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EAST AFR. PROT

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C. O.
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REC
REC 27 JAN 20

292

Mercer
Sir W. M.

1920

6 Jan.

Last previous Paper.
[illegible]
3050 GEA

Currency.

Sir H. Read. Sir G. Fiddes.

Pl. see also the attached minutes on a point suggested by [illegible] Colonel Amery on Saturday — & also 9/4566.

I have no comment on Sir W. Mercer's memo: ~~& statement~~ announcement.

W.A. 27/1/20

Col Amery
& L.R.
[illegible] 27.1 27/I/20.

Sir H. Read Sir G. Fiddes

The announcement has been much revised in discussion between Col. Amery, Sir W. Mercer, Mr Ezechiel & myself, and in the typewritten form attached [illegible] in being sent by Col. Amery to ~~[illegible]~~ [illegible] of the

H.C. for Tang Cons [illegible] 11 Feb 20
Sir Tel to Gov EAP (Repeated Uga & Tang) 18 Feb 20

Subsequent Paper.
G
4566

(069—4 h) Wt. 26689—35 50,000 11/19. H. St. G. 193/41.

Treasury for early approval.

If approval is received in time for publication in, say, Fridays papers, it is proposed that on Wednesday afternoon representatives of the Banks should be invited to meet Col Harvey – [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] in E A [illegible] [illegible], so that they will [illegible] [illegible] what is intended. They will be informed that [illegible] the limited period the Govt will pay them [illegible] the rate of [illegible] for the rupee [illegible] [illegible] that they will get [illegible] [illegible] premium on any rupee [illegible] by the Govt [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible]

the rate of redemption [illegible] [illegible] [illegible] depend on the [illegible] [illegible]

[illegible] [illegible] [illegible]

[illegible] will be [illegible] [illegible] [illegible] [illegible] with Major [illegible] [illegible] made, will ~~[illegible]~~ [illegible] [illegible] [illegible] [illegible] [illegible] rupee [illegible] [illegible] [illegible] [illegible] made [illegible] [illegible] [illegible] made upon the Indian [illegible] [illegible] at [illegible] On the [illegible] hand, it is to their interest that [illegible] [illegible] should be kept going and they [illegible] [illegible] [illegible] paying on a 2/- rupee

As the S of S gave us no notice of their decision the 2/- rate was [illegible] 293
brought into operation in E A we [illegible] (as you know) immediately [illegible] legislation making the "Bradbury" Capital [illegible] at [illegible] [illegible] but this takes time ~~[illegible]~~ Mr H. Bysoutt [illegible] [illegible] told that it is inevitable that [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] and [illegible] that [illegible] eg Zanzibar will [illegible] [illegible] [illegible] [illegible].

[illegible] ~~[illegible]~~ sudden appreciation of the Indian rupee due to the decision of the S of S [illegible] [illegible] prejudices our scheme by increasing the [illegible] of [illegible] [illegible] of prices, consequently wages and also the [illegible] of [illegible] [illegible] [illegible]. It means also that debtors to India will be [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] had [illegible] [illegible] [illegible] rupee

There are [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] ~~[illegible]~~ – [illegible] [illegible] detailed consideration

W.C.S. [illegible]

Col Amery [illegible] [illegible]

[illegible]

Sir W.Mercer,

I have your memorandum about East African currency and am registering it with a view to putting it forward to Colonel Amery.

Before I do so I should mention one point which he put to me on Saturday.

He was impressed by the fact that any simultaneous circulation of the Indian rupee and the new rupee will, even taking the new rupee approximate in value to the Indian rupee, tend to send the new coin to a discount by leading to increases in customary payments.

Colonel Amery suggests that it might be possible to declare, during the limited period, that the new rupee should be equivalent to the Indian rupee for small payments up to, say, Rs.50.

I am not certain how this will affect payments to Uganda natives for seed cotton which is always in small lots and probably never come to more than Rs.50 at a time, but I will take some opportunity of speaking to Sir R.Coryndon about this.

Another point is that while a man who sells goods in small lots would incur only a trifling loss on each transaction (as compared with payments in Indian rupees) this loss may in the event of a large number of such transactions become serious. If traders wished to guard themselves against loss in this way they would of course increase their prices and the effect of the alteration would to that extent be reduced.

I shall be glad if you will let me have your views on this point. I have always thought that the only way of guarding against the evils of a dual currency was that we should demonetize the ~~old~~ Ind rupee as soon as the new system comes into effect, while of course redeeming it at the half way value and recognising it on the same basis for the purpose of fixing the amounts of contractual payments expressed in terms of the new rupee. But support in demonetization is impossible since we shall not have a full supply of the new currency ready.

G.G. 26.1.20

Mr. Bottomley.

We cannot safely demonetise the Indian rupee until we have not only got a substantial supply of the new coin but have got them into general circulation.

It would certainly be a good thing if we could make the new rupees of equal value to the Indians for small payments. But I doubt whether this is possible. Making them legal tender would be useless, for we are dealing not with debts but with cash transactions. It would be necessary to make it a criminal o[ffence] to make a distinction. But (1) such a law c[ould] not be made effective (2) on principle it w[ould be] indefensible to make a crime of a sale for [illegible] + 9 Rs when one of 51 Rs. would be unpun[ished]. Admittedly the price of Indian goods would [illegible] rise, but we cannot secure the full advantag[es] of both systems. The Indians will have [illegible] of a grievance as it is and it would be [illegible] aggravate it.

WDEM 27/1

The principle is the same as with nickel coins. It will not be necessary to make it a crime to treat the two rupees differently i.e. to ask for silver rupees by preference, & traders will tend to do so. But the fact that the new coin is legal tender at once at its face value for the small ordinary payments which won't affect natives and Indians will greatly help the transition and prevent ~~[illegible]~~ the dual currency conception dominating things. And merchants & others won't reject a customer's rupee & forgo 25 cents profit for a 10 cents loss which they may be able easily to pass on. But it may be necessary to fix the limit much lower than 50 rupees, and 15 or possibly even 5 rupees may be nearer the mark.

G.A. 28/1

Sir H Clynd[?]. Mr. J. Fiddes

I attach the Currency memo: in the form in which it has been approved by the Chancellor of the Exchequer. Colonel Amery was anxious that it should appear in Military Intelligence paper.

The only point calling for notice is the omission of the reference (page 3) to the sovereign remaining legal tender for 15 rupees. The Treasury objected to the public inference of the depreciation of sterling, and as the [illegible] does not comment on it they may [illegible] & I have agreed to omit it. The general policy with regard to the sovereign can be fully considered later.

[illegible] wished it to go in, but

The memo: was read by the representatives of the three Boards today at a meeting at which Mr W. [illegible], Mr [illegible] (of the Treasury) & [illegible] were present. At first they wished to consult their Boards, but they were told that time would not permit of this — that the scheme must be

published unless they could say that
it was unworkable or that they would
be overly hostile, & that it represented
a compromise in which they lost far
less than the settlers. The representative
of the N. B. of India said that he
considered the scheme an excellent
one for the South African banks (who
compete having rupees in clearing & suffer in case of
having rupees on the dollar).

Ultimately they acquiesced & I
promised them copies of the memo
simultaneously with publication.
The question what premium the Banks
... on old currency surrendered
later ... is a matter
of ... to be settled with the
E. A. Currency Board later.

It will be necessary to give the
... of the memo to the Govs by
tel. ... local announcement, to
have Ordinances passed as on p. 4,
& to ... the O. in Council
so that we can take power to
make the present currency with
... convertible by Proclamation
— in case of a "run". Convertibility is
provided for by O. in C. & cannot
be touched except by O. in C.

? Send to press tonight, &
let Cd. send me three copies to
send to the Banks. ×

Sent S.O. 13.2.20 [illegible]

C.C.S. 12.2.20
2.45 pm.

A. J. H.
12/2/20 2.55

Alone [illegible] 12/2

1.

11th February, 1920.

Dear Amery

I understand you wish to issue the notice in regard to East African currency on Friday and I send you this note to say that I have no objection to the announcement, subject to the modifications set out on the annexed sheet which have been agreed between the Treasury and the Colonial Office.

Yours sincerely
Austen Chamberlain

Lieutenant-Colonel
L.S. Amery, M.P.

Page 1, paragraph 3. After the words "establish the" insert the word "Indian".

Page 2, paragraph 3. After the words "The Board will issue a new" insert the word "local".

Same page, same paragraph. Delete the last two sentences and insert the following: "It will sell this new currency in London giving delivery in East Africa and will also accept currency if at any time it is offered by the banks in East Africa, paying sterling for it in London. These sales and purchases will after the transitional period be made on the basis of 2/- to the rupee, subject to charges for remittances generally similar to those adopted by the West African Currency Board.

Page 3, paragraph 3. Omit the sentences with reference to gold sovereigns remaining legal tender at 15 rupees.

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

300

11. Feb. 1920

Dear Bottomley,

I return Niemeyer's letter with copy of the reply which I have sent to him as arranged.

I have fixed it up with all three banks to come here tomorrow at 12.

I take it you will submit the question of the sovereign again to Col. Amery.

Mercer has suggested a slight change in the 3rd para. (4th line) of the announcement, viz. for "has resulted in" read "was followed by". This is certainly an improvement, the argument is unaffected we do not ~~[illegible]~~ risk hurting the susceptibilities [of] the India Office.

Yours ever

[illegible]

10th February 1920.

Dear Bottomley,

Before the Chancellor replies to Colonel Amery's letter of the 10th with regard to East African Currency, I think it would save time for us to agree to the answer. I have discussed your draft with Blackett and we think there are two points which need modification.

A <u>Page 2, 2nd paragraph</u>. This commits your Currency Board to send the new currency in London at 2/- to the Rupee. Surely this is not right. No doubt you will endeavour to approximate to 2/- to the Rupee but you cannot be <u>sure</u> that the future course of exchange will enable you to maintain this rate. Moreover even if it does the Currency Board would probably be able to obtain the usual commission on remittance. To take the parallel cases, the Straits Currency Board issues Straits dollars or notes in exchange for sovereigns in London at a rate not less than 7 sovereigns for 60 dollars and not exceeding a rate which affords a sufficient margin above the rate of 7 sovereigns for 60 dollars to cover all charges including interest which would be incurred in remitting to Singapore

from

from London such equivalent in sovereigns. The excess over the equivalent in sovereigns goes to the Gold Standard Reserve. Similarly they receive dollars in exchange for sovereigns at a rate which will provide a sufficient margin above the equivalent in dollars at [illegible] dollars to the £ to cover all charges which would be incurred in remitting from London to Singapore, the sovereigns so payable.

The same thing applies, I think, to the transactions of the West African Currency Board; and it is certainly proposed with regard to the East African Currency, see Section [illegible] of the draft sent to you with Treasury Letter of the [illegible] January, which provides for the East African Currency Board to receive rupees in exchange for sovereigns or notes, the sum to be paid in sovereigns or notes being calculated at such a rate as will make the sum paid less the equivalent in rupees or notes an amount to cover all charges including interest as will be incurred in remitting sovereigns. I suggest to you, therefore, that the 3rd and 4th sentences in paragraph 3 should run "It will sell this new currency in

London

London giving delivery in East Africa and will also accept currency if at any time it is offered by the Banks in East Africa paying sterling for it in London as ~~seen~~ soon as may be on a basis of 2/- to the rupee subject to charges for remittance generally similar to those adopted by the West African Board.

Secondly Page 3 paragraph 3. While we admit it is true, it is not very pleasant to underline in public the fact that whereas the British sovereign is worth 15 rupees the British note is worth 9½ or even 8½ rupees! Is there any real need for you to include the reference to British sovereigns at all? I had always understood that there were practically none in East Africa at present, and as you have prohibited import no fresh ones can get in. If this is so there is a very great deal to be said for making no mention of sovereigns in the present announcement, and perhaps even dropping the legal tender of the character in the legislation.

Two minor verbal points. Would it not be well for the sake of clearness to insert in page 1 paragraph 3 line 3 before the word "rupee" the word "Indian" and page 2 paragraph 3 line 4 after the words "the Board will issue a new" the word "local".

Am

Am I right in thinking that your present announcement does not apply to Nyasaland. I forget whether Tanganyika territory means German East Africa only or German East Africa plus Nyasaland.

Yours sincerely,

O Niemeyer

11th [illegible]

36[illegible]

r Niemeyer,

Bottomley has asked me to reply to your note of yesterday th regard to East African Currency, as he is busy on Committee l today.

We agree to your proposed alteration in paragraph [illegible] of e 2 of the draft announcement with a little alteration so t it reads as follows:-

t will sell this new currency in London giving delivery in East ica, and will also accept currency if at any time it is ered by the Banks in East Africa paying sterling for it in ndon. These sales and purchases will, after the transitional riod, be made on a basis of 2/- to the rupee, subject to charges r remittance generally similar to those adopted by the West rican Currency Board". The only substantial difference from reading lies in the retention of the words "as soon as may [illegible]. We want to make it clear to the public that the intention to [illegible] parity rate (after the transitional period) at [illegible]. We do not anticipate that it will be impossible to maintain is rate, but if, after careful [illegible], we should be pressed by rcumstances to alter the rate, the present announcement need not vent us from yielding to the pressure, as no announcement or islation can be made for all time.

Col. Amery wished to make the announcement as to the currency ining Legal Tender at 15 rupees, and, while he will not be essible till Friday, he is anxious to get the announcement out iday morning's papers. But, to meet your views, we are

r Esq.

proposed to [illegible] the point [illegible] in the [illegible] and [illegible]
submit the question to him again as regards the [illegible]
legislation.

We will put in the words "[illegible]" and "[illegible]" as y[illegible]
suggest.

[illegible] East Africa only
Nyasaland [illegible].

The time for the meeting of the East African Curr[illegible]
Board with the banks at this office tomorrow, to which
Bottomley invited you yesterday, has been altered from [illegible]
to 12 noon.

Yours truly,

(S)678 11/2

Downing Street,

13th February, 1920.

Dear Mr. Lowndes
Dear Mr. Cunningham,
Dear Mr. [illegible],

I enclose a copy of the Press Notice about East African currency which I promised to send you at our meeting yesterday.

I am sorry that by a misunderstanding the copy was not available for me to send to you last night.

Yours very truly,

W.C.B.

E. A. P. Currency.

Mr Bottomley –

I annex a memo. which you might send on to Col. Amery with any additions or alterations you may suggest.

It is drawn with the object of giving as much credit as possible to Sir E. Northey's scheme and of explaining how subsequent events necessitated a revision of it.

The announcement could be made by Col. Amery at any time, and the memo. could be published if this is desirable. A cable should be sent to the O. A. G. simultaneously with the announcement, and a despatch should if possible be on its way before it.

I suggest that in the O. in C. the composition of the new rupee should not be stated. There is no legal necessity to do so, and in the case of new W. A. coin the Treasury representative has agreed that it need not be done. Also omit the word "silver" before "rupee".

[illegible]
26/1

By the Order in Council of the 19th of May, 1898, it was enacted that the silver rupee of British India should be the standard coin of the East Africa Protectorate.

By the Order in Council of the 10th of February, 1905, it was enacted that every contract and transaction relating to money should, in the absence of express agreement to the contrary, be held to be made according to the standard coin. It was further enacted that sovereigns coined at the Royal Mint or any of its branches should be legal tender in payment at the rate of fifteen rupees for one sovereign.

The effect of this legislation is that debts in the Protectorate must be paid in Indian rupees or in sovereigns coined by the Royal Mint. Such sovereigns have been during the war, and are still, unobtainable. In practice, therefore, the only coin available coin which in law is legal tender is the rupee.

Before the war [illegible]

exchange value of the rupee was kept fairly steady at 1/4d. or fifteen to the pound sterling, by the financial ~~[illegible]~~ methods of the Indian Govt. If in those times the silver value of the rupee had risen above that level, so that a sovereign would buy be worth less than 15 rupees, sovereigns could and would have been used for the settlement of accounts. When sovereigns are unobtainable, only a silver standard is left, and if then ~~and if~~ the price of silver goes up the exchange value of the rupee also advances.

...lation to gold
... account of
...erations of
...dian Govt
...ears. and

In the course of 1919 the price of silver rose steadily, and when the exchange value of the rupee had advanced by about 25 p.c. the economic results were very serious. Of these the most ~~immediate~~ important immediately was that the high rate acted as a barrier against the import of capital. ~~Intending settlers and~~ Persons who intended to move their capital from this country to East Africa found that they would get for their pound less fewer rupees than the 15 which they had expected, and further that the number was continually going down. It is terms that they did not actually lose by the transaction i.e. they bought coins which were more valuable for exchange purposes than they ~~had been~~ ~~were purchased~~. But it was obvious that for a large number ~~the generality~~ of local payments the dearer rupee would go no further than before ~~the shilling coin~~. and that therefore the settler would require more capital for local purposes. Still more deterrent was the uncertainty. The standard of 15 rupees to the pound had been maintained so long that the hope was largely entertained that the rise was due to abnormal and transient causes and that in due course the rate would fall.

Under these conditions a scheme was ~~prepared~~ put forward in the Protectorate, and approved by the Governor, to fix the exchange by putting the local currency on a sterling basis, and bringing in British sovereigns and "Bradburys", together with local rupees, at 15 to the pound sterling, to take the place of the Indian rupee, which would be suffered to drift out of circulation.

The central idea of this scheme was sound. The connection with the Indian rupee was accidentally of a fortuitous character, arising as it did from the direction of the small trade before the Protectorate became a field for British settlement and from the construction of the Uganda Railway by Indian labour. In view of the attractions of the country for British settlers it is clear that development mainly depends on supplies of capital from the United Kingdom, and there is reason to believe that larger amounts could be received if conditions were stable. The lines of future expansion lead to a closer connection with this country and its currency. The principle adopted by Sir E. Northey should therefore be made the basis of the settlement of the question.

The currency conditions however have undergone a further and serious change since the scheme was promulgated, and there are certain considerations of a technical character that have to be taken into account. The currencies which it was proposed to substitute cannot now be provided

British sovereigns are unobtainable. South African sovereigns, some of which have reached East Africa, are not British sovereigns under the Order in Council, as they are not struck by the Royal Mint, and are not therefore legal tender. The law might be altered so as to admit them, but owing to the rise in the price of gold a sovereign from whatever source is now at a premium in relation to the paper sterling. The price of it in sterling was recently 26s. instead of 20s., and at this point the repayment of debts would represent not 1/4d. but about 1/9d. per rupee.

[illegible]m 1/10d.
1/1[illegible]

The tendency is upwards, and obviously the adoption of sovereigns would prevent the main object, which is stabilisation on a sterling basis. In practice also it is very unlikely that a sufficient supply of sovereigns could be obtained to secure a ~~firm~~ steady and permanent effect.

nor are "Bradburys" obtainable). The proposed export of these notes is prohibited except in cases where a licence is granted. Such licences have been issued in a few cases to meet an emergency, but the Treasury, to whom the proposal was submitted, objected to such an extension of its obligations. This objection will be understood if it is remembered that ~~great efforts are now being made to attain~~ great importance is now attached to the policy of contracting the paper currency and that great efforts are now being made to carry it out by reducing the number of notes in circulation.

Thirdly. It is impossible at the present price of silver to produce at a cost of 1/4d. a coin which will have a reasonable resemblance to the Indian rupee. To get the new rupee into general circulation without grave difficulty and disturbance, it is necessary that in size and colour it should have the familiar appearance. To get the colour it is necessary to have a substantial proportion of silver — not so much as the Indian rupee contains but more than could be provided in a coin worth only 1/4d.

Moreover it is desirable that a token coin should be one that can be made for less than its face value so that the government may make some profit.

A grave objection to a value of 1/4d. is that the Indian rupee has now attained an exchange value of 2/4 d. and is really worth more than that. At such a stage it has become impossible to revert to the value contemplated in the scheme. It is hardly necessary to point out that under the law money which has been lent in Indian rupees must be repaid (in the absence of British sovereigns) in Indian rupees, and that, if a new rupee of a lower value were introduced for the purpose or with the effect of enabling the debtor to discharge his obligation at less cost, this would be a measure of repudiation. It is the fact that some creditors have gained by the rise, but this does not affect their rights any more than a fall would have done. Some concession would ~~may~~ be reasonable considering that the rise has been very great and abrupt, but the difference between 2/4 d. and 1/4 d. is too great to be spanned.

Furthermore, a rumour that the new rupee would be of the exchange value of 1/4 d. would at once tend to drive the Indian rupees out of circulation. There is a prohibition against export, but this would not prevent hoarding. Purchases would be restricted and business disorganised. It would not be feasible to keep the decision secret for any length of time, and the work of making the new coins and notes would take many months and give ample opportunity for the Indian coins to disappear. The subsidiary silver coins also would be undervalued and would disappear.

Lastly, such a large difference would destroy any chance of the new coin stepping into the place of the Indian rupee in the payments for wages and ordinary commodities. A small difference in the exchange value might have little or no effect on these local transactions. A considerable difference would undoubtedly be felt, and the result would be a rise of wages and prices, to the great disadvantage of the settlers.

In view of the above considerations, and after much discussion with the Governor, the representatives of the banks, and other gentlemen, the following modification of the scheme is recommended.

It is proposed that an East African Currency Board should be established in London, which would at once give orders for the minting of East African rupees and for the printing of rupee notes. These supplies would be shifted to East Africa, and when sufficient quantities were available the Board would make a start by offering them for sale at a fixed rate of exchange with the pound sterling. The rate would thus be stabilised, and the Protectorate Govt. would secure the ~~whole~~ profit arising from the difference between the intrinsic and the face values. This profit would quickly amount to a large sum. The principal, if not all the purchases would be made by the Banks operating in E. Africa, and the arrangement would be convenient to them, as the money would be paid in London, while they would obtain deliveries in the Protectorate without any trouble. ~~and they would [illegible]~~ ~~The Banks, and the~~

…ment prepared. …ean no? …t to import … rupees. But … would be required … it … ion so as to … clean field … no currency.

The exchange rate would be 2s., or ten rupees to the pound sterling. This is a very convenient unit, forming with the cents a complete decimal system ~~based~~ on the pound. But the ~~more~~ important consideration is that the National Bank of India is, it is understood, prepared to acquiesce in it. Unless the cooperation of the banks is secured, it is open to them to call up at once the existing ~~[illegible]~~ advances to settlers and to decline to make any more. If the rate were put at a figure which they considered unreasonably low, they would probably do so in self-defence before the new currency could be provided, especially as depositors would have the same reason for withdrawing. The local advances by the National Bank of India have very largely exceeded the deposits, and in order to provide ~~for~~ them the Bank has brought large sums from India in the shape of rupees. It gets no profit out of the rise so far as these borrowings are concerned, and if its debtors discharged their obligations in debased rupees it would still have to repay its debt in India in Indian rupees. The intervening period before the actual introduction of the new coin would therefore be used to terminate existing accounts. Moreover it could not be expected that the banks would go on buying drafts payable in East Africa ~~in rupees~~ when there was any chance of such drafts being paid for at a lower value, and on the other side East African settlers would defer their shipments as much as possible till the reduction of the rate came into force. A serious disorganisation of business and industry would be the result. It is therefore necessary, while endeavouring to secure some relief for the settlers who are faced with the necessity of repaying their debts at a much higher rate, to come to an understanding with the banks. The scheme which represents the maximum amount of concession which the National Bank of India is willing to make is, in short, that, for a limited period after the introduction of the new currency, existing debts shall be repayable in the new rupees, reckoning ~~the exchange value~~ of the Indian rupee, as if at or above 2/1d., at half-way between that value and 2s. The debtors would thus be relieved to the extent of the difference between this half-way rate and the exchange value. At the same time the new rupee will not be reduced in exchange value to such a degree as to cause a rise in the general level of prices and wages, especially as the nickel coins are not affected. Nor ~~probably~~ will it necessitate such a revision of taxes and railway rates such as would be unavoidable with a 1/4d. rupee, but there would be

... the hope that the ... fall, that ... shall remain ... Indian rupee ... would have ... liberty to ... with the ... accordingly

(and the ...) (for the ...)

a case for the readjustment of salaries fixed at sterling rates.

The Indians resident or trading in the Protectorate would be adversely affected by any reduction in the exchange value, but of course very much less by the proposed scheme than by that originally contemplated. Imports from India will ~~[illegible]~~ cost more in terms of the new rupees. These considerations however, it is presumed, are not important enough to stand in the way of a close economic connection with the United Kingdom.

The scheme is one that can be announced at any convenient opportunity, as the Indian rupee would after such announcement quickly take its place at the exchange value specified, viz. half-way between 2s. and the rate at the time being.

The ~~announcement~~ announcement might be to the following effect:—

It will be enacted by O. in C. that after a "commencing date", to be notified in due course, the standard coin of the E. A. and Uganda Protectorates will be no longer the Indian rupee, but a new East African rupee, with a fixed exchange value of [illegible] sterling.

New local coins & notes ~~defined~~ expressed in terms of the new rupee will be prepared and will be issued in the Protectorates with the new rupees on and after the commencing date as supplies can be made available.

The British sovereign will be unlimited legal tender as equivalent to ten of the new rupees.

Steps will be taken to maintain 2s as the parity rate of exchange with the U.K. by the establishment of an East African Currency Board in London, which will ~~control~~ supply and send out the new currency, ~~and will, under proper conditions, sell~~ selling it in London at this rate, and giving delivery in East ~~currency to be delivered in~~ Africa. It would also ~~and~~ accept currency from the banks in East Africa paying sterling for it in London at the same rate. The details of the procedure ~~After the commencing method to be followed~~ in this matter will be generally similar to ~~that~~ those ~~successfully~~ adopted ~~in~~ by the W. African Currency Board.

After the commencing date Indian rupees will for a limited period (to be fixed in due course) be exchanged by the Protectorates, and by the banks on their behalf, ~~so far~~ as supplies of the new currency are available for the purpose, at a rate in terms of the new currency which will be published as may be required ~~once a week~~ and will be decided on the principle that if the exchange value of the rupee in India is at or above 2s 1d, the rate will be half-way between that value and 2s, and if the exchange value of the rupee in India is below 2s 1d, the rate will be ~~[illegible]~~ a halfpenny less than that value.

During this limited period, but no longer, the Indian rupee will continue to be legal tender, at the rate referred to in the previous paragraph.

Indian 1-rupee notes, the Prot^e notes of 5 rupees & higher values, and the 50c and 25c silver coins, will be treated in the same way as Indian rupees, and will similarly be replaced by new notes & coins & redeemed at proportionate rates.

The nickel coins, ranging from 1c. to 10c. will from the commencing date be legal tender as fractions of the new rupee, and will not be replaced by new coins. 319

The export of Indian rupees, of Indian 1-rupee notes, and of silver, will be prohibited up to the end of the limited period and for as long thereafter as may be found expedient.

Debts payable in the Prot^tes in the old rupees during the limited period will (~~unless otherwise agreed~~) be payable in terms of the new rupees at the ~~weekly~~ published rate. Debts similarly payable after the end of the limited period will ~~(unless otherwise agreed)~~ only be ~~payable~~ at par, in the new rupees

[...]bsence of any [...]greement between [...]ies.

The commencing date will be fixed at the earliest date at which a sufficient supply of the new currency can be issued to start the ~~ext~~ operation of the scheme, and the limited period will be arranged to expire when a reasonable interval has been allowed after the supply is sufficient to meet all requirements.

[illegible]

It is anticipated that on the promulgation of this announcement, exchange operations between London and E. Africa will quickly settle down to a basis halfway between 2s. and the Indian rate of the day, in the knowledge that Indian rupees in E. Africa will be redeemed by the Govt on that basis from the commencing date to the end of the limited period. There sh^d thus be no opportunities for gambling on the situation during the interval before the commencing date, other than

The development of the British Protectorates in East Africa has been seriously checked by the rise in the sterling exchange value of the Indian rupee, which, after having been maintained for many years by the Government of India at 1/4, began to rise in 1917, at first slowly and then more rapidly, especially during the latter part of 1919, till at the beginning of December 1919 it had reached 2/4.

The currency in the East Africa Protectorate and Uganda consists of the Indian rupee as the standard coin, with local issues of smaller coins and notes of higher denominations, all expressed in terms of the rupee. The British sovereign has also been legal tender at Rs. 15 since 1905, but has been unobtainable in any quantity since the beginning of the war.

The decision of the Secretary of State for India announced on the 2nd of February of this year, to establish the Indian rupee after a transitional period at one-tenth of a gold sovereign, ~~has resulted in~~ has been followed by a sudden jump of its exchange value from 2/4 (in the neighbourhood of which it had been fairly steady since the beginning of December) to about 2/9, and has destroyed any hope of its falling again in the near future.

If such a value as 2/9 were allowed [illegible] East African Protectorate, the export [illegible] country would be still further hand[illegible] settlement of the territories would [illegible] difficult. A great part of [illegible] United Kingdom and the general [illegible] must [illegible] is [illegible] of the Protectorates to [illegible] maintain a stable exchange with the United Kingdom at a [illegible] rate, and the rate of 2/- sterling to the rupee has been adopted for the purpose.

[illegible] as a first step towards this object an [illegible] in the East Africa Protectorate [illegible] Bank of England [illegible] rupees to the pound sterling, the equivalent of which [illegible] slightly over 2/4 to the rupee. Similar action [illegible] contemplated in the Tanganyika Territory.

The [illegible] of a stable rate of sterling exchange in future will be effected by the operations of an East African Currency Board to be established in London. The Board will issue a new local rupee currency in coin and notes, which will be available after a commencing date to be announced in due course, and which is intended, after a limited transitional period commencing on that date, to take the place of the existing currency. It will sell this new currency in London ~~at the rate, after that period, of 2/- to the~~ rupee, giving delivery in East Africa, and will also accept currency if at any time it is offered by the Banks in East Africa, paying sterling for it in London ~~at the same rate. The details of the procedure to be adopted will~~ be generally similar to those adopted by the West African Currency Board.

[illegible]s and [illegible]s will, after [illegible]tional period, on the basis [illegible] the rupee, [illegible] adopted [illegible]

During the limited transitional period the existing currency and the new currency will be legal tender on equal terms, and British currency notes and Bank of England notes will [illegible] tender at 24 rupees to the pound sterling, the equivalent of which is approximately 2/2 to the rupee.

rupee. This rate will also be, during the period in question, the governing rate for the supply and repurchase of the new currency by the East African Currency Board.

On the expiration of the transitional period the old currency will cease to be legal tender (except for the small nickel coins ranging from 1 cent to 10 cents, which will not be replaced by new coins), and British currency notes will be legal tender at 10 rupees of the new currency to the pound sterling. The Currency Board may, however, for some time longer give new currency in exchange for coins and notes of the old currency still outstanding if that should be found necessary.

The export of Indian rupees, of Indian 1 rupee notes, and of silver, will continue to be prohibited up to the end of the transitional period, and for as long thereafter as may be found expedient. ~~English gold sovereigns will remain legal tender at 10 rupees until further notice, though the restrictions on their importation may have to be continued.~~

The commencing date will be fixed at the earliest date at which a sufficient supply of the new currency can be issued in East Africa to commence the operation of the scheme, and the transitional period will be arranged to expire when a reasonable interval has been allowed after the supply is sufficient to meet all requirements. The dates will not be earlier than the 1st July and the 1st December 1920 respectively.

The arrangements set out above will apply to the East Africa Protectorate, the Uganda Protectorate, and the Tanganyika Territory, but not to Zanzibar. The German rupee in Tanganyika will be treated in the same way as the Indian rupee.

It

It has been decided to introduce a special immediate measure, in addition to the Ordinance referred to above, for the relief of the British settlers in the East Africa Protectorate and Uganda who have been compelled to obtain advances from the banks at a time when the rupee was in the neighbourhood of 1/4 and to whom it is a severe hardship to have to repay at a greatly enhanced sterling rate. An Ordinance will therefore be passed in the Protectorates named, providing that for the repayment of debts contracted before the 21st November 1919 (the date on which the rupee rose from 2/ to 2/8) British currency notes
and Bank of England notes
will be legal tender at the rate of 9½ rupees. This provision will remain in force till the expiration of the transitional period. 3

The rate of 2/- sterling to the rupee has been determined after very careful consideration. This, at present gold prices, is equivalent to a rate of about 1/4 gold. To have gone farther and attempted to force back the rupee to its old sterling equivalent, however desirable in theory, would not have been possible in practice. It would have meant considerable injustice to the Banks and all other creditors, more particularly to those who have obligations in India. It would have involved the risk of a serious shortage of currency taking place before the end of the transition stage through the illicit exportation or hoarding of the present currency. It would have made it impossible to produce, without risk of loss, a new rupee resembling the old rupee sufficiently to be acceptable as its equivalent to the native. It would thus, in fact, have probably led to a general disturbance of internal prices in East Africa which would have reacted upon the settlers' cost of production and so frustrated the object in view. It is believed that the rate fixed will best meet all

the

the different interests and considerations involved, and will, at any rate, secure ~~the~~ main object of fixing ~~a~~ stable exchange with ~~the~~ United Kingdom. Incidentally ~~the~~ new currency will form ~~a~~ complete decimal system based on ~~the~~ pound sterling with the half rupee as ~~the~~ equivalent of ~~the~~ shilling.

to Press
2 20
1

M.C.O./40893 Sent 17/2/20

E. Africa Prot.

DRAFT. TELEGRAM:

[Go]vernor Nairobi.

MINUTE.

Mr. Jeffries 13.2.20
Parkinson 13.2.20
Bottomley 14.2.20
Grindle. 17.2.20
H. Lambert.
H. Read.
G. Fiddes.
Amery.
Lord Milner.

17 February. Following is substance of announcement made here with regard to currency begins one development of British Protectorates in East Africa has been seriously checked by rise in sterling exchange value of Indian rupee, which, after reaching 2/4 in December 1919 has risen suddenly to 2/9 in consequence of recent decision of Secretary of State for India which has destroyed any hope of its falling again in the near future.

Two. If value such as 2/9 were allowed in the Protectorates export of capital from this country would be still further handicapped, and the settlement of the territories would be very slow and difficult.

Great

Great part of trade is with United Kingdom and capital required for development of country must be obtained mainly from this quarter. It is therefore necessary in the interests of Protectorates to secure and maintain stable exchange with United Kingdom at a lower rate, and the rate of 2/- sterling to the rupee has been adopted for the purpose.

Three As first step towards this object an Ordinance is being passed in the East Africa Protectorate and Uganda making Imperial currency notes and Bank of England notes legal tender for any amount at 8½ rupees to the pound sterling, equivalent of which is slightly over 2/- to the rupee. Similar action contemplated in the Tanganyika Territory.

Four Maintenance of stable rate of sterling exchange in future will be effected by operations of an East African Currency Board to be established in London. Board will issue new local rupee currency in coin and notes

notes, which will be available after commencing date to be announced in due course, and which is intended, after limited transitional period commencing on that date, to take the place of existing currency. It will sell this new currency in London giving delivery in East Africa, and also will accept currency if at any time it is offered by the Banks in East Africa, paying sterling for it in London. These sales and purchases will be made after the transitional period on the basis of 2/- to the rupee, subject to charges for remittances generally similar to those adopted by West African Currency Board.

Five During the limited transitional

period

period existing currency and the new currency will be legal tender on equal terms, and British currency notes and Bank of England notes will be legal tender at 9½ rupees to the pound sterling, equivalent of which is approximately 2/2 to the rupee. This rate will also be, during the period in question, governing rate for the supply and repurchase of the new currency by the East African Currency Board.

Six On expiration of transitional period old currency will cease to be legal tender except for small nickel coins ranging from 1 cent to 10 cents, which will not be replaced by new coins, and British currency notes will be legal tender at 10 rupees of the new currency to the pound sterling. Currency Board may, however, for some time longer give new currency in exchange for coins and notes of old currency still

outstanding

outstanding if that should be found necessary.

Seven Export of Indian rupees, 1 rupee notes, and silver, will continue to be prohibited up to end of transitional period, and for as long thereafter as may be found expedient.

Eight Commencing date will be fixed at the earliest date at which sufficient supply of new currency can be issued in East Africa to commence operation of scheme, and the transitional period will be arranged to expire when reasonable interval has been allowed after supply is sufficient to meet all requirements. Dates will not be earlier than 1st July and 1st December 1920 respectively.

Nine

Nine Above Arrangements ~~set out above~~ will apply to East Africa Protectorate, Uganda Protectorate, Tanganyika Territory but not Zanzibar. German rupee in Tanganyika will be treated in same way as Indian rupee.

Ten It has been decided to introduce special immediate measure, in addition to Ordinance referred to above, for relief of British settlers in East Africa Protectorate and Uganda who have been compelled to obtain advances from the banks at a time when rupee was in the neighbourhood of 1/4 and to whom it is severe hardship to have to repay at a greatly enhanced sterling rate. Ordinances will be passed therefore in the Protectorates named, providing that for the repayment of debts contracted before 21st November 1919 on which date rupee rose from 2/- to 2/2 British currency notes and Bank of England notes will be legal tender at the rate of 9½ rupees. This

This provision will remain in force till the expiration of transitional period.

Eleven Rate of 2/- sterling to the rupee has been determined after very careful consideration. At present gold prices this is equivalent to rate of about 1/4 gold. To have gone farther and attempted to force back rupee to its old sterling equivalent, however desirable in theory, would not have been possible in practice. It would have meant considerable injustice to Banks and all other creditors, more particularly those who have obligations in India. It would have involved risk of serious shortage of currency taking place before end of transition stage through illicit exportation or hoarding of present currency. It would have made it impossible to produce, without risk of loss, new rupee resembling old rupee

sufficiently

sufficiently to be acceptable to native as its equivalent. It would thus in fact probably have led to general disturbance of internal prices in East Africa which would have reacted upon settlers' cost of production and so frustrated object in view. It is believed that rate fixed will best meet all the different interests and considerations involved, and will, at any rate, secure main object of fixing stable exchange with United Kingdom. Incidentally, new currency will form complete decimal system based on pound sterling with the half rupee as equivalent of shillings. Ends.

Please arrange for publication of above locally and for passing of Ordinance as indicated in para. ten.

Repeat to Uganda Tanganyika Territory for similar action also Zanzibar with reference to my tel. of even date. It is fair that you should know that

Northey

Northey has been unable to acquiesce fully in above arrangements as he was anxious that solution more favourable to settlers should be arrived at.

but in view of opinion of my advisers that this [illegible] impracticable he has agreed to use every endeavour to promote success of scheme now explained

Roughlier

D

4493/20 EAP

To be attended to ... that tel. was ... on 17 Feb.

Sent 12.40 18/2/20

McL

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18 February Currency

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~~if necessary~~

stringent

Repeat this tel. to

Gov. Uganda Tanganyika

Roughlea

DRAFT.

Governor

Nairobi

MINUTE.

Mr. Bottomley 18/2/20

Mr.

Mr.

Mr. Grindle.

Sir H. Lambert.

Sir H. Read.

Sir G. Fiddes.

Col. Amery.

Lord Milner.

(This has maintained the prohibition as they were under ... have been ... not make sure that ... no loophole)

G.G. 18/2

<?> 4493/20

E.A.P.

Sent 2 pm 17/2/20

Fallcloud staglicta

17 Feb. My tel. of

DRAFT. Tel.

...coma

...zibar

MINUTE.

Jeffries 13.2.20.
Parkinson 13.2.20
Bottomley 14.2.20
Grindle.
H. Lambert.
H. Read.
... Fiddes.
... Amery.
... Milner.

giantess

to-day to Gov. E.A.P.

currency please consider

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Protectorates if possible

Ronghilie.

CURRENCY AND EXCHANGE IN EAST AFRICA.

The development of the British Protectorates in East Africa has been seriously checked by the rise in the sterling exchange value of the Indian rupee, which, after having been maintained for many years by the Government of India at 1/4, began to rise in 1917, at first slowly and then more rapidly, especially during the latter part of 1919, till at the beginning of December 1919 it had reached 2/4.

The currency in the East Africa Protectorate and Uganda consists of the Indian rupee as the standard coin, with local issues of smaller coins and notes of higher denominations, all expressed in terms of the rupee. The British sovereign has also been legal tender at Rs. 15 since 1905, but has been unobtainable in any quantity since the beginning of the war.

The decision of the Secretary of State for India announced on the 2nd of February of this year, to establish the Indian rupee after a transitional period at one-tenth of a gold sovereign, was followed by a sudden jump of its exchange value from 2/4 (in the neighbourhood of which it had been fairly steady since the beginning of December) to about 2/9, and has destroyed any hope of its falling again in the near future.

If such a value as 2/9 were allowed in the Protectorates the export of capital from this country would be still further handicapped, and the settlement of the territories would be very slow and difficult. A great part of the trade is with the United Kingdom and the capital required for the development of the country must be obtained mainly from this quarter. It is therefore necessary in the interests of the Protectorates to secure and maintain a stable exchange with the United Kingdom at a lower rate, and the rate of 2/- sterling to the rupee has been adopted for the purpose.

As a first step towards this object an Ordinance is being passed in the East Africa Protectorate and Uganda making Imperial currency notes and Bank of England notes legal tender for any amount at 8½ rupees to the pound sterling, the equivalent of which is slightly over 2/4 to the rupee. Similar action is contemplated in the Tanganyika Territory.

The maintenance of a stable rate of sterling exchange in future will be effected by the operations of an East African Currency Board to be established in London. The Board will issue a new local rupee currency in coin and notes, which will be available after a commencing date to be announced in due course, and which is intended after a limited transitional period commencing on that date, to take the place of the existing currency. It will sell this new currency in London giving delivery in East Africa, and will also accept currency if at any time it is offered by the Banks in East Africa, paying sterling for it in London. These sales and purchases will, after the transitional period, be made on the basis of 2/- to the rupee, subject to charges for remittances generally similar to those adopted by the West African Currency Board.

During the limited transitional period the existing currency and the new currency will be legal tender on equal terms, and British currency notes and Bank of England notes will be legal tender at [illegible] rupees to the pound sterling, the equivalent of which is approximately 2/- to the rupee. This rate will also be, during the period in question, the governing rate for the supply and re-purchase of the new currency by the East African Currency Board.

On the expiration of the transitional period the old currency will cease to be legal tender (except for the small nickel coins ranging from 1 cent to 10 cents, which will not be replaced by new coins), and British currency notes will be legal tender at 10 rupees of the new currency to the pound sterling. The Currency Board may, however, for some time longer give new currency in exchange for coins and notes of the old currency still outstanding if that should be found necessary.

The export of Indian rupees, of Indian 1 rupee notes, and of silver, will continue to be prohibited up to the end of the transitional period, and for as long thereafter as may be found expedient.

The Commencing date will be fixed at the earliest date at which a sufficient supply of the new currency can be issued in East Africa to commence the operation of the scheme, and the transitional period will be arranged to expire when a reasonable interval has been allowed after the supply is sufficient to meet all requirements. The dates will not be earlier than the 1st July and the 1st December 1920 respectively.

The arrangements set out above will apply to the East Africa Protectorate, the Uganda Protectorate, and the Tanganyika Territory, but not to Zanzibar. The German rupee in Tanganyika will be treated in the same way as the Indian rupee.

It has been decided to introduce a special immediate measure, in addition to the Ordinance referred to above, for the relief of the British settlers in the East Africa Protectorate and Uganda who have been compelled to obtain advances from the banks at a time when the rupee was in the neighbourhood of 1/4 and to whom it is a severe hardship to have to repay at a greatly enhanced sterling rate. An Ordinance will therefore be passed in the Protectorates named, providing that for the repayment of debts contracted before the 21st November 1919 (the date on which the rupee rose from 2/- to 2/2) British currency notes and Bank of England notes will be legal tender at the rate of 9¼ rupees. This provision will remain in force till the expiration of the transitional period.

The rate of 2/- sterling to the rupee has been determined after very careful consideration. This, at present gold prices, is equivalent to a rate of about 1/4 gold. To have gone farther and attempted to force back the rupee to its old sterling equivalent, however desirable in theory, would not have been possible in practice. It would have meant considerable injustice to the Banks and all other creditors, more particularly to those who have obligations in India. It would have involved the risk of a serious shortage of currency taking place before the end of the transition stage through the illicit exportation or hoarding of the present currency. It would have made it impossible to produce, without risk of loss, a new rupee resembling the old rupee sufficiently to be acceptable as its equivalent to the native. It would thus, in fact, have probably led to a general disturbance of internal prices in East Africa which would have reacted upon the settlers' cost of production and so frustrated the object in view. It is believed that the rate fixed will best meet all the different interests and considerations involved, and will, at any rate, secure the main object of fixing a stable exchange with the United Kingdom. Incidentally, the new currency will form a complete decimal system based on the pound sterling with the half rupee as the equivalent of the shilling.