

1921

E. AFRICA

45690

DATE

10TH SEPTEMBER 1921

1921  
528

STANDARD BANK OF SOUTH AFRICA LTD

CIRCULATION

SUBJECT

FINANCIAL CONDITIONS IN EAST AFRICA

Mr. H. L. Hancock  
Mr. H. Hoar  
Mr. G. F. P. Fuller  
Mr. Wood  
Mr. Churcheill

Previous Paper

MINUTES

See page 366 to 373  
(Resolutions)

with other circulated copy

1. Oct 1921

Mr. J. Thorneycroft

Mr. E. L. ...

And copy should go to ...  
Office ...  
23 Oct

MS

20. 10. 21

was 23.9.21

Subsequent Paper

see ...  
copy ...  
MS ...

Almond ...  
City Day Coy  
24 Sept 21

2021

ALL CONTAINS TO BE CONSIDERED  
AS THE PROPERTY OF  
THE STANDARD BANK OF SOUTH AFRICA LTD.

521

45680

THE STANDARD BANK OF SOUTH AFRICA LIMITED.

WITH WHICH IS INCORPORATED THE AFRICAN BANKING CORPORATION LIMITED.

Private  
and  
Confidential.

10 Clements Lane, Lombard Street.

London, 10th September, 1921.

Colonial OFFICE  
Downing Street, S.W.

Sir,

In accordance with the wish expressed by Sir George  
Pitt-Rivers, in July last, we asked the Superintendent of our East  
African Branches to send us a brief report on the financial  
position of the people in Kenya, Uganda, Tanganyika and  
Zanzibar.

We received this report on 1st August, and we have  
much pleasure in sending you a copy herewith.

We trust that the report will be of some use to you.

I have the honour to be, Sir,

Your obedient servant,

*J. J. Swinburn*  
Asst. Manager.

Enclosure.

REPORT ON THE FINANCIAL CONDITIONS OF EAST AFRICA,  
DATED THE 9TH AUGUST, 1921.

---

The bad financial conditions existing throughout the world owing to the slump and stagnation of the produce markets, has been aggravated in East Africa - with the exception of Kamerun - by the uncertainty of the Curreny and the action of the Currency Board in restricting transfers to London. The former reason has now been done away with, but not the effect, as the one thing that East Africa badly requires is capital and it had the effect of turning away capital that was ready to come out. The restrictions by the Currency Board unfortunately remain in force, and it stands to reason that, our transfers being restricted to £10,000 a week from such large territories as Kenya Colony and Uganda and with no arrangements made at all for Tanganyika Territory, our banks are very tight and trade badly hampered. Nevertheless newspapers frequently state that things are no worse here than elsewhere, and I think the Country has shown considerable elasticity.

I now take each territory separately.

KENYA COLONY.

This must be divided into two sections, namely - Merchants and Settlers, and, as regards the former, must

REPORT ON THE FINANCIAL CONDITIONS OF EAST AFRICA,  
DATED THE 9TH AUGUST, 1921.

---

The bad financial conditions existing throughout the world owing to the slump and stagnation of the produce markets, has been aggravated in East Africa - with the exception of Zanzibar - by the uncertainty felt regarding Currency and the action of the Currency Board in restricting transfers to London. The former reason has now been done away with, but not the effect, as the one thing that East Africa badly requires is capital and it had the effect of turning away capital that was ready to come out. The restrictions by the Currency Board unfortunately remain in force, and it stands to reason that, our transfers being restricted to £10,000 a week from such large territories as Kenya Colony and Uganda and with no arrangements made at all for Tanganyika Territory, our hands are very tied and trade badly hampered. Nevertheless newspapers frequently state that things are no worse here than elsewhere, and I think the Country has shown considerable elasticity.

I now take each territory separately.

KENYA COLONY.

This must be divided into two sections, namely - Merchants and Settlers, and, as regards the former, must

of the larger houses in East Africa are represented in Kenya Colony, and the Report, therefore, covers the other Territories.

The importing merchants as a whole held large stocks at the outbreak of the crisis, bought at top prices; owing to the virtual closing of the produce markets, the native has had very little to spend, and the merchants have consequently been unable to off-load their stocks, except very slowly, and though there is now a slight improvement they can only do so at a very great loss. Fortunately most of the large importing firms had considerable capital behind them, being stronger than in pre-war days owing to their prudence in strengthening their positions during the good years, and have been able to carry on; but several of these who commenced business after the War have closed down and left the Country. I do not anticipate any large failures here. The closing down of some of the smaller firms, although a loss at the moment, may be for the ultimate good of the Country as there was a distinct danger of overcropping in the number of merchants in so young a Country.

As regards the exporting merchants, they have felt the fall in prices and their absolute inability to sell, much more and there have been several large insolvencies which have hit the Coast very hard. At the present moment  
the

the go-downs at Mombasa are full of hides which have been there for many months, and for which no market can be found at a price to make it worth shipping.

The exporting merchant is, then, finding it very hard to carry on, but with a slight improvement in the European markets there is already a better feeling and, if the market were once again anything like normal, I am of opinion that a marked improvement would soon take place. The retail merchant has also been hard hit by his inability to sell his merchandise to the native, and many bills have been dishonoured. Wherever possible, the larger merchants are giving them time to pay and the number of insolvencies has not been large; their position would also soon improve with better markets.

As regard the settler, he has had a very hard time as he has had to combat - not only with the fall in produce - but also with the increased number of Rupees he received for the £ sterling without local conditions having moved in conformity therewith. Fortunately there has remained a market - though at reduced prices - for two of his main crops, namely coffee and sisal. These settlers, I consider, have been able to make ends meet, but have found in some cases difficulty in meeting interest charges on their farms which are nearly all mortgaged to a certain extent, and, unless things improve, I do not see how they will be able to meet increased taxation which is threatened

by the deficit of £400,000- shown in the Government's Budget.

A large number of farmers, especially in the Usain Ghana and the Bahure Districts, went in on a large scale for flax growing and these have been very hard hit, as there has been no market at all for nearly 18 months and they find it difficult to obtain sufficient money for the maintenance of their farms. In order to enable them to get their consignments to the market, I have recently authorised our Alderst Branch to advance the Mills who are short of capital up to £60- per ton of flax, that is sufficient to defray all expenses from the farm to the London market.

The Soldier Butler has also been much affected by the stagnation in flax, as he looked on this as a catch crop to find his money to him as whilst he developed his land, and, of course, he raised his property.

An increased quantity of wheat and maize is grown, but the farmer cannot obtain ready cash for these as the purchasers have not sufficient capital and can only buy from hand to mouth as the grain is actually required.

The cattle owners are having an equally bad time as, owing to the scarcity of ready money in the Country the price of cattle has dropped away quite 50% and it is quite impossible to sell a herd of any size; at the same time the cost of maintenance has largely increased. Owing

to there being no export of meat from the Country, this industry is entirely dependant on the available money and condition of trade in the Colony for its market. With improved conditions prices would doubtless rapidly get better, but there is the difficulty of maintenance in the meantime.

Meanwhile, although not at the same pace as before, development is still going on and I think there is no reason to fear for the future of farming, in which I have every confidence. Wages have lately been reduced by 33 1/3% and freights, which were killing everything, have also been reduced. Settlers are beginning to live more economically and to run their estates on more business-like lines, and even at present prices this Country can compete with the outside world for its products. For instance, it is estimated that ~~wool~~ ~~can~~ ~~be~~ ~~produced~~ ~~and~~ ~~put~~ ~~on~~ ~~the~~ ~~London~~ ~~market~~ ~~for~~ ~~£50-~~ ~~per~~ ~~ton.~~ ~~Wool~~ ~~and~~ ~~lamb~~ ~~(from~~ ~~the~~ ~~out-lying~~ ~~districts)~~ ~~at~~ ~~£700-~~ ~~per~~ ~~ton~~ ~~of~~ ~~both~~ ~~and~~ ~~lamb~~ ~~at~~ ~~£35/40~~ ~~per~~ ~~ton.~~

At the same time although I consider their position as a whole sound, in view of the exceptionally trying times, and taking into account the fact that most of the farmers are men without much capital whose farms are just recovering from the set-back they received during the War, I consider that great care must be exercised in the way



to there being no export of meat from the Country, this industry is entirely dependent on the available money and condition of trade in the Colony for its market. With improved conditions prices would doubtless rapidly get better, but there is the difficulty of maintenance in the meantime.

Meanwhile, although not at the same pace as before, development is still going on and I think there is no reason to fear for the future of farming, in which I have every confidence. Wages have lately been reduced by 25 1/3% and freights, which were killing everything, have also been reduced. Settlers are beginning to live more economically and to run their estates on more business-like lines, and even at present prices this Country can compete with the outside world for its products. For instance, it is estimated that coffee can be produced and put on the London market for £50- per ton, flax and tea (from the out-lying districts) at £150- per ton of both, and sisal at 236/40 per ton.

At the same time, although I consider their position as a whole sound, in view of the exceptionally trying times, and taking into account the fact that most of the farmers are men without much capital whose farms are just recovering from the set-back they received during the War, I consider that great care must be exercised in the way

to there being no export of meat from the Country, this industry is entirely dependent on the available money and condition of trade in the Colony for its market. With improved conditions prices would doubtless rapidly get better, but there is the difficulty of maintenance in the meantime.

Meanwhile, although not at the same pace as before, development is still going on and I think there is no reason to fear for the future of farming, in which I have every confidence. Wages have lately been reduced by 25% and freights, which were killing everything, have

been reduced to a point where they are no longer a serious obstacle to the farmer. The Government has also been successful in securing a reduction in the duties on agricultural machinery and implements, which will be a great benefit to the farmer.

The Government has also been successful in securing a reduction in the duties on agricultural machinery and implements, which will be a great benefit to the farmer.

It is also necessary to consider the fact that most of the farmers are men without such capital whose farms are just recovering from the setback they received during the war. It is therefore essential that the Government should exercise its power in the way

to there being no export of meat from the Country, this industry is entirely dependent on the available money and condition of trade in the Colony for its market. With improved conditions prices would doubtless rapidly get better, but there is the difficulty of maintenance in the meantime.

Meanwhile, although not at the same pace as before, development is still going on and I think there is no reason to fear for the future of farming, in which I have every confidence. Wages have lately been reduced by  $1/3\%$  and freights, which were killing everything, have also been reduced. Settlers are beginning to have some economic sense and to run their estates on more business lines and even at present prices this Country can sell its products to the rest of the world for its products. For instance, it is estimated that coffee can be produced and sold on the market for £100 per ton, flax and tow at £100 per ton, and silk at £100 per ton of both grades. It is also estimated that the average yield of wheat is 40 bushels per acre, and that the average yield of maize is 40 bushels per acre. In view of the high cost of living, times and taxing, into account the fact that most of the farmers are men without much capital whose farms are fast recovering from the set back they received during the War, I consider that great care must be exercised in the way

of taxation during the next year or two, or great damage may result. A young Country without much capital cannot bear much taxation, and it is too much to expect this Colony with only some 10,000 European inhabitants to be as yet entirely self-supporting, with a big deficit to meet and the Revenue that it formerly received from the Uganda Railway taken away.

UGANDA.

The position in Uganda very largely reflects that in Kenya Colony.

With regard to the merchants, they generally off-load a lot of stock in the cotton season; this year, however, owing to the collapse of the cotton market, the native received only a few cents per pound for his produce, which was barely sufficient for his hut tax and left nothing over for the purchase of goods. Money has, therefore, been extraordinarily tight; there has, however, lately been a slight improvement, as natives coming in to redeem their rances for rations have spent a fair amount of money, and it has been found that their stocks of coin were considerably greater than anticipated.

The planters' position has been, and is, very grave. Estates in Uganda very quickly deteriorate, if not well maintained, and many did to a large extent during the War and have required a lot of money spent on them to

/bring

bring them back to a normal condition, which was being done when the present crisis arose.

Their principal products are rubber and coffee. Owing to the price of rubber and the cost of transport, the product has been an absolute failure. Their coffee does command the same price as that of East Africa and, with the falling market, it has left little margin after shipping home except for the very best quality. As a result, for reasons quoted above, Estates have not been hearing full crops up to the present.

It has, therefore, been a continual drain on the Planter to find the money for the upkeep of the Estate and for his labour - a drain which, in many cases, he has been unable to stand.

Others are still struggling along, but they need help very badly until their next year's crops are ready, which promise well, and there are limits beyond which the Banks cannot be expected to finance them out of their capital. In a country with the resources and population of Uganda, there must be a failure, but the great difficulty at present is maintenance and, unless help be forthcoming, the Country may be put back for many years from a Planter's point of view.

I do not suggest that help should be given indiscriminately, but only in cases where it is confidently anticipated that, by doing so, the position would be saved.  
/Tanganyika Territory.

TANGANYIKA TERRITORY.

In reporting on the financial condition of Tanganyika Territory, it will assist matters first to review briefly the factors which led up to the present position.

During the campaign which expelled the Germans from the Territory, one of the British invading columns captured some German Rupees and used them for the purchase of supplies. From this time onwards it was inevitable that the German coinage would be recognised. (As a matter of fact this coinage became very necessary to the military operations. Indian Rupees were unobtainable and South Africa could not provide sufficient silver. The native, who was being employed as a porter, knew and understood the German coin and it was advisable, in view of the German interim note which was discredited, to try and pay him with a new issue). Therefore, the German coin was fully accepted throughout the Territory and took the same status as the Indian Rupee. This status was maintained by a guarantee from the military authorities, under which they agreed to take over all surplus German coins from the Banks, paying for them in Mombasa. The Civil Administration confirmed the legality of the coin, but without any guarantee of redeeming surplus holdings by the same methods as the military had used. The German Rupee, being a silver coin,

rose in sterling value at the same rate as the Indian Rupee until March, 1920, when the Government of the Territory nominally stabilised it at two shillings in conjunction with the Governments of British East Africa and Uganda, apparently without being prepared to maintain it at that value by the sale or purchase of drafts or telegraphic transfers.

During the period of the campaign the Territory had a very large floating population, and the Indian merchants (there were no European ones except a few Greeks) made large profits. Their profit, actually, was only determined by the amount of goods they could get to sell. They, therefore, placed large orders abroad and generally traded beyond their capital. With the Armistice came the payment of the native porters - on their discharge from military service - and a further stimulant to trade. Also an influx of speculators in salvage stores, served to postpone the inevitable slump.

Meanwhile, the plantations which the Germans had developed had practically gone back to square one. A few had been worked by Greeks under most difficult conditions, as all available labour was required for military works, and there was no shipping space to spare for their products. The War area had passed over the districts around the Rufigi River, where the native was a producer of cotton and rubber, and this, with the uncertainty of anybody buying

buying their crops, had stifled native efforts.

Then, at the end of 1919 and the beginning of 1920, the trade position of the Territory was distinctly bad, though this was not apparent outwardly. The imports were being bought by Government expenditure on the payment of posterns, and the only exports were salvage stock, small quantities of hides, ground nuts, etc. from the Lake Ports and a certain amount of unacclimated wheat of a questionable quality.

There is little doubt that, at the period of inflation in the middle of 1920, considerable capital might have been attracted to the Country, probably with disastrous results in itself, could an open policy have been pursued. There were many reasons against this policy. The uncertainty of tenure, the necessity of setting up civil courts and a judiciary, of policing the Country and of setting in motion the machinery of administration, were obstacles which had to be removed first.

It is very fully apparent that the Country's most vital need is an export trade. Sufficient labor and the wages taken to produce it, imports are of small value. To a certain extent the savings of the native population might be spent on imports, but here again the importer finds himself in an impossible position. As has already been stated, the currency of the Country was stabilized at 2/- without any mechanism to maintain this rate. With the

/slump



slump in trade, the lack of internal business and the non-existence of exports, coin has concentrated in the coffers of the Banks to such an extent that they hold practically 100% of their deposits in cash. As must be apparent, not only will rates have to rule against the remitter out of the Country, but Banks will be very reluctant to remit at all. This is actually now the case, and the importer finds the greatest difficulty in paying for his goods.

It is to the credit of the Banks for their consistent discouragement of speculation, that matters are not a great deal worse.

Fortunately there was not a great number of new businesses started, and the Indian trader, though he lost money, is not much worse off than he was before the War. The Banks are in a difficult position until the Currency is adjusted properly, and their utility for assisting trade is practically nullified. The establishment of a Currency Board, which would regulate the coin holdings of the Territory, would certainly relieve the situation of 1918 and materially assist them to perform their traditional functions.

The position of the Government's finances is obscure. Out of their native taxes should come a great portion of their revenue. Without the opportunity to earn money by work, with little market for their crops (which they have been encouraged to grow), when their savings are used up it is difficult to see how the natives are going to

/pay

pay these taxes. The high customs tariff, house-tax, rates, railway charges and profit taxes that have been set up can only serve to deter new capital from entering, and will, therefore, do little to improve the financial position of the Colony.

Financial salvation can only lie in encouraging any enterprise that will add to the productive power of the Country, be it mining, agriculture or anything else. New enterprises of any sort necessitate fresh capital. This capital can only come from one of two sources - Government or private. If this Country is to be run on the lines of West Africa, with the native as the producer, it is incumbent upon the Government not only to finance the growing of crops, but to be prepared to guarantee temporarily to the producer, a sale for them. If, on the other hand, the Country is to be developed by private enterprise, the fact must be borne in mind that capital with its present scarcity demands better terms than in pre-war days, and concessions must be made accordingly.

The Country lies at present in a state of financial coma, from which it can only be awakened by a definite statement of policy. Its mines lie unworked, its people are a wasted asset and the jungle has reclaimed much that was won from it by the Germans. Each month that it is allowed to lie dormant adds to the difficulty

pay these taxes. The high customs tariff, house-tax, rates, railway charges and profit taxes that have been set up can only serve to deter new capital from entering, and will, therefore, do little to improve the financial position of the Colony.

Financial salvation can only lie in encouraging any enterprise that will add to the productive power of the Country, be it mining, agriculture or anything else. New enterprises of any sort necessitate fresh capital. This capital can only come from one of two sources - Government or private. If this Country is to be run on the lines of West Africa, with the native as the producer, it is incumbent upon the Government not only to finance the growing of crops, but to be prepared to guarantee temporarily to the producer, a sale for them. If, on the other hand, the Country is to be developed by private enterprise, the fact must be borne in mind that capital with its present scarcity demands better terms than in pre-war days, and concessions must be made accordingly.

The Country lies at present in a state of financial coma, from which it can only be awakened by a definite statement of policy. Its mines lie unworked, its people are a wasted asset and the jungle has reclaimed much that was won from it by the Germans. Each month that it is allowed to lie dormant adds to the difficulty

574

of its financial awakening and Tanganyika Territory, with its vast latent potentialities, its cheap and good labour, excellent railways and numerous ports, looks like becoming a liability rather than an asset to the Empire.

ZANZIBAR.

This Territory has felt the effect of the depression the least of any in East Africa. It has not had to contend with the uncertainty about its exchange, as no alteration has been made there. As a matter of fact, its merchants have made a lot of money from smuggling Rupees over to the mainland. There is also a lot of wealth in the island, and with the improvement in the Home and Continental demand for its chief products - copra and cloves, it is now doing a good export trade and its financial position is sound.

KENYA COLONY AND UGANDA - GENERAL.

Since writing the above report, emergency regulations have just been passed raising the import duty on tea, coffee, and wheat from 10% to 15%, on most other goods from 5% to 30%, and on imported sugar, rice, cloths, wine, etc. from 10% to 30%. This will be a further heavy burden for the people of this Country to bear.



Africa branches of the Standard  
Bank of South Africa, a copy of  
which was enclosed in April 1911.

(Signed) G. GRINDLE