

1921

KENYA

C O
23565

CROWN AGENTS

DATE
12TH MAY 1921

Rec'd
Per 13 MAY 21

250

CIRCULATION

SUBJECT

LOAN

Submits observations as to form of Ordinance, considers loan should be issued as a whole or alternatively as stated. Thinks possible arrange for 5% Inscribed Stock at 960w terms and with expenses stated. Enquires as to payment of indebtedness to Treasury and requests early instructions.

- M. Grindle
- H. Lambert
- H. Best (17/5/21)
- G. Fisher
- J. Thomson
- Wood
- Churchill

Previous Paper

MINUTES

10/20180

Sir N. Reed

The recent loan papers are with Sir J. Stevenson in connection with tomorrow's discussion, the earlier ones are with Sir S. W.

The figures in para 5 show that £100 stock would carry

Interest	£ 6. 0. 0
S. F. (proposed)	1. 6. 8
	<hr/>
	7. 6. 8

and would produce £92.12.6.

I.e. the annuity would be at the rate of 7.9% of the amount realised. It is noted that 1/2% of the Govt's schedule is required for payment of interest during the first three years. The annuity would be made up of 7% of the

To you see if you can
Answer to June 1921

Subsequent Paper

Govt 23670.

Kenya Loan.

I have examined the question of the Kenya Loan in conjunction with Sir William Mercer, Sir Herbert Read and Mr Bottemley.

We are agreed that a loan for £9,000,000 at the present time would be impossible.

What we propose is that in the first instance an application should be made for £4,000,000. This amount will enable the Colony to refund Treasury loans of about £1,100,000 and to repay advances already made by the Crown Agents amounting to about ^{£1,0} £2,000,000 (although some part of these sums is in connection with services covered by the Loan), and it will enable the Kilindini Harbour scheme to be proceeded with energetically, and, so far as the railway works are concerned, enable the more urgent services to be proceeded with. We contemplate a further issue being made - possibly next year.

With regard to the terms of the proposed loan, it is proposed to arrange for issue of 6% stock at 90 or 95, with a currency of 3% per cent with option of redemption at any time after 25 years. The estimated expenses of flotation and discount will be about 27.5% per cent, so that the Colonists will actually receive £2. 12. 6 for every £100 of stock issued. Provision will require to be made for a sinking fund beginning at the end of the ^{1st} ~~fourth~~ year at the rate of 11. 5. 8. per cent per annum.

It is proposed to apply for Treasury approval of the loan being treated as trustee stock. It will have to be necessary to arrange, in accordance with a Treasury ruling, with the Bank of England for a place to be secured ~~for~~ ~~a place to be secured~~ for the issue of the Loan - it must be about the end of June.

There are, however, two important questions which must be settled before the loan is actually issued, as they will undoubtedly have a considerable bearing on its success, viz.,

East African military expenditure and the Currency question.

As regards the former, it seems to be absurd for the Treasury to insist on East Africa paying £4,000,000, for this will rule out any possibility of East Africa ^{obtaining} ~~creating~~ any money for development schemes.

Submitted for your approval to arrangements being made for the issue of a loan of £4,000,000 on the terms indicated above, subject to the two above questions being settled. The prospectus will be submitted for confirmation before it is published.

24.5.21.

Shown to S. J. S. by Sir J. Stevenson
on 24.5.21. and question discussed
by S. J. S. with Sir James Stevenson & Sir
Lawrence Fisher with Sir Asquith of the Treasury
on 25.5.21. Matter left to Sir
Stevenson to act. L. Report
B.R.

Henry Loan

J. Stevenson
~~Stevenson~~

The C.A.'s broker says that unless he
 knows "pretty soon" he cannot ^{offer} (fix a date
 for the loan before October 15th or before,
 he says that if he knows 10 days tomorrow
 or perhaps yesterday he will be able to get
 a date before the holidays, this is still
 too definite - e.g. he will not say that
 next Wednesday will be too late.

James Stevenson and
 small his brokers
 Stanley on
 27/10/21

Wed 26.5.21

H. J. R.
 26/10/21

In Potomac

In James Stevenson has seen A B
stealed, and agrees to A as amended
by C

Keake 30/10

Mr. Upcott informed accordingly 30.10.21

In H. C. C.

I showed you A in its entirety, &
then proposed B. On Saturday, as Mr
J. Stevenson was not available, I entered
C as my first measure in consultation
with the State. I still have a
personal interest in B, but perhaps
C will prove quite as valuable as the
provision will be settled at short
notice.

The suggestion (at the time of the
Friday) that the (A's) (B's) (C's) should
get an American representative state,
nominally all American, has had
no effect. The American is still
state.
They consider that with a report
both Governor of the Board of
England, & the Department of
reference to Mr. McManis and

the brokers were right to object.
Mr. Klemmer has undertaken that
he would stand out before the
delay - i.e. that if a loan before
the holidays was possible
on Friday it shall be possible
when we have finished our
discussions with the Treasury.
If your arrangement, we don't
understand stands with regard to
the if

Yours truly,
Wm. F. Tracy
Oct. 30/21

Wm. F. Tracy

You should see what
proposals can be made.
+ J.H.
See Encl 395
10/27/21

W.F.T.

11/1/21
10/30/21

The brokers were right too object.
Mr. Kemper has undertaken that
be should stand out before by the
delay - i.e. that if a longer before
the holidays was possible
on Friday it shall be possible
when we have finished an
agreement with the Treasury.
A year arrangement, we don't
know how we stand with regard to
the of

is not for Treasury

ably

Col. 30/3/21

Dr. J. D. Jones

You should see what
papers in your name.

4 2/2

San Fran 3/25

30/3/21

Dr. J. D. Jones

Dr. J. D. Jones

Dr. J. D. Jones

Dr. J. D. Jones

30/3

Li. N. Read

In deposit letter of 21 May
and several memoranda appended

So far as I can see or have ascertained
nothing.

- (a). The allegation of § (1) of the
Memo. means that we cannot
depend ^{getting} on a further loan. This
means that we cannot begin
the Home Goods railway.
- (b). The refusal to accept my
second point means that as soon
as our railway receipts ^{actually} ~~will~~ ^{shall}
be one in the hands of the Treasury,
without any equivalent resource
to meet the charge. See my
notes on "B".
- (c). The Treasury insists on our
paying interest out of money
from the beginning meaning
that we must raise £250,000
from resource or cash in

TELEGRAM from the Governor of Kenya to the Secretary
of State for the Colonies. 256

Dated 28th May.

(Received Colonial Office 9.12 a.m. 1st June 1921).

286 28th May your telegram 16th May regret
that instead of surplus revenue treasurer estimates
deficit of £300,000 chiefly due to shortage on
railway contribution income Tax and customs
resulting from abnormal trade depression. Excess of
liabilities over assets on to 31st March last exceed
£350,000. Despatch follows explaining financial
position which is very serious.

HORTHLEY.

Mr. Churchill,

I am constrained to advise
you that the Kenya Loan
cannot be delayed till this
despatch is received
L 6

[Signature]

31st May, 1921.

Dear Bottomley,

Kenya Loan.

Sir Warren Fisher has submitted the draft memorandum to the Financial Secretary who has approved ~~them~~^{it} in the form enclosed. You will observe that the last sentence of paragraph 1 has been modified with a consequential alteration in paragraph 4 (paragraph 3 of original draft) pending further discussion.

With reference to points (2) and (4) of your note of the 28th, the Treasury feel bound to adhere to the terms of paragraph 4 of the memorandum.

As regards your point (3), my idea was that the liability when ascertained should be consolidated on the lines of the United Kingdom-Australia Agreement, but I agree that this may be considered by the Committee.

I am also desired to say that the Treasury would urge very strongly that, so far as the capital outlay under the £4,000,000 loan does not yield sufficient return within the first 3 years to meet interest charges, the Colony should refrain from increased revenue instead of trenching on the capital. Commander Young remarks that

KENYA LOAN.

1. It is agreed that Kenya Colony shall proceed forthwith to issue a loan of £A,000,000 under the Colonial Stock Act, 1900, on the understanding that the interest and sinking fund charges will take priority of the claims of the Imperial Exchequer upon the Colony in respect of War Charges.

The Treasury will be prepared to consider at a later date on receiving particulars of the schemes contemplated and the result so far achieved, whether similar priority might not be granted to a further issue of moderate amount.

2. The loans previously made by the Exchequer to Kenya and so far as Railway and Marine Services are concerned to Uganda, will be repaid out of the proceeds of the above mentioned loan of £A,000,000 on the terms stated in Treasury letter of the 5th January, 1921.

3. Interdepartmental arrangements will be made between the Treasury, Colonial Office and War Office to determine precisely the liability falling upon the Colony in respect of East African War Charges under the arrangements made during the War.

4. It is agreed that, taking as the datum line the existing expenditure of the Colony ~~and~~ the loan charges arising out of the loan mentioned under paragraph 1, the Colony will apply towards meeting the War liability so ascertained half any future increase of its revenue above such datum line.

5. It is recognized that the stipulation originally made in connection with the Uganda Railway that the net revenue from the railway should be paid into the Imperial Exchequer until the advances therefrom for the construction of the railway had been repaid in full and thereafter until otherwise determined has not been abrogated. The Treasury agree however that for the present the Railway revenue should continue to be applied towards the general expenses (including development) of the Colony, without prejudice to any future decision which may be arrived at as to the application of such revenue towards repayment of the cost of the railway or otherwise.

~~SECRET~~

1. It is agreed that Kenya Colony shall proceed forthwith to issue a loan of £4,000,000 under the Colonial Stock Act 1900, on the understanding that the interest and sinking fund charges will take priority of the claims of the Imperial Exchequer upon the Colony in respect of War Charges and that further loans not exceeding £3,000,000 will be issued on a similar basis at a later date.

The loans previously made by the Exchequer to Kenya, ^{and} so far as Railway and Marine Services are concerned, to Uganda will be repaid out of the proceeds of the above mentioned loan of £4,000,000 on the terms stated in Treasury letter of the 6th January 1921.

word added by Sir Herbert Reed

2. Interdepartmental arrangements will be made between the Treasury, Colonial Office and War Office to determine precisely the liability falling upon the Colony in respect of East African War Charges under the arrangements made during the War.

3. It is agreed that, taking as the datum line the existing expenditure of the Colony plus the loan charges arising out of the loans amounting to £7,000,000 mentioned under paragraph 1, the Colony will apply to payment of interest and sinking fund on the War liability so ascertained half any future increase of its revenue above such datum line.

4. It is recognised that the stipulation originally

Paragraph 1. I suppose the full £8,000,000 is best praying for. The alteration which Sir H. Read has made is essential in connexion with the amalgamation of the Kenya and Uganda railway and marine systems.

Paragraph 3. This will not do, and I have prepared an alternative.

(a). The datum "line allows no margin for the normal growth of the ordinary services of the Colony which must expand as the country progresses and in many cases will have to be increased in order to collect increasing revenue. In particular, it takes no account of the fact that railway and marine expenditure must greatly increase with increasing traffic. Even on the present railway the receipts might within four years increase by £1,000,000, but only a small part of this would represent a real increase of revenue.

(b). "Payment of interest and sinking fund on the War liability" is meaningless, since the payments will be irregular in amount and will not be devoted to any particular part of the Imperial borrowings. The debt must be taken to accumulate at some rate of interest from some defined date and the payments be applied to reduce pro tanto the outstanding amount. If it is not possible to secure that no interest shall be charged, the date should be defined so that any delay in the prosperity of the Colony does not operate to increase the burden which it has subsequently to bear, and the rate of interest should be fixed so that Kenya has the advantage of any reduction in the rate of interest at which the Imperial Government borrows money.

(c). Mr. Upcott maintains the half rate of contribution, but I think that until the excess has reached a certain figure only one-third should be charged. We could agree to half on any excess over that figure.

Paragraph 4 (marked 3). In the last line but four insert "and development" after "expenses". Mr. Churchill has always claimed that development must come before repayment of the Uganda Railway Acts money.

I take it that this arrangement definitely involves the reversal of Lord Milner's policy that the railway and marine systems shall not be a profit making concern, beyond what is required for the payment of loan charges and for future extensions. Otherwise the Treasury will not get much out of it.

L.C.S.
27/1/16

Alternative Paragraph 3.

3. It is agreed that the Colony will apply to payment of the War liability so ascertained one third of any future increase of its revenue above a datum line determined as stated below, provided that if the balance of revenue above the datum line exceeds £300,000 one half of such excess shall be so applied and not one third.

For this purpose, revenue will be taken to be, in the case of the present ^{and marine} railway system and new works to be constructed out of the Loans now contemplated and any future Loans, the excess of receipts over working expenses, in which last shall not be included any capital expenditure paid for out of revenue. The datum line shall be determined by adding to the presumed ordinary annual expenditure the amount of the interest and sinking fund on the total loan of £7,000,000. The presumed ordinary expenditure shall be four thirds of the Estimate of expenditure (other than expenditure on the railway and marine system) for the nine months ending December 1921, increased by fifteen per cent. annually to provide for the normal expansion of the ordinary services of the Colony.

For the purpose of these payments interest shall be deemed to accrue on the war liability as from one year before the date on which the first payment is made and shall be reckoned at the lowest rate of interest on any Imperial loan raised between the 4th of August 1914 and the date of the (first said) payment. That payment shall in no case be earlier than one year after the date on which the full charges on the £7,000,000 Loan begin to be payable.



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ALL COMMUNICATIONS
TO BE ADDRESSED TO THE
GOVERN AGENTS FOR THE COLONIES
THE ABOVE REFERENCE AND THE
DATE OF THIS LETTER BEING QUOTED.

TELEGRAMS: "CROWN, LONDON"
TELEPHONE: 7750 VICTORIA

LONDON, S.W. 1.

12th May 1921.

Sir,

I have the honour to acknowledge the receipt of your letter of the 25th April ¹⁹²¹ No. 1966/21 in which you ask for our views on the Ordinances recently passed by the Legislative Assembly of Kenya in connection with the flotation of the loan on behalf of that Colony, and, on the Governor of Kenya's despatch of the 14th March to the Secretary of State a copy of which was forwarded in your letter for our information.

2. A comparison of the Ordinances with the Model Ordinances shows that the wording of the latter has been departed from in some instances. Although these alterations are mostly unimportant, and do not perhaps warrant an amendment of the Ordinances, we suggest that it would have been better had the construction of the Model Ordinances been strictly adhered to, particularly with regard to the sequence of the sections. I would refer you to our semi-official communication of the 25th April for our further observations on this point.

3. With regard to the general considerations set forth in Sir E. Northey's despatch we have in the first place and after consultation with our Brokers come to the conclusion that the suggestion contained in paragraph 5 that the loan should be issued as a whole, the "calls"

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

being spread over a period of three years, is not practicable, and we suggest as an alternative that the issue should be made by instalments the first instalment being for a sum of £3,500,000 or £4,000,000 so as to cover the Colony's requirements up to June 1932.

4. There may be some difficulty in getting even this amount underwritten, partly because it is understood that the introduction of an entirely new stock does not appeal to underwriters in the same way as issues of older Colonies which have already issued public loans, and partly also because of the ^{undesirable} publicity which our brokers point out, has recently been given by the press to the affairs of Kenya. Success in obtaining underwriting will also no doubt depend to some extent upon the conditions prevailing at the time of issue.

5. With regard to the terms we think it should be possible to arrange for an issue of 6% Inscribed Stock at 96 with a currency of 35 years with the option of redemption however at any time after 25 years. The estimated expenses in connection with the flotation of the loan, taking into consideration the discount at which it would be issued, would be about £7.7.5% so that for every £100. of stock issued the Colony would receive £92. 12. 6. The contribution to a sinking fund with a redemption of 35 years currency assuming postponement for the first three years and calculated on a 5% basis would be at the rate of £1. 10. 0 per centum, per annum.

6. Apart from the Treasury which is the issue of State or U.S. Treasury might bring to bear upon the Bank of England which now controls the rates of such issues, our Brokers do not think that the Kenya loan will be issued before the end of June owing to the numerous other borrowers awaiting an opportunity to issue loans.

Wing a Loan

See Jones, Stevenson may find
them papers, useful when he goes
with the S. H. to see the
Chancellor of the Exchequer on Monday

Very postponed
pending Chancellor's
return from Paris

(1) CA/23565/22 - 4 attached
copy of with 1 remaining.

Note that Mr. Upcott's memo:
sent to Sir Warren Fisher &
Commander Yoney after my
letter of 28 May, & do doubt
that letter, showing course

against approval on given
scheme, was put before them.

It is on that account that it
is now considered that any
further discussion can only be
with the Chancellor himself.

(2) My long memorandum, with
covering memo showing that
the rate of expenditure on the
Kamin Eisen will be ⁱⁿ ~~an~~ ^{enormously}
rapid. This has been
accentuated now by Sir W.
Duncan's forecast of the issue
at 90%, the effect of which is

indicated in red check in the
margin of my minute.

Oct 6. 8. 11

Yours

CP/23565/4 May

Ind

marshgrass

24

23 May

sent 2.15 PM
AWB
267

DRAFT.

Governor

Nairobi

MINUTE.

19704

Unapprize

Your despatch of 11 March
conforms fiftyseven
Conf 57

Seminific

I have you agreed in a
saccatote three death doing
sent home the delectation

Mr. P. B. ...

Mr. 23.5.20

Mr.

unbenumb

Mr. Grindle.

I referred to in my despatch

Sir H. Lambert.

Sir H. K. ...

of 12 May 1920
Confirms
Conf 57

Sir G. P. ...

Col. ...

Gen. ...

Roughly

...

23565/21

~~Number A 2d~~
~~Number A 2d~~

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DRAFT.

Telt of June Your telegram
whalethrow

Nairobi.

28th May N° 286

MINUTE.

hedgestake deaconpost
I have decided to take no

Mr. Clark 4/6/
Mr. Patterbee 4/
Mr. ~~Stear~~

absolve recidate
action with regard to

Mr. Grandle,
Sir H. Lambert,
Sir H. Reid,
Sir G. Fiddes,
Col. Amery,
Mr. Churchill,

loan until I have received

and considered your despatch.

2 effs

Roughlie

23565/21

6 June 1921

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Immediate

Gentlemen,

DRAFT.

CA

SV

With reference to your letter N°

A/Kenya 336 of the 12th of May
previous. Consequently,
I am or to inform you that ~~the~~

MINUTE.

Mr. Clark & Co.

Mr. Battenberg

Mr.

Mr. Grindle.

Sir H. Lambert.

Sir H. Read.

Sir G. Piddell.

Col. Amery.

Mr. Churchill.

he has decided to take no
action with regard to the Kenya

Loan until he has received

and considered a despatch which

the Gov. of is sending & which

will not be received until the

d/s
Rec'd. Smith

end of June at the earliest.

(B) (hard) H. J. (F.A.D.)