

EAST AFR. PROT.

NO 259402

25052

18 JUL 08

(Subject)

1908

Local Post Balances

2 June

Blank Paper

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... ..
... ..
... ..
... ..
... ..

(Minister)

This should come before the Finance Committee
The who dealt with the question
on the 3rd of June last. As the
Ct. are already familiar with the
case of the case, I think that it
is sufficient to submit
a copy of the CP with a few
of the present steps. Mr. W. C. ...
Mr. ... after Sir S. ... should
be asked to attend the meeting
as on the previous occasion.

Copy sent to ...

H. J. R.

25/7

F.T.

The papers mentioned in your
 minute was considered by the
 Finance Committee on the 15 day
 Sir E. Batake being present

The Committee were unanimously
 of opinion -

That a despatch should
 be written agreeing to the two
 proposals put forward in Mr
 Baring's letter of 15 June 1859
 but pointing out that the
 information furnished was at
 present incomplete and that
 the Government are glad to
 be informed as to the rate
 at which the Bank affords
 accommodation in the Protectorate
 and the amount which it
 can so employ. Say that the
 Secy notes that the manager of
 the Bank states that he can
 form no idea of the amount
 which the Bank could usually
 employ locally but that it

works

the says thinks that it must be possible to frame at least a rough estimate that with regard to parameter 6 (h) if it is shown that the says would be glad to know why it is proposed that no interest is to be payable by the Bank on balance of between 3 and 5 lacs

Atm. ATB
570

Mr. Rana

Please see a deal with

for the purpose of the meeting

20/10/1956
President
Secretary
Treasurer
Cao

Governor's Office,

Mombasa,

June 26th 1908.

EAST AFRICA PROTECTORATE.

No. 310.

(Incl. 4.)

25952
13 JUL 08

My Lord,

I have the to reply to Lord Elgin's despatch No. 59 of the 7th February last on the subject of the Mombasa local Government balances; in this Protectorate the Treasurer has again placed himself in communication with the local manager of the National Bank of India limited with the result contained in Mr. Hoar's letter of the 15th instant; the correspondence taken up to this letter is enclosed.

The view held here has been that the Government should share with the Bank the responsibility of maintaining an adequate supply of specie in the Protectorate; this view, however, has not been met with Lord Elgin's approval, and I presume this question will not be reconsidered.

The local balances of Protectorate monies, independent as they are on the general condition of trade, have fluctuated to such an extent that it is no easy matter to come to a conclusion as to what should be said as either the maximum or minimum balance.

H.M. Principal Secretary of State
for the Colonies,
Downing Street,
LONDON, S.W.

balance to be kept with the Bank, more especially as the Crown Agents held the view that the security to be furnished by the Bank, should also fluctuate temporarily, in proportion with the amount of the balance for the time. Vide paragraph 4 of Crown Agents letter of the 14th February 1907. I have spoken to Mr. [Name] on this subject and he agrees with me that a system of fluctuating security would prove inconvenient in practice, and will probably be objected to by the Bank, and that in the case of a bank of such a standing as the National Bank of India Limited, security as fixed is essential, then that such security should be for a fixed amount. The security so far has been for 25,000 only which bears no proportion to the sums entrusted to the Bank's keeping. The security is to be taken in excess of the sum fixed by not more than 100,000, and as an alternative to a fluctuating scale.

The balances as proposed for the future by Mr. [Name], and agreed to by the Bank, are minimum 25,000, maximum 100,000. The maximum may appear high, but unless fixed at a high figure it is essential that the fluctuations we have had in the past, should be avoided in exchange by having to draw on the Crown Agents for money we have previously remitted to them, and also by the sale of investments held by the Crown Agents, possibly

in

in a falling market.

Subject to the same remarks made with the view expressed by the Treasurer in his letter to which this despatch gives cover.

7. Subject to Your Lordship's approval I have temporarily sanctioned the two proposals made in paragraph 6 of the letter above referred to.

I have the honour to be
With the highest respect,

My Lord,

Your Lordship's most obedient,
humble servant,

George S. ...

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National Bank of India Limited.

Mombasa, 30th April 1966

25952

JUL 08

The Hon. C.D. Bowring
Treasurer, P.A.P.,
Nairobi.

Dear Sir,

With reference to the suggestion to substitute in place of the arrangement recently provisionally agreed upon regarding Government balances in account current with the Bank, a fresh arrangement whereby a limit of our allowing interest on Government funds in excess of a certain amount, you propose, in view of a probable assumption of Government assets held here, that in future we should agree to a minimum credit balance to be kept in account current and in the event of your balance falling at any time below such amount, interest to be charged on the shortage as on an overdraft.

In the writer's letter of 20th July 67, addressed to yourself we gave our views as to the expediency of such an arrangement in a young and advancing country such as this, especially as it is from any point of view commercial sense, a source of reserve of cash in case of any unforeseen emergency, and is also the Government's responsibility in agreeing in this.

We are still of the same opinion and therefore, whilst quite agreeable to fall in with the proposed arrangement, we would ask that the minimum balance to be agreed upon should be as liberal as possible.

We would suggest that a balance of Rs. 2,00,000/- in Mombasa and Rs 1,00,000/- in Nairobi (a total of Rs. 3,00,00/-) between

between the two) be the amount fixed and would propose that the rate to be charged on any shortfall of this amount be fixed at one per cent under Bank of Bombay rate with a minimum of 5 per cent and we shall be glad to know whether such terms meet with your approval.

At the same time we would like to raise the question of exchange on transfers of funds between Mombasa and Nairobi. Such transfers have in the past been granted you at par, but as you are aware we no longer get free freight from the railway for our movements of specie as we formerly did, and we think therefore that our original agreement with the Crown Agents should be reverted to, whereby you are granted such transfers at 1% better rate than is current at the time for our most favoured constituents.

We shall be glad to know whether this is agreeable to you.

Yours faithfully

A. G. Turnbull
 Manager.

10.10.10/41.

The Treasury,

Mombasa, 20th May 1908.

25952

19 JUL 08

With reference to your letters of 20th September 1907 and 20th April 1908, on the subject of the disposal of the Local Government balances in the East Africa Protectorate I am directed by H.M. the Governor to inform you that the Secretary of State, to whom the matter was referred, and to whom a copy of your first quoted letter was forwarded, has expressed the following opinions:-

1. That a minimum sum should be fixed as the balance to be kept on current account, below which interest would be charged by you as of an overdraft and that the figure should be fixed at as low a figure as the Government business with you may allow.
2. That apart from the money to be kept on current account, a reasonable amount should be placed on fixed deposit with you provided (a) that the amount so placed on fixed deposit can be employed by you in the Protectorate and (b) that the interest thereon should be in relation to the rate of interest obtained by you when you employ money in the Protectorate.
3. That all sums of money over and above what is required for these purposes should be remitted to the Crown Agents to be employed at interest on account of the Protectorate.

From your letter of 20th ultimo I gather that you propose that three lacs (Rs. 3,00,000) be the minimum

Manager,
 National Bank of India Ltd.,
 Mombasa.

aggregate amount to be kept on current account at your
Mombasa and Nairobi Branches.

Although, owing to exceptional circumstances
the Government balances have, for the time being, fallen
below that figure, I am prepared to recommend to His
Excellency that it be accepted as the minimum amount to
be kept on current account when the negotiations now
proceeding between us have been concluded. I propose
at the same time to recommend that the security for
Government balances furnished by your Bank be permanently
increased by 250,000.

I further note that you propose that the in-
terest to be charged on any short fall of three lacs
should be fixed at one per cent below the Bombay Bank
rate subject to a minimum of 5 per cent.

Before discussing the rate of interest I
should be glad to be informed what amounts could usually
be employed by you in the Protectorate for sums placed
on fixed deposit account and what rates of interest you
would be prepared to pay on such fixed Government de-
posits in the light of the views of the Secretary of
State.

At present, no doubt, the opportunities of
employing large sums locally are not great and the
issue of the sum to be placed on fixed deposit would
probably require to be revised from time to time as the
trade and prosperity of the Protectorate increase.

With reference to the last paragraph of your
letter of 20th ultimo I readily admit that, under the
new conditions, whereby you no longer get free freight
on specie on the Railway, it is only fair that you

should make some charge on drafts between Mombasa and Nairobi and I am prepared to recommend to His Excellency the proposal that a charge, 1 per cent lower than is current for your most favoured constituents, be agreed to.

I further propose to recommend that in future all M.C. remittances to India should cease and the accounts between the Indian and East Africa Protectorate Governments adjusted in London. This change of system together with the fact that there is a greatly reduced P.W.B. programme, for the current year will tend to increase the local Government balances.

I have the honour to be,

Sir,

Your obedient servant.

Sd/- E. J. Bowring.

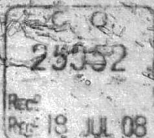
Secretary

No. 108

National Bank of India Limited,

Bombay, 3rd June 1908.

The Hon. the Treasurer,
E.A.P., Bombay.



Dear Sir,

We beg to acknowledge the receipt of your letter of 20th ultimo on the subject of the disposal of your local Government balances in the East Africa Protectorate and we note the views expressed by the Secretary of State with regard thereto.

2. Whilst expressing our disappointment that it should be found necessary to discontinue the arrangement provisionally entered into between us, which we considered more satisfactory from all points of view, we are prepared, subject to Head Office confirmation, to confirm to the fresh arrangement which you propose to recommend to H.E. the Governor, viz, that the figure Rs. 3,00,000 be accepted as minimum amount to be kept on account current, any short fall of this amount being charged as an over draft.

3. With regard to our suggestion of 1% under Bank of Bombay rate with a minimum of 5% as a reasonable rate of interest to be charged, we would be willing if you prefer it to charge an all the year round rate of say 7%.

4. Conditions vary so much in ~~the East~~ the East and more especially in a new country such as this where no fixed industry has as yet been started, that it is quite impossible to form any idea of the amount which we could usually employ locally and the rates of interest to be given on fixed deposit should therefore we think, be left for mutual arrangement between us from time to time. If, when you have surplus funds, it suits the Government

better to remit to London than to place them on deposit. Such remittances to be made through us.

Should there be any change of your continuing the present provisional agreement in a modified form on account of altered and changed circumstances, we would submit for consideration the following proposal, viz, that any short term balances below Rs.500,000 be charged as an over draft as now suggested, that no interest be paid by the Bank on balances up to Rs.500,000 but that on any balances whether fixed or otherwise beyond that amount and up to Rs.80,00,000, we would pay interest at the rate of 2% provided only that you agree to give them reasonable notice of the withdrawal of any important amounts.

6. With reference to your remarks on the subject of increasing the security lodged by our Head Office, as every thing in this connection has been done direct with our Head Office we think that the Colonial Office had better communicate with them when we are confident a suitable arrangement will be made.

I am, etc.

Ed. A.J. Turnbull

Manager.

better to remit to London than to place them on fixed deposit such remittances to be made through us.

5. Should there be any chance of your continuing the present provisional arrangement in a modified form on account of altered and unforeseen circumstances, we would submit for consideration the following proposal, viz. that any short fall in your balances below Rs. 500,000 be charged as an over draft as now suggested, that no interest be paid by the Bank on balances up to Rs. 500,000 but that on any balances whether fixed or otherwise beyond that amount and up to Rs. 80,00,000, we would pay interest at the rate of 1 1/2% provided only that you agree to give the Bank reasonable notice of withdrawal of any important amounts.

With reference to your remarks on the subject of increasing the security lodged by our head office, an event which in the proposition has been done direct with our Head Office we think that the Colonial Office had better communicate with them when we are confident a suitable arrangement will be made.

I am, etc.

Sd. A.J. Turnbull
Manager.

The Treasury,
Mombasa, 15th June 1908

25952

Recd
Per 19 JUL 08

Govr. No. 108/54.

Sir,

I have the honour to refer to Colonial Office despatch No. 59 of 7th February last on the subject of the disposal of the local Government balances in the East Africa Protectorate.

2. I have discussed the question at length with the Manager of the Local Branch of the National Bank of India and have the honour to attach copies of further correspondence which has passed between us on the subject.

3. Since my letter of 25th September 1907, our local balances have become very considerably depleted and at the present moment not only are there no surplus funds available for investment but it may even be necessary in the near future to obtain a remittance from the Crown Agents. This state of affairs may be ascribed to the failure to realise the estimated Railway and Customs Revenue for the Year 1907-08 to the extent of over £40,000 by which amount our local balances would otherwise have been increased.

4. It being obviously undesirable to incur the loss on exchange which we should have to face were we obliged to draw on the Crown Agents, I have arranged with the Post Master General that our Money Order settlement with the Government of India, which has in the past

Burnbull's
No. 4. 1908

G. No. 108/41
No. 5. 1908

Burnbull's of
S. 6. 1908.

His Excellency
The Governor.

must be made by remittances to Bombay, shall in future be made in London by the Crown Agents. By this means it is estimated that a sum of £75,000 will be released for the current financial year and will go a long way towards obviating the necessity of drawing on the Crown Agents.

5. Although the depletion of our local balances has, for the present, made it unnecessary to alter the existing arrangements with regard to the same, it is still desirable to arrive at some definite decision in order that any future surplus local funds may be able to be dealt with without further reference to the Colonial Office.

6. I have accordingly the honour to submit for your consideration the following proposals which will require Colonial Office sanction:

- (a). That the minimum balance to be kept with the Bank be fixed at 5 lacs or £50,000.
- (b). That interest at the rate of 1 per cent be payable to the Bank on any short fall in our balances below 5 lacs.
- (c). That interest be payable by the Bank at the rate of 2½ per cent on any balances on current account over 5 lacs.
- (d). That any balances in excess of 15 lacs or £150,000 be remitted to the Crown Agents for investment.
- (e). That the permanent security found by the Bank be immediately increased from £5,000 to £20,000.
- (f). That the security to be found by the Bank be temporarily increased by £20,000 for each 5 lacs or part thereof over 4 lacs, e.g. for a balance of 8 lacs security ~~will~~ would be found for £40,000 and for 10 lacs £60,000.

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It will be observed that the above proposals make no provision for placing sums on fixed deposit with the Bank. In view of the existing conditions in East Africa referred to in the 4th paragraph of Mr. Turnbull's letter of the 3rd instant, I consider it better for the present to allow our surplus balances to remain in an interest bearing current account than to place them on a fixed deposit account.

8. Owing to the depletion of our balances I have informed the Treasurer of Uganda that we are not for the present in a position to finance that Protectorate. Since May 1907 we have transferred to Uganda £s. 1,85,000.

9. I have the honour to submit for your sanction the two proposals referred to in the two last paragraphs of my letter to Mr. Turnbull of 20th ultimo viz. (1) a charge of $\frac{1}{2}$ per cent lower than the Bank's most favoured constituents for drafts between Mombasa and Nairobi and (2) the adjustment of our Money Order account with India through London.

I have the honour to be,

Sir,

Your most obedient servant.


Treasurer.

60 13
10 Aug

no. 374

STR.

I have to ack. the recd. of your
desp. no. 810 of the 26th June, on the
subject of the disposal of local Govt.
balances in the E.A.P.

I approve of the proposals made in
the ninth para. of Mr Bowring's letter
of the 15th June, with regard to the
charge for drafts between Mombasa and
Nairobi and the adjustment of the Money
Order account with India through London

Ans 3757

H.P.C. 6/8

Mr Read

is meant with
insufficient to definite
construction

The 4th para. in ~~the~~ ~~proposals~~ regarding
to the other questions at issue is ~~not~~
a ~~complete~~, and I should be glad to
be informed as to the rate at which the
Bank affords accommodation in the ~~pro-~~
~~posed~~ rate and the amount which it can so
employ. I note that the Manager of the
Bank states that he can form no idea of
the amount which the bank could possibly
employ locally, but I think that it
at least be possible to frame a rough
estimate...

With regard to the proposals contain-
ed in para. 6 (b) and (c) of Mr Bowring's
letter of the 15th June, I should be glad
to know why it is proposed that no inter-
est is to be paid by the bank on balances
amounting to between 5 and 6 lacs.

City, Nairobi
2538

of the London & North Western Railway Co. Ltd. for the
 employees of the London & North Western Railway, and the
 contributions to the Fund will be paid into
 the National Bank of India. At the end
 of ten years it is estimated that the amount
 of £135,000 will have been paid into the
 Bank, less a deduction being made for withdrawal
 by estimate of the probable withdrawals has
 been prepared, and not an estimate would
 be very speculative. In the early years of
 the Fund withdrawals would be few, and it
 may be taken that in ten years the
 deposits will be over £100,000 and still
 increasing.

The question now arises whether the Bank
 should be required to give security for these
 deposits, or if it is clear from the security
 should take. The General Manager of the
 Railway considers that the Bank should
 be required to give security. The Treasury
 was consulted and replied:

My Lords, I am sorry that the National
 Bank of India should not be required to
 give security in respect of the amount to be
 paid for it on behalf of the London &
 North Western Railway, as the practice should
 as they understand, prevails in the case of
 balances held by banks on behalf of Colonial
 Governments.

The Finance Committee are asked to
 advise as to the form which the security
 should take, and its amount in connection
 with the question of the East India Post
 Office general balances at the Bank.