18th instant addressed to him on the subject of Kenya Loans.

I am not quite clear as to what exactly is intended by the new proposal mentioned in your letter. Would the intention be to make an offer to holders for a voluntary conversion and to leave the offer open indefinitely subject to revision of terms from time to time; or would the offer be open in the first instance for some fixed temporary period, say two to three weeks, and further similar offers be made from time to time at later dates on revised terms.

Either plan, however, seems to the Bank to be open to serious objection for reasons which could be much more easily explained in conversation than in writing. Would it be possible for you to send somebody acquainted with the subject to discuss it with me here? I could see him either on Monday or immediately after the holiday, whichever would be most convenient. Perhaps you could telephone to me (National 6666) and let me know whether this would be possible.

Yours sincerely,

E. W. Harvey

Sir Cecil Bottomley, K.C.M.G., C.B.

37
101
4, MILLBANK,
WESTMINSTER,
LONDON, S.W. 1.
(VICTORIA 7730)

21st December 1934.

Dear Bottomley,

No 11
In reply to your letter of the 18th of December about Kenya loans, it seems to me that a decision whether it is worth while to make an offer of conversion into a long stock must be arrived at without reference to the possibility of supplementing that offer by other offers later on. If it be decided to make such an offer, the question of making other offers later on can be considered in due course when the result of the first is known. If it be decided that one offer is not worth while for its own sake, then I do not think that the possibility of making others later would justify it.

Langton
The effect on market opinion of one unsuccessful attempt, and still more of several unsuccessful attempts, would certainly not be favourable.. On the first occasion we could, no doubt, manage enough conversion of holdings in other Colonial funds to ensure that the amount of new stock

/was

Sir Cecil Bottomley, K.C.M.G., C.B., O.B.E.

38
was not absurdly small, but we could not undertake to repeat this.

Another point - is there any reason to suppose that holders who did not accept the first offer would accept a later one ? It might be regarded as unfair by those who accept the first offer if later offers were made more generous, and any action of this kind might defeat its own end because holders might decline in the hope of getting even more by waiting longer. On the other hand, if the terms were varied merely to fit a shorter period and a changed market, i.e., were no more "attractive" than before, there seems little reason why holders should change their minds.

Yours sincerely,

Phelan



Telephone No. 1 WHITEHALL 1234.

In any reply
please quote Regd. No.



16 39
TREASURY CHAMBERS,
WHITEHALL, S.W.1.

19th December, 1934.

My dear Bottomley,

Thank you for your letter of the 18th instant
about Kenya Loans.

I am not sure that I have got your new suggestion
right. As a rule a conversion offer would only be kept
open for just so long as is necessary to give holders a
fair chance of acquainting themselves with the terms and
making up their minds whether or not to accept.
Obviously the terms of the offer must be based upon market
conditions existing at the time when the offer is made;
and if you leave the offer open for any considerable
period, there is a chance that the market may move so far
as to make the terms no longer suitable. If the movement
is against holders the result would be that nobody would
accept your offer: if it is in favour of holders you will
get plenty of acceptances, but you will probably regret
you did not take power in the original notice to terminate
the offer sooner, so that you might have made a revised
offer consistent with the change in market conditions.

Sir Cecil Bottomley, K.C.M.G., C.B., O.B.E.,
Colonial Office.

But

But your original offer must have been confined to a definite period: otherwise, of course, you will find that no one will come in: they will sit on the fence as long as possible to see which way the market moves, and come in if it moves in their favour.

There is, of course, no reason why you should not make an offer tomorrow to be open for, say, a fortnight and then make a fresh offer, say, twelve months hence and so on. But I think you will find that you will get progressively less response on each occasion, because people will know the results of the previous offer and if this is not particularly favourable, as we are assuming for the purpose of the argument to be the case, holders will see that they will not get a free market for their holding in the conversion loan and will naturally therefore prefer to stay where they are.

Indeed although this is not a point which we specially discussed at the conference, I think it is safe to say that no conversion offer would stand a chance of

success

40
success unless it were underwritten for a substantial amount, say \$2 million at least, so as to ensure a sufficiently free market. But if such a stock were being constantly added to by subsequent additions of moderate amounts, it would tend to be constantly depressed.

So far I have argued against a succession of offers, each distinct from the other.

But I am rather inclined to think that what you have in mind is an offer which is to be kept open continuously, subject to automatic revision at fixed intervals so as to allow for the approaching maturity of the existing stocks: but subject to modification, without notice, if market conditions should change to any substantial extent. If this is your idea I am sure that it would not work since, as I have argued above, if a conversion offer is left open without any fixed date, the tendency of holders would be to do nothing and let their decision depend upon future movements in the market.

Yours sincerely,

A.P. Waterfield

Recd 18/12 - C. B. L. L.

B
14



Telephone No.: WHITEHALL 1234

In any reply please quote Regd. No.

TREASURY CHAMBERS,
WHITEHALL, S.W.1.

18th December, 1934.

My dear Bottomley,

Kenya loans

I promised to let you have a further note on this in case the question of a guaranteed loan were raised with a view to facilitating conversion.

I understand that hitherto the Secretary of State has taken the view that any conversion operation must depend on Kenya's own credit. On the figures produced at the Conference I calculate that the saving during the next twelve years or so would be:-

- (1) under the Crown Agents' long-term conversion scheme, at the rate of £13,250 per annum for every £1 m. of stock converted, assuming the stock converted to be composed of 6% and 5% Loans in equal proportions:
- (2) on the Bank of England figures, which are worked out for the 6% stock only, the saving would be approximately £15,600 per annum for every £1 m. of 6% stock converted.

Against

Sir Cecil Bottomley,
K.C.M.G., C.B., O.B.E.,
Colonial Office.

*Indicates how the
the further notes
would be on
this point
C.B.*

Copy to Sir J. H. Lawrence Allen 3/4

Against this one must look at the increase of the nominal capital debt of the Colony by 30% or thereabouts, and the actuarial loss which will be incurred during the period from 1946 onwards.

If for a loan issued on Kenya's own credit we substitute a guaranteed 3% loan 1960-70, one might expect the price to be a little below that of 3% Funding Loan 1959-69 which is at present 104½. Taking the price of the guaranteed loan at 103 (to be on the safe side) and the present price of Kenya 6% stock at 129, the holder of £100 of that stock would expect to receive £125½ of guaranteed 3% stock 1960-70 in exchange. If £1 m. of 6% Loan were converted on this basis the interest and sinking fund on the new loan would be approximately £80,000, showing a saving of £80,000 per annum up to 1946. The holder of £100 of 6% Loan standing at 129 would demand £116½ of new guaranteed stock on which the interest and sinking fund would be

£46,600

42
£46,600, a saving of £13,400 per annum. So that the saving on £1 m. of stock converted proposed of the 6% and 5% loans in equal proportions would be £16,700 per annum until 1946.

I think you will agree that the additional saving is not sufficient to outweigh the very serious objections which we should be bound to feel to a proposal to use the credit of the U.K. Government for the conversion of Colonial Government loans wholesale. For of course the principle could not be expected to stop at Kenya; every other Colonial Government with outstanding loans bearing a high rate of interest which now finds itself in budgetary difficulties owing to the slump would expect to receive similar treatment.

Yours sincerely,

A.P. Waterfield

Thanks in letter of 18/2/52 - "So far as I know the S. of S. has never contemplated a guaranteed loan, which I personally dislike because of the "priority condition"

L. W.

18/12

C. O.

Mr.

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

X Sir C. Bottomley

Sir J. Shuckburgh

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DOWNING STREET.

18 December, 1934.

DRAFT.

P.H. EZECHIEL, ESQ., C.M.G.,

A.P. WATERFIELD, ESQ., C.B.,

E. HOLLAND MARTIN, ESQ.

Bank of England

FURTHER ACTION.

.....
I had an opportunity yesterday afternoon of putting before the S. of S. the results of our talk of Friday afternoon about the Kenya loans.

2. He did not express any final opinion, but I think it would be fair to say that he agrees that a short term conversion, with a fixed date for redemption, would be risky and that if there were a long term conversion there is nothing to show how many people would be willing to take advantage of the conversion on any terms reasonable from the point of view of the Government.

But there was one possibility in regard to long term conversions which

which he wished me to explore further. We might make the open offer of a long term conversion with terms revisable from time to time (and, of course, becoming less favourable as we approach the maturity of the existing loans). That is to say, we should fix terms of the original offer and see how many people avail themselves of the conversion. A year later (or earlier if anything happened to disturb the normal rates of interest here) we should revise the terms and see whether there was any fresh volunteer for conversion, and so on.

The point is that, although there may be only a small percentage of applicants at any one time, over a ~~period~~ ^{period}, it may be possible to get rid of quite a substantial portion of the high interest loans.

I have written to the other people represented at the meeting and

C. O.

Mr.

and I shall be glad to have your views.

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DRAFT.

FURTHER ACTION.

44
W.S.S.
In p.s. to the waterfield on
on his letter of 18 Dec.

C. O.

Mr.

Mr.

Mr.

Mr. Parkinson

Sir G. Tomlinson

X Sir C. Bottomley. *18/12/34*

Sir J. ~~Stuckburgh~~

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DOWNING STREET.

18 December, 1934

AIR MAIL

DRAFT.

1. BRIGADIER-GENERAL

SIR JOSEPH BYRNE, G.C.M.G., K.B.E., C.B.

2. SIR BERNARD BOURDILLON, K.C.M.G., K.B.E.

.....

You have no doubt seen Grogan's article in the "Times" of the 28th of November and his letter in the "Times" of a few days earlier. The S. of S. had previously been considering various points which Grogan has in this way brought to a head, and, while I know that he has no intention whatever of taking up the question of a devaluation of currency, he has been exploring the possibility of some relief over the high interest loans which Kenya floated in 1921 and 1927 and he wishes also to go into

FURTHER ACTION.

9-10

15

into the question (which would
in any case arise if the loans
could be converted) of giving

Kenya and Uganda some share in

benefit from
the successful working of the railway
the profits of the railway system.

This is, of course, of special
importance at the moment in the
case of Kenya.

Apart from loan interest

there is the point that the railway
has been putting to Renewals amounts
far in excess of the practical needs
of the moment, and that if things go
on as at present, the renewals Fund
will be swollen to an amount which
we could not justify to the users of
the railway. The present arrangements
have been laid down by agreement with
the Treasury, but we have every reason
to believe that it would be possible to
vary them so as to make some part of
the amounts paid to Renewals available
for other purposes.

The

C. O.

Mr.

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Stuckbury.

Prime U.S. of S.

Party U.S. of S.

Secretary of State.

DRAFT.

FURTHER ACTION.

The S. of S. has directed me to write
to you and Bourdillon (Byrne) to ask you to
confer together in order to see on what lines
we should approach the Treasury. We have to
choose between applying this money, which is
Railway ~~revenue~~ ^{now}, to a reduction of rates with
a view to stimulating prosperity, ^{or} and a
distribution of profits between the Government
of Kenya and Uganda, the Governments which
guaranteed the loans ~~which~~ ^{from} which railway
improvements have been made. In the latter
case the difficult question would arise as
to the proportion of distribution.

The financial position of the
Government of Uganda makes it reasonable to
suppose that Uganda would prefer some relief
in rates which would benefit the growers of
export commodities. On the other hand, Kenya's
need for additional revenue is acute and it
is for consideration whether a maximum of
advantage (to the Government of Kenya) would
not be gained by adopting a system of division
of profits. From the Railway's point of view
it is probable that the arrangement most
likely

likely to keep its finances prosperous enough to make relief possible in future years as well as immediately, would lie on the side of rate reduction. But all these points are for your joint consideration.

Probably the most difficult point is the basis on which excess profits, if divided, should be apportioned between the two Governments. Two different bases suggest themselves:-

(1) The proportions in which the Governments are backing the loans for railway and harbour purposes, and -

(2) The value to the railway of the two countries as customers.

We assume that only a little statistical work on the part of Rhodes's staff would be necessary in order to get a figure under (2), but (1) as it stands seems to need some qualification. There is the harbour for one thing, which serves Uganda as much as Kenya, but the loans

C. O.

Mr.

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh.

Perm. U.S. of S.

Party. U.S. of S.

Secretary of State.

DRAFT.

*My letters in which
an apology for their
repetition in the
former reports*

loans for which are backed entirely by Kenya. Also the line from the Malaba River to Mbulamuti is entirely in Uganda, but the cost is covered by Kenya alone. That section of the line obviously represents a part of Uganda's contribution to the traffic and to a large extent possibly the same might be said of the intermediate portion between Turbo and the Malaba River.

But all these questions will raise themselves in your discussion.

I am writing hurriedly to catch the Air Mail as the S. of S. is anxious that no time should be lost in our explorations, and I shall hope to hear from you and Bourdillon (Byrne) as soon as you have had a reasonable opportunity for going into the matter.

FURTHER ACTION.

48
8

Bank of England

17th December 1934.

Dear Sir Cecil Bottomley,

I enclose some figures which have been worked out showing the basis on which a holder of Kenya 6% Stock 1946-56 could be offered conversion into a 3% 30-year Stock maturing in 1964. You will note that the price of the 6% Stock has been taken in one case at 123.815/ and in the other at 123.471. This was worked out on different days at a gross price of 125 less about three months' accrued interest. The price has since risen to 126-8 and corresponding adjustments should therefore be made, which would increase the amount of new stock to be offered to holders.

It must be remembered that these calculations are done on a basis upon which the holder would make neither profit nor loss on the transaction and that to induce any large proportion of holders to convert some additional attraction must be offered: even then there seems no reason to believe that holders of a high yielding security maturing in 11½ years' time would readily exchange into a 30-year security on the basis of the existing low yield.

Yours sincerely,

E. Holland Martin

Sir Cecil Bottomley, K.C.M.G., C.B.

MEMORANDUM

Kenya 6% Stock 1946/56 standing at £23.815 (i.e. £25 less accrued interest). TERM to run approximately 11½ years.

Gross Redemption Yield (allowing for tax at 4/-) £3:-:5^s_d
 Suggested offer of conversion into 3% Stock, 1964
 TERM 30 years.

The likelihood or otherwise of existing holders being attracted to accept conversion depends almost entirely on the view taken as to the rate of interest at which long-term money could be invested in 1946. Thus, allowing for an average rate of tax of 4/-, a present holder has a yield from 1934 to 1946 of £3:-:5^s and if he anticipates that he will in 1946 be able to obtain a yield from 1946 to 1964 of -

- (a) 3% gross, it would be equitable to offer him on the new stock a yield of, from 1934 to 1964, £3: 7: 6 in which case he would make neither profit nor loss on the transaction. In order to give this yield, it would be necessary to offer £132 of the new stock for each £100 of the old stock, which stands at £23.815%.
- (b) 4% gross, it would be equitable to offer him on the new stock a yield of, from 1934 to 1964, £3: 9: 11 in which case he would make neither profit nor loss on the transaction. In order to give this yield, it would be necessary to offer £134.6 of the new stock for each £100 of the old stock, which stands at £23.815%.

MULLENS & CO.

13, George Street,
Mansion House, E.C.4.
17th December, 1934.

MEMORANDUM

Kenya 6% Stock 1946/56 standing at £23.471 (i.e. 125 less accrued interest). TERM to run approximately 11½ years.

Gross Redemption Yield (ignoring tax) £3:10: 1%
Suggested offer of conversion into 3% Stock 1964.
TERM 30 years.

If tax is ignored, a Holder of the above Stock has a yield from 1934 to 1946 of £3:10: 1% and if he anticipates that he will, in 1946, be able to obtain a yield from 1946 to 1964 of

- (a) 3½% gross, it would be equitable to offer him on the new stock a yield of, from 1934 to 1964, £3:12: 4% in which case he would make neither profit nor loss on the transaction. In order to give this yield it would be necessary to offer £139.1 of the new stock for each £100 of the old stock, which stands at £23.471%.
- (b) 4% gross, it would be equitable to offer him on the new stock a yield of, from 1934 to 1964, £3:14: 7% in which case he would make neither profit nor loss on the transaction. In order to give this yield it would be necessary to offer £142.1 of the new stock for each £100 of the old stock, which stands at £23.471%.

REDEMPTION YIELDS ON KENYA STOCKS

	<u>Price</u>	<u>Tax at 4/-</u>	<u>Ignoring Tax</u>
6% 1946/56	123½%	£3: -: 5 (123½%)	£3:10: 1
5% 1948/58	118%	£3: 1: 6	£3: 7: 2
4½% 1950	115%	£3: 1: -	£3: 5: 4
4½% 1961/71	118%	£3: 6:11	£3: 9: 7
3½% 1957/67	106%	£3: 1: 4	£3: 2: 8

NY 52

4, MILLBANK,
WESTMINSTER,
LONDON, S.W. 1.
(VICTORIA 7730)

17th December, 1934.

Dear Freeston,

I enclose copies of a revised version of the calculations which we left with you on Friday.

Will you kindly substitute them and see that the previous version is suppressed, since, owing to the haste with which it had to be prepared, there were one or two figures in it which required correction? Even now we must ask that the calculations be treated as approximate. After making such arbitrary assumptions as, for example, the rate of interest at which sinking fund contributions will accumulate over a long period and the rate at which loans could be raised in 1946 and 1948, it seemed unnecessary to be precise in our arithmetic.

There is also one important alteration. In our previous statement we assumed, merely in order to arrive at a hypothetical figure for the effect on Kenya finances, the

/conversion

L.B. Freeston, Esq., O.B.E.,

copy of mem. to the 4th Finance Comm. 3/4

conversion of £1,000,000 each of the 5% and 6% stocks into long 3% stocks in respect of the holdings of other Colonial funds. But, as Ezechiel stated at the conference, the new long stocks would not be suitable for those funds and in the revised statement we have not allowed for the conversion of any appreciable amount on their behalf.

Yours sincerely,

J. H. M. M. M.

Thus opinions as to the terms which might be acceptable differ very considerably.

The Crown Agents have prepared the attached statement to illustrate the effect on the loan charges of Kenya if the 6% and 5% Stocks could be exchanged for new Kenya 3% Stock on the terms shown below. The terms for 3% Stock maturing in 1946 and 1948 respectively might be acceptable in respect of the substantial amounts of the 6% and 5% Stocks held for Colonial funds, but it is doubtful whether the conversion of many of these holdings into a long 3% Stock (1960/70) could be justified. It is impossible to say whether offers on any of the terms indicated would attract other stockholders.

of a 3% Stock.

For each £100 of Kenya 6%
1946/56
For each £100 of Kenya 5%
1948/58

130 (1946)	135 (1960/70)
122 (1948)	126 (1960/70)

The figures in the statement are in many instances approximate, being intended to give a general illustration of the results of certain operations on certain incidental assumptions.

AGENTS
KENYA
STOCKS

Fair price [as at 14th
Dec.], say

129

[The present "official
quotation" of 124-126 is
fictitious. No stock has
been offered to the
Crown Agents for a long
time].

Nett price [allowing
for accrued interest] 127.55

Gross effective yield £3. 4. 4.

Flat yield £4.14. 2.

Less I/Tax @ 4/6d. in £. £1. 1. 2.

Nett effective yield
[assuming continuance
of tax @ 4/6d. in £.]

£2. 3. 2.

SCHEME A.

Suppose a new Kenya 3% Stock, 1946, were offered on the basis of
a market price of 97½

Gross effective yield £3. 4. 6.

Flat yield £3. 1. 5.

Less tax @ 4/6d. in £. £-13.10.

Nett effective yield £2.10. 8.

It would then be necessary to offer $\frac{100 \times 127.55}{97.75} = 130$ [approx.] of
the 3% Stock for
100 of the 6% Stock.

Annual charges on £100 - 6% Stock

Interest £6

S.F. £1

£7.

Annual charges on £130 - 3% Stock

Interest £3.18r -.

rate of
S.F. provision at the
1% [on the total capital
liability] until
1946

£1. 6. -.

£5. 4. -.

There would, therefore, be a saving of £1.16.-. in annual charges on
each £100 of the 6% stock converted.

But on the other hand there would be a greater amount to provide by
reborrowing in 1946 [to the extent of £30 on each £100 - 6% Stock

converted less the accumulated amount of the additional sinking fund provision estimated at £4]. Since there would be no disadvantage in gross effective yield the Crown Agents might [subject to market conditions at the time] accept conversion on behalf of the funds in their hands holding Kenya 6% Stock [about £1,500,000 in all, excluding the amount held in its own sinking fund]; and since there is an advantage in nett effective yield of some 7 shillings and 6 pence per cent it might be argued that a reasonable number of holders liable to income tax would convert.

The effect on Kenya finance would be :-

[a] If Colonial Fund holdings [£1,500,000] alone were thus converted :-

Saving in charges until 1946 [£1.16.-% on £1,500,000]	£27,000 p.a.
--	--------------

Additional capital liability in 1946 [26% on £1,500,000]	£390,000
---	----------

Additional charges after 1946, assuming new loan raised at 4% with S.F. at £2.13.4% [Sufficient to complete redemption by 1970, assuming accumulation at 3% per annum.]	£26,000 p.a.
--	--------------

[b] If [say] £1,000,000 were converted by other holders, making £2,500,000 in all:-

Saving in charges until 1946	£45,000 p.a.
------------------------------	--------------

Additional capital liability in 1946	£650,000
--------------------------------------	----------

Additional charges after 1946, [assuming as above]	£43,333 p.a.
---	--------------

N.B.

The above calculations assume that as sinking fund contribution of 1.3% will be made for each £100 converted of which 1% will be paid to the sinking fund of the old loan and .3% to that of the new.

Suppose a new Kenya 3% Stock, 1960/70, were offered on the basis of market price of 94½

Gross effective yield	£3. 5. -.
Flat yield	£3. 3. 4.
Less tax @ 4/6. in £	£-.14. 3.
Nett effective yield	£2.10. 9.

It would then be necessary to offer $\frac{100 \times 127.55}{94.75} = 135$ of the 3% Stock for 100 of the 6% Stock.

Annual charges on £100 - 6% Stock

Interest @ 6.	
S.F. £1.	
<u>£7. till 1946</u>	

Annual charges on re-borrowing necessary in 1946 to make up deficiency in S.F. (estimated at £60 for each £100)

Interest at, say, 4% on £60
£2. 8. -.

S.F. to provide for redemption in 1970 assuming accumulation at 3½ p.a.)
£1.12. 3.

£4. -. 3.

Annual charges on £135 - 3% Stock.

Interest (till 1970) £4. 1. -.

S.F. provision at the rate of 1% (on the total capital liability) until 1946 :- £1. 7. -.

Total charges till 1946. £5. 8. -.

S.F. provision from 1946 to 1970 to provide for redemption of £135 of the 3% Stock, allowing for £45 estimated to be available in 1946 from Sinking Funds.

£45 accumulating at 3½ for 24 years = £103

S.F. provision to produce £32 (135-£103) in 24 years, assuming accumulation at 3½ p.a. £-. 17. 3.

Interest as above £4. 1. -.

Total charges from 1946 till 1970. £4. 18. 3.

Summary of annual charges.

If 6% stock converted in 1946 into a 4% stock 1970.

£7 till 1946
£4. -. 3. from 1946 till 1970

If £100 6% stock converted to £135 3% stock, 1960/70, now

£5. 8. -. till 1946
£4.18. 3. from 1946 till 1970

There would be a slight advantage in gross effective yield, but a long 3% stock would be much less attractive to the funds in the hands of the Crown Agents than a 3% stock redeemable in 1946, and only a very small amount could be converted. On the other hand the larger nominal amount of the long 3% stock, and the extended currency, might be more attractive to the public.

The effect on Kenya finances, if, say £1,000,000 were converted, would be :-

Saving in charges until 1946 :- (£1.12.-. % on £1,000,000)	£16,000 p.a.
Additional capital liability in 1946:- (3% on £1,000,000)	£300,000
Additional charges from 1946 till 1970:- (£.18.-. % on £1,000,000)	£9,000 p.a.

Fair price (as at 14th Dec) say	120
Nett market price (allowing for accrued interest)	118
Gross effective yield	£3.5.9.
Flat yield	£4.4.9.
Tax @ 4s/6d in the £	£-.19.0.
Nett effective yield	£2.6.9.

SCHEME C

Suppose a new Kenya 3% Stock 1948, were offered on the basis of a market price of 97.

Gross effective yield	£3.5.9.
Flat yield	£3.1.10
Less tax @ 4s/6d in the £	£-.13.11.
Nett effective yield	£2.11.10

It would then be necessary to offer $\frac{100 \times 118}{97} = 122$ of the 3% stock for 100 of the 5% stock.

Annual charges on £100 5% stock :-

Interest £5

S.F. 1 1

£6

—

Annual charges on £122 3% stock

Interest £3.13.2.

S.F. provision at the rate of 1% (on the total capital liability) until 1948

1. 4. 5.

£4.17.7.

There would, therefore, be a saving of £1.2.5. in annual charges on each £100 of the 5% stock converted.

But on the other hand there would be a greater amount to provide by re-borrowing in 1948 (to the extent of £22 on each £100 5% stock converted less the accumulated amount of the additional S.F. provision [at £4]).

Since there would be no disadvantage in gross effective yield the Crown Agents might (subject to market conditions at the time) accept conversion on behalf of the funds in their hands holding Kenya 5% stock (say £1,400,000 excluding the amount held in its own sinking fund); and since there is an advantage in nett effective yield of some/

five shillings per cent, it might be argued that some holders liable to income tax would convert.

The effect on Kenya finances would be :-

(a) If Colonial fund holdings (say £1,400,000) alone were thus converted :-

Saving in charges until 1948	
(£1.2.5% on £1,400,000	£15692 p.a.
Additional capital liability in 1948 (18% on £1,400,000)	£252000
Additional charges after 1948 assuming new loan raised at 4% with S.F. @ 23% (Sufficient to complete redemption by 1970 assuming accumulation at 3 1/4% p.a.)	£17640 p.a.

(b) If, say, £1,000,000 were converted by other holders, making £2,400,000 in all :-

Saving in charges until 1948	£26900 p.a.
Additional capital liability in 1948	£432000
Additional charges after 1948 (assuming as above)	£30240 p.a.

SCHEME D.

Suppose a new Kenya 3% stock 1960/70 were offered on the basis of a market price of 94

Gross effective yield	£3. 5. 10.
Flat yield	£3. 3. 10.
Less tax at 4/6 in £	14. 4.
Nett effective yield	£2. 11. 6.

It would then be necessary to offer $\frac{100 \times 118}{94} = 126$ (approx.) of the 3% stock for 100 of the 5% stock

Annual charges on £100 5% stock

Interest £5

S.F. £1

£5 till 1948

Annual charges on
£126 3% stock

Interest £3. 15. 7.
(till 1970)

S.F. provision at
the rate of 1% (on the
total capital liability)
until 1948:-

£1. 5. 2.

Total charges till 1948

£5. 0. 9.

Annual charges on re-borrowing
necessary in 1948 to make up
deficiency in S.F. (estimated
at £80 for each £100)

Interest at, say, 4% on £80
£3. 4. 0.

S.F. to provide for
redemption in 1970
(assuming accumulation
at 3 1/2% p.a.)

£2. 8. 10.

£5. 12. 10.

S.F. provision from 1948 till
1970 to provide for redemption
of £126 of the 3% stock,
allowing for £24 estimated
to be available in 1948
from sinking funds.
£24 accumulating at 3 1/2%
for 22 years = £51
S.F. provision to produce
£75 (£126 - £51) in 22
years, assuming
accumulation at 3 1/2% p.a.

£2. 5. 10.

Interest (as above)

£3. 15. 7.

Total charges from 1948
till 1970

£6. 1. 5.

Summary of annual charges

If 5% converted in 1948
into a 4% stock, 1970

£5 till 1948

£5. 12. 10. from 1948 till 1970

If £100 5% stock converted to £125
3% stock 1960/70 now:-

£5. 0. 9. till 1948

£6. 1. 5. from 1948 till 1970

There would still be no disadvantage in gross effective yield ⁶³
but a long 3% stock would be much less effective to the funds
in the hands of the Crown Agents than a 3% stock redeemable
in ¹⁹⁴⁸ ~~1933~~ and only a very small amount could be converted. on
the other hand the larger nominal amount of the long 3% stock
and the extended currency, might be more attractive to the
public.

The effect on Kenya finances if, say, £1,000,000
were converted, would be:-

Saving in charges until 1948:- (19s. 3d. % on £1,000,000)	£9,625 p.a.
Additional capital liability in 1948 (22% on £1,000,000)	£220,000
Additional charges from 1948 till 1970 (8s. 7d. % on £1,000,000)	£4,292 p.a.

na.



6
1/12

His Majesty's Eastern African Dependencies

CHD/VCY.

TRADE & INFORMATION OFFICE.

KENYA, UGANDA,
TANGANYIKA, ZANZIBAR

*Grand Buildings
Trafalgar Square
(ENTRANCE IN THE STRAND)
London, W.C.2*

NYASALAND
NORTHERN RHODESIA

TELEPHONE: WHITEHALL 170/180.
ANY COMMUNICATION RESPECTING THIS
MATTER SHOULD BE ADDRESSED TO THE
SECRETARY.
REF

CABLES: EAMATTERS, LONDON.
TELEGRAMS: EAMATTERS, RAND, LONDON.

11452/34

17th December, 1934.

CONFIDENTIAL.

Dear Freeston,

Further to my letter of the 14th December
will you please substitute the enclosed pages 6 and
7 for those attached to the copy of the Minutes
in your possession and destroy the other two.

No 3

Yours sincerely,

Commissioner.

L. B. Freeston, Esq., O.B.E.,
Colonial Office,
Downing Street,
London, S.W.1.

through which a grant was made to the Amani Station, he was glad that the contribution was being continued, and considered that in the interests of East Africa and the Empire it was essential that there should be no break in the continuity of the work of this Research Station. It was resolved to raise this matter at the next Colonial Office Conference.

Mr. Wigglesworth referred to the experiments with the new type of sisal, Agave amaniensis, which had a leaf containing twice as many fibres of finer quality as compared with Agave sisalana. He said that if these experiments proved successful when tried on a commercial scale at the new low level station which it was proposed to establish between Tanga and Mueha, consumption of sisal would be greatly increased since this finer fibre could be put to many new uses.

2097. GLOVE INDUSTRY

At the invitation of the Chairman, Mr. A.J. Findlay, Director of Agriculture of Zanzibar, said that Zanzibar was insular in every way and essentially different from the East African mainland territories. He said that Zanzibar had two industries, the important clove industry and the relatively unimportant copra industry. He said that the clove industry made Zanzibar, and its importance depended on the fact that Zanzibar exported 83% of the world's supplies of cloves. He considered that Zanzibar was likely to maintain that position. Cloves were also grown in Java, Penang and Madagascar, the last named being Zanzibar's most important competitor. The production of cloves in Madagascar was, however, limited, and he did not think that Zanzibar had any need to fear Madagascar.

Mr. Findlay said that Zanzibar at one time had been extremely prosperous, perhaps too prosperous, and then had fared like other primary producing countries when the slump came. He believed that Zanzibar had now turned the corner, and that the budget for 1935 would be balanced. In addition to effecting economies, he said that the Government of Zanzibar had worked out a scheme of re-organisation for the stabilisation of the clove industry. He pointed out that the clove industry paid for Zanzibar through a high export tax ranging from 20% to 40% dependent on the value of cloves for the time being. He did not know of any other clove industry which bore an export tax at the same rate as the clove industry in Zanzibar, and the fact that the industry was able to carry that burden showed that it was in a sound position. The Government of Zanzibar was determined to ensure the continuance of this sound position, and had taken steps recently to assume virtual control of the industry, as being the only way of safeguarding the future of the industry and the producers. He said that the Clove Growers' Association, which was established some years ago, had now been re-organised as a separate body constituted under a legal decree. The Association was managed by a commercial man employed and paid for by the Government, but who was not a Government servant under the usual Government conditions. The object was for the Clove Growers' Association to function quite apart from Government on the lines of a big commercial concern, although it was of course financed by Government. The Association advanced money to clove growers on crops deposited, and it was proposed that it should become a selling agency.

Mr. Findlay said that Zanzibar's markets for cloves were India, which took fully 30% of the crop, followed by the Dutch East Indies which used cloves in the making of cigarettes, while the rest of the crop went to Europe and America for domestic purposes and

particularly for distillation. He referred to the use of guaiacol as a substitute for eugenol from the distillation of cloves, but considered that if the price of cloves remained at a reasonable level Zanzibar would not need to fear the synthetic product. He said that the Government of Zanzibar, contrary to the views held in some quarters, did not wish to force up the price of cloves, since the importance of maintaining a position which would be satisfactory to all concerned was fully realised.

In reply to Mr. Bull, Mr. Findlay said that the question of the past indebtedness of producers to Indian moneylenders was still under consideration by the Government of Zanzibar and that no decision had been reached.

In reply to further questions by Mr. Bull, he said that in the past the crop had been marketed by a number of middlemen, and that it had been found necessary to bring it on to the world's markets as one economic unit. He said that the functions of the Clove Growers' Association were to finance the crop by advancing money to producers, and also to sell it on the world's markets.

In reply to Mr. Wise who asked whether it had been found necessary to make membership of the Association compulsory, Mr. Findlay said that producers automatically became members when they deposited their crops with the Association. He said that producers were allowed to sell their own crops, but that it was intended that the Association should gradually assume full control of the industry.

Colonel Sandeman Allen asked whether sealed samples of cloves were available for the markets. Major Dale replied that he had already received 'type' samples from Zanzibar and hoped to receive sealed samples in the near future, and had notified the trade accordingly.

The Council rose at 12.30 p.m.

56

The Secretary of State.

Kenya Loan Conversion.

I send on at once Mr. Preston's record of the meeting which we had on Friday to discuss this question. I hope to receive some time on Monday the results of an independent examination by the Bank of England which Mr. Holland Martin undertook to let us have.

(short term conversion)

The outstanding point is the entire uncertainty of the amount which would be converted under a voluntary scheme. It really does not look as if we could be sure of much more than the Crown Agents themselves will be prepared to put in. On the assumption that they only would convert and that re-borrowing would be on the basis they indicate the saving would be reduced to a matter of £27,000 a year till 1946 on the 6% loan and £15,692 a year till 1948 on the 5% loan, as against future burdens of £20,000 a year from 1946 - 1970 and £17,640 a year from 1948 - 1970 respectively.

There is
no need to be helped from
There was a general feeling that ~~it would be useless to offer a long term loan for conversion~~ purposes, but, as I mentioned on Thursday, Sir Theodore Chambers had expressed at the meeting of the Joint East African Board a feeling in favour of a long term loan. Please see page 3 of the confidential minutes of the meeting which are now below. At our own meeting, it was felt that the private trustee would be obliged to consider the immediate yield in interest rather than the advantages of a lock up investment, and that the big company holders would certainly prefer a short term.

In the preceding paragraph of the Board's minutes

56

The Secretary of State.

Kenya Loan Conversion.

I send on at once Mr. Preston's record of the meeting which we had on Friday to discuss this question. I hope to receive some time on Monday the results of an independent examination by the Bank of England which Mr. Holland Martin undertook to let us have.

(short term conversion)

The outstanding point is the entire uncertainty of the amount which would be converted under a voluntary scheme. It really does not look as if we could be sure of much more than the Crown Agents themselves will be prepared to put in. On the assumption that they only would convert and that reborrowing would be on the basis they indicate the saving would be reduced to a matter of £27,000 a year till 1946 on the 6% loan and £15,692 a year till 1948 on the 5% loan, as against future burdens of £26,000 a year from 1946 - 1970 and £17,640 a year from 1948 - 1970 respectively.

There is
There was a general feeling that ~~it would be useless to offer a long term loan for conversion~~
purposes, but, as I mentioned on Thursday, Sir Theodore Chambers had expressed at the meeting of the Joint East African Board a feeling in favour of a long term loan. Please see page 5 of the confidential minutes of the meeting which are now below. At our own meeting, it was felt that the private trustee would be obliged to consider the immediate yield in interest rather than the advantages of a long term investment, and that the big company holders would certainly prefer a short term.

In the preceding paragraph of the Board's minutes

minutes, you will see that Sir M. Leggett had suggested that we might be able to meet our difficulty by getting the difference between the high and normal rates of interest as a grant from the Colonial Development Fund. I do not think that the C.D.A.C. could possibly recommend this. The alternative of a loan from the Treasury to meet the difference in interest had already been suggested to me, before we got these minutes, by Mr. Freeston. It would, however, involve going to Parliament, and that is to be avoided if possible.

In the course of our discussion, Mr. Ezechiel pointed out that the relief under any scheme would benefit the railway and not the Kenya tax-payer. I said that that was so, and that I understood that you had in mind a scheme by which some assistance might be given to the tax-payer out of the profits on the railway. I mentioned also the state of the renewals fund, to which attention has already been drawn, and I said that it was possible that we should have to draw the attention of the Treasury to the way in which money was being piled up by the railway without any benefit to the tax-payer. This question of railway renewals is no longer a matter of interest to Mr. Waterfield at the Treasury, and I made it clear that the whole matter was in a very early stage of consideration.

[If you decide in favour of a voluntary conversion scheme, it will be necessary to bear in mind that special legislation would be necessary in Kenya owing to the fact that, as

was pointed out to us in 1931, the General Loans Ordinance does not provide for the contingency of voluntary conversion. This is, of course, entirely different from the complaint made by Major Grogan and others that when we went to the market offering the advantages of a long term loan at a high rate of interest, we ought to have taken power to ourselves to turn it into a short term loan by redeeming it whenever we wished. How much money we should have got and at what price, if such an arrangement had been made, I cannot imagine.]

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Kenya Loan Conversion

Note of discussion held on 14th December, 1934.

Present:-

Sir C. Bottomley
Mr. Waterfield
(Treasury)
Mr. Holland Martin
(Bank of England)

Mr. Ezechiel
Mr. Ransom
Mr. Abbett
(Crown Agents)

Mr. Freeston
Mr. Grossmith.

1. The attached calculations were produced by the Crown Agents. They suggest two alternatives (a 'short' and a 'long') for converting each of the Kenya high-rate loans (£5,000,000 6%, 1946-56, and £5,000,000 5%, 1948-58).

To convert £100 6% Loan:-

Scheme A:- Issue of £130 3% stock, at 97½, redeemable in 1946.

Scheme B:- Issue of £135 3% stock at 94½, redeemable in 1960-70.

To convert £100 5% Loan:-

Scheme C:- Issue of £122 3% stock at 97, redeemable in 1948.

Scheme D:- Issue of £125 3% stock at 94, redeemable in 1960-70.

(Note: the price of issue is calculated, in each case, so as to ensure the same gross effective yield as the existing stock at its current price to an investor, like the Crown Agents, who does not pay Income Tax).

(^x see 3.) 2. Effect on Kenya Finances of complete conversion

	<u>Scheme A</u>	<u>Scheme B</u>	<u>Scheme C</u>	<u>Scheme D</u>
Annual saving till 1946 or 1948:	£90,000	£80,000	£56,042	£48,125
Additional capital to be served after 1946 ('48) ✓	£1,300,000	£1,500,000	£900,000	£1,100,000

3. Probable amount which would actually be converted

The Crown Agents hold £1,500,000 Kenya 6%, and £1,400,000 Kenya 5%. They would be willing to convert the whole of this into the new "short" 3% (Schemes A & C), but not into the "long" 3% (Schemes B & D).

The rest of the stock is held mainly by Insurance Companies and Investments Trusts, whose response to a conversion offer is extremely difficult to predict. It was agreed, however, that the most that could be hoped for under the "long" schemes would be one-fifth of the total.

4. The short schemes are admittedly more attractive to the investor. But the Treasury and Bank of England representatives agreed in urging that on general financial principles it is imprudent to borrow "short" when current rates are low. Moreover, the "short" schemes carry a fixed redemption date; this might well prove embarrassing to the Kenya Government, which could not choose a favourable moment to redeem.

5. It was pointed out that the increase in Kenya's total capital liability - a necessary consequence of any conversion scheme - would pro tanto prejudice her chances of future borrowing for "development".

6. No objection was seen to a suggestion that, if it were decided to make a conversion offer, the new stock might be issued (in an agreed ratio) by Uganda as well as Kenya.

7. The sense of the meeting generally was that the probable response to a conversion offer, and the immediate savings thereby effected, would not be sufficient to make the offer worth while.

S. C. Bottomley

These are the draft
E. A. B. minutes, prepared
by Raju Jale. See para.
2094.

We have not had the
requested request for -
statement of Kanyo's financial
position.

Adams
15/12

PUBLIC RECORD OFFICE

CONTINUED ON NEXT FILM

TOTAL EXPOSURES →

