



CD  
Alan Cameron

1. Sir W. Gowers <sup>S</sup> /o ----- 14 March 1936

Trs. copy of corres. with Treasurer Kenya and  
encloses draft of further reply.

2. Sir John Campbell's opinion -- 15 March 1936

3. To Sir W. Gowers <sup>S</sup> /o (Aman) 16 March 1936

4. Mr Ransom CA <sup>S</sup> /o 17 March 1936

States CA have written Kenya as in draft submitted to  
CO. with no small addition

This can be  
Put by J. S. W. [Signature]

19. [Signature]

~~CS~~

5. Sir A. Pim ----- 15. 4. 36

Stamps to see Mr C. D. King 11.30 on Tuesday, 21<sup>st</sup> April  
in order to discuss the details of Ransom's questions

6. To Sir A. Pim <sup>S</sup> /o (McKerr) 23 April 1936

with Mr Hill

Sir Alan Pim called and had a discussion  
with Sir Percy Ezediel, Mr. Ransom and myself.  
Mr. Killgren was ill, Mr. Clauson was away and  
Sir Cecil Bottomley was not available. Sir Alan made  
it clear that in his report he had been thinking of  
saying something about possible means of relieving  
Kenya's finances from some of its dept liability. In  
this direction he had seen the various proposals for  
relief which had been examined from time to time and

copies

*CS*  
*in enclosure*

- 1. Sir W. Gowers <sup>a</sup> /o ----- 14 March 1936  
Tra. copy of corres. with Treasurer Kenya and encloses draft of further reply.
- 2. Sir John Campbell's opinion -- 15 Mch 1936
- 3. To Sir W. Gowers <sup>a</sup> /o *(1 hour)* 16 March 1936

4. Mr Ransom CA <sup>5</sup> /o 17 March 1936

States CA have written Kenya as in draft submission to C.O. with no small addition

This can be put by  
*J. S. G. 19*

*CS*

5. Sir A. Pim ----- 15. 4. 36

Wishes to get to C.O. by 11.30 on Tuesday 20 April in order to discuss the Audit & Loans questions

6. To Sir A. Pim <sup>9</sup> /o (Mr Ransom) 23 Apr 1936

*(with Mr Milligan)*  
 Sir Alan Pim called and had a discussion with Sir Percy Ezechiel, Mr. Ransom and myself. Mr. Milligan was ill, Mr. Clauson was away and Sir Cecil Bottomley was not available. Sir Alan made it clear that in his report he had been thinking of saying something about possible means of relieving Kenya's finances from some of its dept liability. In this direction he had seen the various proposals for relief which had been examined from time to time and

copies

C.O. 533 464  
 ME  
 FILE  
 PUN

copies of which were sent out to Mr. Wade. Of the lot the only one that he thought really practicable was No. 5 of the Crown Agents possibilities, that is, borrowing from year to year to meet some of the debt charges up to 1940 when the loan comes to be paid off.

When we were discussing the thing a year ago, the view taken was that it would be inadvisable to borrow in order to meet debt charges and Sir Alan admitted that there was this fundamental objection. The result of it would be, assuming that Kenya borrowed say up to £150,000 a year until 1940 to meet all its sinking fund charges that there would be a relief in yearly payments tapering from £150,000 in 1935 to £34,500 in 1940, with an increase in the debt of the Colony by about <sup>£4,500,000</sup> ~~£2,200,000~~ in 1940. Mr. Ransom's letter shows that Sir William Towers takes the objection that, if there is to be any relief in annual payments it ought to be proportionately passed on to the Railway, and that if this was not done there might be protests from Railway users. I am not so sure myself that this is altogether sound and if the principle is admitted then borrowing for the whole lot seems the best way out of it.

If the borrowing method was applied, not to the whole lot but only to the Colony's share of the loans, then the annual relief would taper from £45,277 to £25,356 by which time there would be an increased debt of £500,000 calling for about £20,000 a year in annual charges. If the 45 per cent loan was included then the saving would be £36,000 in 1935 going

down to £37,180 in 1940. By this date there would be an additional capital liability of £726,000.

I don't think any action is called for at present until we see what Sir Alan Kim definitely recommends, but I might send him a copy of Mr. Ransom's letter for his information.

of 25 April

Kenya actually makes all the payments in respect of all the loans and to use the Railway revenues and to use the Railway reimbursement in respect of St. on Railway loans merely constitutes the admission of indebtedness which attaches being arrangement for borrowing in order to pay my bill of any release which is unless the capital liability beyond 1946 or 48 remains.

Sir Alan should have a copy of Mr. Ransom's letter and must then wait for the former's general picture of Kenya's finances, but Sir J. Campbell should see on return

Noted

W.C.H. 28/4/36

To Sir Alan (4/107)

29 April 1936

See No 12 on 38024/55  
for an analysis of it all  
(Sir Alan Kim has a copy)

9 Sir Alan ... 30-4-36  
I was view ... in the ... opinion

Sir Pim is coming down in favour  
of year to year borrowings for interest till 1946.

J.E.O. 20  
2.5

Sir J. Campbell  
To see  
C.O.S.  
7.5.36

Thanks. We may be forced to adopt some method of  
the kind -- but one dislikes it. It is useless  
examining the thing till we have Sir A Pim's  
definite proposals. If there is to be borrowing,  
I hope it will be for the s.f. only, and only for the  
Colony's share of that s.f., in fact.

The 8th May 1936.

So do I. Sir A Pim has seen Sir P. Speckel  
but sticks to it. He doesn't love it as pure finance  
but admits it as an expedient.

J.E.O. 20  
8.5

10 Mr Ransom G.A. 30 11 May 1936

In copy of letter from Treasurer, Kenya, dated 7  
proposes reply for answer.

The proposal referred to is in para 3(b) of the  
last envelope to N.O.1. C.A. said that

"An offer of a ~~small~~ <sup>substantial</sup> amount of the  
shorter stock, say 1946/48 stock might be think  
be framed which would be acceptable to a large ~~proportion~~  
a large proportion of the stock, but it is a question whether  
terms could be settled which would justify such an  
offer."

This means offering the holder of 6% stock something  
more with a lower interest and redemption at an  
date near the 1946 period. It would, I think, be  
a fearful gamble. Suppose you offered the holder  
of £100 stock say £130 3% stock repayable  
in 1946-8. (He could get £124 by selling it to Day)  
Then Kenya would be ~~paid~~ <sup>paid</sup> with raising the extra  
amount in 10% at latest, and, if interest rates went  
then up, would ~~lose~~ <sup>lose</sup> heavily. To avoid that risk, there  
would have to be a heavy sinking fund to redeem  
the whole in the time and the immediate advantage  
would be ~~in~~ <sup>in</sup> ~~the~~ <sup>the</sup> ~~form~~ <sup>form</sup> of ~~the~~ <sup>the</sup> ~~reduction~~ <sup>reduction</sup>  
of ~~the~~ <sup>the</sup> ~~interest~~ <sup>interest</sup> ~~rate~~ <sup>rate</sup> ~~to~~ <sup>to</sup> ~~be~~ <sup>be</sup> ~~reduced~~ <sup>reduced</sup>. If the chance were taken  
and money was dear at the time of redemption then  
all that would happen would be that Kenya would  
have to borrow to repay the extra debt at whatever  
rate was current and the total burden might easily  
be increased.

I agree they should be advised to drop it. The  
C.A. might add that it is understood that Sir A Pim will  
discuss this matter in his report.

J.E.O. 20  
12.5

Sir J. Campbell  
W. G. S.  
13.5.36  
aw

To H. Ransom CA 5/10 (10/10/36) - 15 5 36

12 To H. Ransom CA 5/10 (10/10/36) - 15 5 36

13 H. Ransom CA 5/10 7 May 36

sales above on 12

This makes the short debt...  
The matter arises then I suppose...  
extra capital... not amount...  
a further expense and the Colony...  
all... note was issued to meet the...  
to pay the stock off at maturity...  
to pay the stock off at maturity...  
anyhow no action is needed

P. H. G. 11.10.36

(See Note 7/3 24 on 23335/36 for a full discussion)

W. H. G. 20.5.36

M. Ransom CA 19 June 36

States that following...  
engineers have been...  
to suggest...  
to suggest...  
to suggest...

258024

14

RECEIVED  
23 JUN 1936  
C. O. REEVE

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

5th June 1936

Dear Flood,

Lord Francis Scott's Secretary called on us a short while ago with reference to Kenya loan voluntary conversion schemes, and as a result we got our brokers to ask two of the largest holders of the Kenya 6 per cent Stock how much 5 per cent 20 year stock they would be prepared to take in exchange for £... nominal of the 6 per cent, 1945/56 Stock. You will be interested to know the result.

One of them was not prepared to suggest any terms. The other said that they might be prepared to accept the new stock at 9 or 10 points above the current market price. This would mean, at the present time, an offer of £134 or £135 of the new stock for £100 of the old. Lord Francis Scott's suggestion was an offer of £130 of the new.

Sir William Gowers and Mr. Springour have, separately and unofficially, told Lord Francis the result of the

P. H. W. Flood, Esq. C. H. G.

the enquiry and pointed out that it shows that any offer of voluntary conversion likely to be accepted by holders of an appreciable amount of the stock would be such as could hardly be justified from the Government's point of view.

Incidentally, I may add that we have made detailed calculations which show that actuarially (on a present value basis) Kenya would have profited by such a conversion on the £130 for £100 basis if the rate of borrowing proved to be  $3\frac{1}{2}$  per cent or more in 1946 or by such conversion on the £135 for £100 basis if the rate proved to be 4 per cent or more in 1946.

Some people might hold, in view of those actuarial figures, that the Government would be justified in trying the 135 for 100 offer. But the market price of the 6 per cent stock is at present only £124; the ratio 135 to 124 is the same as 100 to 92 (or slightly less); the public might regard the operation as equivalent to the issue of a new 3 per cent, 30-year stock, far below the proper price (nearly par); and Kenya's credit might be seriously affected.

Moreover we are still very doubtful whether holdings would be converted to any considerable amount, even on the 135/100 basis.

Yours sincerely,

*J. P. Morrison*

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

19th May, 1936

Dear Flood,

12  
In reply to your letter of the 15th about Kenya conversion, our view in December 1934 was that an offer of conversion into a 3% 1946 stock was a possible way of securing relief to the extent of £27,000 a year or more annually until 1946 at the cost of extra charges thereafter (which, assuming a 4% level in 1946, we gave as £26,000 a year from 1946 to 1970). Now that 1946 is nearer, the annual saving would be greater but for a shorter period. It should not now be necessary to offer so much as 130 of the new for 100 of the old stock.

The objection to such a scheme is, as you point out, that the ultimate cost to Kenya is unknown and that the necessity of raising a new loan in 1946 might involve raising money then at a high rate. This was the objection raised by

J. E. W. Flood, Esq., C.M.G.



Waterfield and Holland-Martin at the meeting of 14th December, 1934.

As regards sinking fund provision, we did not contemplate any addition to the present charge except the usual 1% on the additional capital liability (i.e. on £30,000 if £30 of new stock were offered.)

Yours sincerely,

*Holland-Martin*

Mr. Flood: 14

Mr.

DOWNING STREET.

Mr.

For my eyes

15 May, 1936.

Sir C. Parkinison

Sir G. Tomlinson.

Sir C. Balfour.

Sir J. Shuckburgh.

Print. U.S. of S.

Print. U.S. of S.

Secretary of State.

Dear Ransom,

With reference to my

**DRAFT.**

H. C. RANSOM, ESC., O.B.E.

CROWN AGENTS.

even date letter I think you might like to know what I thought about the scheme to which reference was made. That scheme was to offer a suitable amount of a short stock, say 1946/48, which might be acceptable to the holders of a large proportion of the high interest issue.

It seems to me that this would involve offering the holder of a 6 per cent. stock something pretty substantial with a lower interest and as you say, a short date of redemption. At the present moment the holder of Kenya 5 per cent. stock could get £134 for it. If he was

offered

**FURTHER ACTION.**

offered a 3 per cent. stock the attraction would have to be something pretty substantial in 1946 assuming that that date was taken. Suppose, for instance, you offered £130 at 3 per cent. Then the holder would get £3.9 instead of £6, but in 10 years' time would receive an extra £30 of capital.

That would certainly be fairly attractive but it is a gamble. If interest rates in

1946 are high, then Kenya would have to float a new loan to cover <sup>the</sup> extra capital and float it at a high interest. Further, it would be necessary <sup>readable</sup> to provide something

in the nature of a sinking fund <sup>for the</sup> new stock in 1946 and with such a short period to go the rate of sinking fund

contribution would have to be pretty substantial if the fund were to amount to anything appreciable.

That would mean that the actual burden on the Colony might very well not be reduced at all since what it would gain in the way of less interest it would lose in the way of more

sinking

*to mention in time to come the extra capital in 1946*

C. O. 1

- Mr.
- Mr.
- Mr. C. Parkinson.
- Mr. G. Tomlinson.
- Mr. C. Bottomley.
- Mr. J. Shuckburgh.
- Permt. U.S. of S.
- Party. U.S. of S.
- Secretary of State.

**DRAFT.**

sinking fund, unless indeed they were prepared to risk not having a sinking fund at all and rely on the chance of borrowing cheaply in 10 years' time. That would be another element of gamble.

I may be all wrong, of course, but that is how it struck me personally, and I should like to know what you think about it.

Yours sincerely,  
*La Jhu Koon*

FURTHER ACTION.

C. O.

Mr. Flood. 14/5

Mr.

Mr.

Sir C. 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.

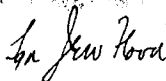
14 May, 1936.

Dear Ransom,

Thank you for your letter of the 11th of May enclosing a letter from the Treasurer of Kenya and a draft of your reply on the subject of loan conversion.

I have shown it to Sir John Campbell and Sir Cecil Bottomley and we agree that you are right in advising them to drop the question as you propose. You might add, however, that you understand that Sir Alan Pim will discuss loan conversion among other questions in his report which is now being finally prepared.

Yours sincerely,


**DRAFT**

H. C. RANSOM, ESQ., O.B.E.

CROWN AGENTS.

FURTHER ACTION.

10  
12  
4. MILLBANK,  
WESTMINSTER,  
LONDON, S.W. 1.  
(VICTORIA 7730)

11th May, 1936.

Dear Flood,

In your letter of the 16th March, you concurred in the terms of a letter which we sent to the Treasurer of Kenya about voluntary conversion schemes.

We have now received another letter from him on the subject, of which I enclose a copy, together with the draft of a semi-official letter which we propose to send in reply.

Would you let me know whether you see any objection to our dealing with the matter in this way?

Yours sincerely,

*J. E. W. Flood*

J. E. W. Flood Esq., C.M.G.

HCR

COPY OF LETTER FROM THE TREASURER, KENYA, TO CROWN AGENTS.

The Treasury,  
Nairobi,  
Kenya.

24th April, 1936.

CONFIDENTIAL.

BY AIR MAIL.

Ref. No. C/28/1/11/45.

Gentlemen,

Loan Conversion.

The General Manager, Kenya and Uganda  
Railways and Harbours, to whom your letter No. A/218  
of the 7th of March, 1936, was communicated for  
confidential information now suggests that further  
investigations into the possible course indicated  
in paragraph 3(b) of your letter should be made and  
that we should receive in due course the benefit of  
your further advice on this point.

I have the honour to be,  
Gentlemen,  
Your obedient servant,

(Signed) G. Walsh.

TREASURER.

CONFIDENTIAL

8th May 1936.

Dear Walsh,

Your official [Confidential] letter of the 24th April, No.C./28/1/11/45, about Loan Conversion puts us in a rather delicate position and I have thought it best to write to you semi-officially and suggest that we should leave it unanswered.

The General Manager suggests further investigations into the possible course indicated in para.3 [b] of our letter of 17th March. We mentioned that course in answer to question [b] in your letter of 5th February, but we added that it was a question "whether to us could be settled which would justify such an offer", and this raises a very much wider question on which we are not qualified to speak.

As mentioned in para.2 of our letter of the 17th March, there are many other considerations bearing on the general question of voluntary loan conversion schemes. The whole matter has been very carefully considered by the

Colonial

G. Walsh, Esq., C.B.E.

The Treasury,  
Nairobi.

Colonial Office and I understand that particulars were sent to Wade semi-officially last year to show why no action was being taken.

In the circumstances, we should hardly feel justified in investigating further the details of a possible conversion offer. The stage seems to have been reached when it should be decided whether general principles permit of a conversion offer before the possible terms of such an offer are investigated in detail.

Yours sincerely,



280

8076  
Belford  
Mary

RECEIVED  
14-MAY-1936  
O. O. F. B.

Dear Frank

8  
Many thanks for your letter asking for D. G. Jones' opinion. My agreement will be that this very much I accept the position and the sailing cannot be postponed until the 5<sup>th</sup> unless in part of the way & temperature cannot be reduced. Some part of hull is now being whiffed away until the next fastening of joints which I think should be given by the foremast and some other work to meet a temporary emergency or do not show forward unacceptably. Yours very truly

Yours truly  
D. G. Jones

87.

29th April, 1956.

Dear Pim,

With further reference to our talk on the 21st, Ransom of the Crown Agents mentioned the matter to Sir William Gowers who, after some thought, expressed the opinion that it would be wrong for Kenya to meet by borrowing any part of the Interest or Sinking Fund on that portion of its debt which is met by the Railway. Sir William's opinion is contained in the enclosed letter which I got Ransom to send to me.

One of our difficulties here has always been that any arrangement for borrowing money in order to pay a debt is of itself an admission of insolvency and, even though it is only for a short period, still the theoretical objection remains

and,

FRANK ALAN PIM, K.C., F.R.S., K.B.E., C.B.I.

and, further, there is felt considerable objection to doing anything which would increase the capital liability on Kenya or the Railway.

Yours sincerely,

*J. H. K.*

P.S. I am getting on with hunting up the undertakings in connection with the £5½ million. They seem to be very definite, but I must get hold of the actual words used.

7 19  
MILLBANK,  
WESTMINSTER,  
LONDON. S W 1.

(VICTORIA 7750)

25th April, 1936.

Dear Flood,

You have asked me to send you a note about the view expressed by Sir William Gowers (which I mentioned to you by telephone) with reference to the proposal for the relief of

Kenya finances which was discussed with Sir Alan Pim on Tuesday

*Copy to Sir Alan Pim 1936*

It is that, although Kenya having borrowed money to pay Sinking Fund charges might be legally entitled to use for current expenditure the money which it receives from the Kenya and Uganda Railway for that purpose, yet such action might be strongly objected to by users of the Railway not only in Kenya but also in Uganda. It is true that the obligation to stockholders to pay the Sinking Fund contributions is an obligation of the Kenya Government, but in practice it is a liability of the Kenya and Uganda Railway, which provides the money, and it might well be argued that any relief ought to be passed on to the Railway. Such relief, for example, might enable the Kenya and Uganda Railway to reduce freight rates - a matter of great importance.

E.W.Flood, Esq., C.M.G.

importance to Uganda ginneries who pay a much higher rate  
on cotton seed than Kenya planters pay on maize.

yours sincerely,

*Johnston*

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4. MILLBANK,  
WESTMINSTER,  
LONDON, S. W. 1.  
(VICTORIA 7750)

17th March, 1936.

Dear Flood,

We have placed on record, as requested by you on the telephone, that the Colonial Office has no observations to make on the draft reply to Kenya respecting voluntary loan conversion, and that our draft has been shown to Sir J. Campbell

Since that draft was sent we have discussed it with our brokers and have written to Kenya in those terms with one small addition -

After (d) "The effect of this on the Colony's credit and financial standing cannot be expressed in any definite terms"

we have added the words

"but we do not think that it would necessarily be detrimental."

*He Ranon*

Flood, Esq., C.M.G.

GA

3 22

Downing Street,  
16th March, 1936.

Dear Gowers,

Thank you for your letter of the 11th of March enclosing the correspondence with Kenya about loans. We have no objection whatever to the terms of the draft reply which you propose to return, and in particular we are glad that you suggest discussion with Freeston. We sent all the stuff out confidentially to the Colonial Secretary but apparently he has not passed it on to the General Manager or to the Treasurer.

You may be interested to see what Sir John Campbell said on the subject which is as follows:-

"Every possible variant has been examined and fully discussed. And the nett result was what one might have expected, - no jugglery will suffice to avoid the plain facts of the situation. One must pay something extra to secure success. One can put on a

posterity

SIR WILLIAM GOWERS K.C.M.G.

posterity: one can take risks: one can do this and that:  
but it all comes back to paying more, in the end."

Yours sincerely,

*J. F. Kennedy*



2

Sir John Campbell.

I attach herewith a letter from Sir William  
Gowers concerning yet another Kenya Loan Conversion  
Scheme, and the Crown Agents' draft reply. The ink  
alterations made in paragraph 3 (a) (e) are due to a  
telephone message ~~from Mr. Munson~~ from Mr. Munson  
simply make it a bit more vague. If you agree, I  
propose to reply that we see no objection to their  
draft. I think the Crown Agents' remarks are  
perfectly sound, and from watching the stock market,  
one cannot but confirm that investors are shy of long  
dated, low interest stocks. Low interest "shorts"  
are quite another matter, as is proved by the  
popularity of the Treasury One Per Cents, but there  
can be no question of Kenya trying to convert its  
Six Per Cents with ten years to run into a short  
dated stock at a low interest, and even Kenya realizes  
that.

J. I. G. F. C.

13.3.55.

Mr. F. L. ...

I agree with the draft--see no objection to its issue!

The extraordinary thing to me is that, although we I think sent out to many of the confidential staff there was as to this matter--both the preliminary consideration, and the later consideration of all sorts of variants possible, or suggested--the Press and the G. & Railways seem to know nothing about it! That--to me--is amazing. I therefore agree most fully with the view in the draft to this matter. They have--if I am not mistaken--it is a question of history, and there are many things to remember--all the staff they used. Every possible variant has been examined and fully discussed. And the result was what one might have expected--no quality will suffice to avoid the plain facts of the situation, one must do something extra to secure success. One can put on postscript; one can take risks; one can do this and that; but it all comes back to paying more in the end.

Dec 1, 1935.

*[Handwritten signature]*  
 10/10/35

Mr Flood

I agree with the draft--see no objection to its issue.

The extraordinary thing to me is that, although we I think sent out to "engage" the confidential staff there was as to this matter--both the preliminary consideration, and the later consideration of all sorts of variants possible or suggested--the "res" and the S. & W. railways seem to know nothing about it. That--to me--is amazing. I therefore agree most fully with the ref: in the draft to this matter. They have--if I am not mistaken--it is a question of honor, and there are many things to remember--air - & so on: they need, every possible variant has been examined and fully discussed. And the net result was what one might have expected-- no saying will suffice to avoid the painful facts of the situation, one must do something extra to secure success. One can't put on posterity: one can't take risks: one can't do this and that: but it all comes back to saying more in the end.

12/15/38.

*[Handwritten signature]*  
12/15/38

4, MILLBANK,  
WESTMINSTER,  
LONDON, S.W. 1.  
(VICTORIA 7130)

CONFIDENTIAL.

11th March, 1936.

Dear Flood,

We received from the Government of Kenya in December a note by Mr. Bailey, the Acting Chief Accountant of the Kenya and Uganda Railways and Harbours, about the voluntary conversion of Kenya loans. He expressed the view that an offer of £130 of 3%, 1975, in exchange for £100 of 5%, 1946/56 Stock would not be sufficiently attractive, and suggested instead an offer of £110 of 3% 1975 Stock, plus a cash payment of £20.

*Mar 16 3*

2. I enclose a copy of the letter which we sent in reply, and of a letter on the subject which we have now received from the Treasurer of Kenya.

3. We hope to discuss the matter with our brokers in a few days' time, and meanwhile, in order to save time, I enclose herewith the draft of our reply to Kenya, which I understand is not likely to be materially altered by that discussion. —Would you let me know whether you have any

J. E. W. Flood, Esq.

/objection

objection to our sending this reply, and in particular, the second paragraph in which we are hinting that Freeston and Sandford should be consulted in Kenya?

Yours sincerely,

*J. G. ...*

CONFIDENTIAL.

23rd December, 1935.

Sir,

I have the honour to refer to your letter of the 4th November, No. O/28/1/11/29, enclosing for our observations a letter from Mr. H.A. Bailey suggesting a scheme for voluntary conversion of the Kenya 6% Stock, 1946/56.

2. We understand Mr. Bailey's view to be that an offer of £130 of 3% Stock, redeemable in 1975, in exchange for £100 of 6% Stock, 1946/56, would not attract holders of the latter, and we certainly endorse this view. We think, however, that an offer of £110 of 3%, 1975, Stock plus a cash payment of £20 would be no more attractive and might well prove to be less so.

3. We fear, therefore, that an offer such as that suggested by Mr. Bailey would not be likely to attract any considerable number of stockholders. At the present low rate of interest investors are naturally not favourably disposed towards long-dated stocks.

4. As regards the cash payment, unless the stockholder had some reason for using his cash in some other way, he would merely have to seek another suitable investment for it at a time when such investments are at high prices and not easily obtainable.

I have the honour to be, Sir,  
Your obedient servant,

The Treasurer,  
Nairobi,  
KENYA.

(Sd/-)  
THE CROWN AGENTS

CONFIDENTIAL.

5th February, 1936.

Gentlemen,

I have the honour to acknowledge the receipt of and to thank you for your Confidential letter No. A/218 of the 23rd December, 1935, the contents of which have been communicated to the Hon. General Manager, Kenya and Uganda Railways and Harbours for his confidential information.

As the Transport Administration is closely concerned with the 1921 Loan, the General Manager, in common with the local Government, is naturally anxious to obtain all available particulars on the subject of Loan conversion and asks whether it would be possible for you to supply the following additional information:-

- (a) What are the principal factors governing the opinion expressed in your letter of the 23rd of December, 1935.
- (b) What form of offer would, in your opinion, be sufficiently attractive to holders to ensure the success of a voluntary conversion scheme.
- (c) What would be the cost of attempting a voluntary conversion i.e. what would the Colony stand to lose if it proved a complete failure.
- (d) What would be the probable effect on the Colony's credit and financial standing should the attempt prove a complete failure.
- (e) What, in your opinion, is likely to be the basis of borrowing in 1946.

3. The speculative nature of these enquiries is fully realized and the necessity for abstaining from quotation of any opinion you may care to express confidentially is equally well understood. At the same time a proper appreciation by the General Manager and myself of all aspects of the problem is a matter of some importance and it is with this object that further information is sought.

(SGD.) G. Walsh.

TREASURER.



CONFIDENTIAL.

The Treasurer,  
Nairobi,  
KENYA.

Sir,

I have the honour to refer to your letter of the 5th February, No.C/28/1/11/36, transmitting certain enquiries from the General Manager of the Kenya and Uganda Railways and Harbours on the subject of loan conversion.

2. The following answers, dealing with the specific points raised, relate to the proposal made in the Chief Accountant's letter of 21st August, 1935. There are, of course, many other considerations bearing on the general question of voluntary loan conversion schemes which, we believe, been communicated confidentially to the Colonial Secretary and were discussed in London by Mr. Freeston of the Colonial Office with Mr. Sandford, both of whom are now in East Africa:

3. Taking in order the points raised by the General Manager, our replies are as follows:-

(a)(I)

At the present low rate of interest, investors are not attracted by long-dated stocks. A 40-year loan would not be acceptable to the London market in present conditions.

(II)

A stockholder accepting £130 of 3% 1975 stock in exchange for £100 of 6% 1946/56 stock would receive less income and such an exchange would therefore not be suitable for a trustee who had to consider a life interest as well as a reversionary.

reversionary interest, nor to any other stockholder influenced by similar considerations.

(III)

Even where a stockholder is able to offset an increase in capital value against loss of income, he has still to consider how much more a holding of £130 of 3% 1975 stock is likely to be worth in 1946 than £100 in cash. The likelihood of a net gain in the long run is hardly strong enough to move stockholders generally to convert.

(IV)

An offer of £110 of 3% 1975 stock plus £20 cash would not be any more attractive than an offer of £130 of 3% 1975 stock unless the stockholder had some special reason for preferring cash to stock, which seems unlikely to be the case.

- (b) An offer of a suitable amount of a shorter stock, say 1946/48 stock, might, we think, be framed which would be acceptable to the holders of a large proportion of the stock, but it is a question whether terms could be settled which would justify such an offer.
- (c) The expense of submitting an offer of voluntary conversion to all the stockholders which none of them accepted would be negligible.
- (d) The effect of this on the Colony's credit and financial standing cannot be expressed in any definite terms.
- (e) It is impossible to form any <sup>definite</sup> opinion as to the probable basis of borrowing in 1946, but the probability is that the rate of interest <sup>may well</sup> will then be higher than it is now.