

EAST AFR. PROT  
72865

72865  
23 FEB 19

372

H. H. W.

Uganda Railway  
Financial Arrangements

1919  
Dec

Extraneous Paper  
B  
72465

Submits proposals

Extraneous Paper

RECEIVED  
GENERAL INVESTMENT DEPARTMENT  
15 VICTORIA

3. CENTRAL BUILDINGS,  
WESTMINSTER, S.W. 1

72583

23rd December, 1919.

23 DEC 19

Sir Herbert J. Read, KCMG., C.B.,  
Colonial Office, S. W. 1.

373

*Herbert*

Following our last conversation, I send you herewith, in triplicate, for consideration my proposals for the carrying out of the Basin of New Railway. These have been formulated after many discussions with my financial friends so as to get the best possible line of finance in these somewhat uncertain times.

I shall be only too pleased to see yourself or your colleagues and discuss any points upon which you would like further information, but I am convinced from everything I have heard, that the great volume of issues which are going to be put upon the market in the near future, and the uncertainty as to the future cost of money, makes it highly desirable that a decision should be taken and the bonds placed on the market at the earliest possible moment. So far as my Group are concerned, we are convinced that no time should be lost in making the issue, and for our part we are prepared to proceed with the business energetically and immediately in the New Year.

Yours very sincerely,

*Herbert J. Read*

3 CENTRAL BUILDINGS,

WESTMINSTER, S.W.1

22nd December, 1919.

374

To the Under Secretary of State,  
Colonial Office, S. W. 1.

Sir,

Uasin Gishu Railway.

On behalf of myself and the financial groups who are prepared to go into this business with me, I beg to submit the following proposals for the construction of the above railway.

There appear to be three main methods by which the proposed extensions to the Uganda Railway can be carried out.

(1) The Protectorate Government can carry out the work itself, raising a government loan to finance the cost of construction and operation.

This method has the merit of simplicity, but does not decentralize construction which I understand is in some respects desirable. Nor does it enlist outside financial and commercial interests which would be useful in the future to encourage schemes of development by which the railway would benefit.

(2) The Protectorate can sell the existing railway system to a company in which it would retain a controlling interest, and finance further extensions on the security and prospects of the existing system.

This method would have the advantage of retaining the whole railway in one organisation but would

entail certain political and working difficulties and reorganisation of personnel. In addition, it would have the disadvantage of necessitating a sale at a considerable capital loss, and would be a more expensive method of raising the additional capital required.

(3) There remains a third method which, while somewhat novel, would appear to be the best solution, and I therefore propose to enter into this method in detail.

I presume that the Protectorate Government will desire

- (1) To retain control of the new Railway
- (2) itself to operate this railway in conjunction with the present system.

I should therefore suggest

that a company should be formed with an authorized capital of say £1,000,000 in 1,000,000 shares of £1 each for the purpose of constructing the proposed Usin Ghent line and any further extensions which the Protectorate may from time to time determine to make. An agreed proportion of shares should be immediately issued to the Protectorate to represent the value of the present concession and necessary facilities. Of which an agreed number should be allotted to the group finding the necessary money for the construction of the new system, but so that the Protectorate will maintain complete control over the line and the future policy of the Company, including the balance of its unissued capital.

It is suggested that the Government should be represented on the Board by three Directors

including the Chairman and the Group by two Directors.

375

The money necessary for the construction of the line and for the overhead and administrative expenses of the company should be found by the issue of say £3,000,000 - £3,500,000 of debentures which would be guaranteed by the Protectorate.

When the line is completed it would be leased to the Government for a period equal to the term of the Debenture issue at an annual rental equal to the amount necessary to cover the service of the debentures, i.e. interest plus sinking fund. The Government would thus not only practically own the line but would also operate it without any outside control.

The head office of the company would be in London and should also have as a semi-official information Bureau and centre of propaganda and would thus fulfil a most necessary and useful function in promoting the development of the Protectorate, while the inclusion of important financial and commercial interests as shareholders in the company and on the Board would facilitate foreign finance and encourage their assistance in the development of the resources of the Protectorate from which the railway would be the first to profit.

With regard to the debentures, these could either be issued in one lump sum or in say three yearly instalments, but my financial colleagues are of opinion that the whole amount required to finance the construction of the proposed system and the interest during construction and say one year thereafter together with a small surplus to cover

administrative and overhead expenses should be issued at once because

- (1) the rate for money will probably rise during the next three or four years,
- (2) a partial issue is not popular with the public,
- (3) a saving would be effected in advertising and other expenses,
- (4) the money could always be profitably employed on short term mortgages and otherwise in Protectorate.

In the present uncertain condition of the money market it is impossible to state definitely what rate this issue could be made, until the approximate date of issue is fixed. Nor until such time is it possible to say how much should be devoted to interest and how much to redemption since fashion varies in this respect.

The ratio in value, however, between this issue and the average Colonial Trustee stock will remain constant and it should therefore be possible forthwith to agree upon a formula on this basis.

It should be noted however that this issue would be too small to attract the mere speculative investor, and that it is precluded from tapping upon the enormous resources in the hands of Trustees, and some allowance must be made for this fact.

The following terms are therefore suggested

- (1) The Debentures should be guaranteed as to principle and interest by the Protectorate and the interest and sinking fund secured by the terms of the lease above referred to.
- (2) The date of redemption should be the year 1900, the sinking fund to come into operation in the year 1895, by which date the line should be in operation and to be applied to the redemption of the debenture either by annual drawings at par or by purchase on the

market, whichever is most favourable to the Company.

(3) The Debentures to be issued on terms which would give the public a return in interest of 5% per annum more than the cheapest Colonial issue of the time, and at a price calculated to give a redemption yield of 10% per annum assuming the bonds are drawn at par at the average date of redemption (in this case 1900) and after deducting 5% which would probably cover the expenses of the issue including the cost of advertising and underwriting (unless it were considered advisable for political reasons to issue a portion in Africa).

My group will undertake the construction of the Railway on the basis of the revised estimate for a contractor's profit of 5% on the approximate cost of two and a half millions, shown on such estimate. Should any saving be effected on that estimate, 75% thereof will belong to the Railway Company and 25% thereof will be the Contractor's bonus for such saving and an agreed bonus for any saving of time based on a similar proportion.

In the event of the costs as shown on the revised estimate being exceeded, the contractor shall receive no profit on such excess.

Figures to be based upon a fixed rate of exchange.

It is understood that facilities will be given by the Protectorate through the Crown Agents and otherwise for the purchase and transport of material, labour and use of rolling stock, the price or rate of hiring being of course agreed and included in the revised estimate.

The facilities given will have a great bearing upon the time that will be necessary for the construction of the work and consequent saving of in during construction.

It is understood that construction will be carried out under the supervision of the Government Engineers on behalf of the Protectorate.

I am, Sir,

Your obedient servant,

