173

1911

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EAST AFR. PROT
UGANDA

18763

C.O.
18763
REC?
REG? 9 JUN 11

Date

Exchange of Currency notes for Gold
Supply of Rupees in Uganda

Submits [illegible]. Considers it of utmost importance that Prot. sh? be kept amply supplied with rupees. [illegible] recommend change of currency, & suggests other remedies for meeting present difficulty.

Monday, 19th of June

HAB
June 16

Mr Fiddes.

Draft to Treasury herewith for consdn. as result of yesterday's meeting at which Mr. Fiddes, Mr. Collins, Mr. Bowring & Mr. Major, ~~& I~~ were present

HAB
June 20

H. J. R.
21/VI

Lord Lucas
Mr Harcourt

This is an important matter. L

(33,413). Wt.28,093—50. 40,000. 11/10. A.&E.W.

Next subsequent Paper
Lucas
20959

confess that I sh^d like to convert the currency into gold instead of rupees; but there will be strong opposition, and I defer to the views of the local people that the change would be too unsettling to the natives to be ventured upon at any rate at present.

I agree generally with the accompanying opt to Treas^y. They sh^d be invited primarily to confer with us, if they have any [illegible] [illegible] (as is usually [illegible] any [illegible] to come)

I have written privately to [illegible] [illegible] H. J. R.

any [illegible] Currency Commissioners

Mr. Harcourt

The question is a difficult one. Obviously gold is not wanted in the Protectorate ~~and~~ for internal use, and so long as trade ~~[illegible]~~ are expanding, it is not likely to be wanted for export, ~~and~~ in any case so long as the value of the Rupee is maintained by India the Rupee can be used for international settlement.

The proper solution in the circumstances [illegible] to be to declare gold no [illegible] tender. That would [illegible] [illegible] [illegible] wants to be [illegible] [illegible] in local currency so long as the Currency Commissioners are prepared to maintain the supply of notes.

I should at the same time be prepared to accept gold in London at a discount [illegible] to cover the cost of importing [illegible] [illegible] India. The banks would then have the option of bringing in Rupees themselves or of getting them from the Currency Commissioners who would be covered.

I presume there is no chance of getting India to do what the Imperial Gov^t do in regard to silver coin – put it down free of cost where it is wanted. The fact that the Imperial Gov^t does so is of course an argument for English currency.

but I do not know enough of the local circumstances to say whether great inconvenience would be caused by that step.

C.A. 30.6

R. 3.7.11

Sir J. Anderson

I think the "alteration" at [illegible] [illegible] — the fair [illegible] [illegible] [illegible]?

[illegible] 6/7

175

18763
Recd & Regd 9 JUN 11

Printed for use of African No. 976 Office

Rutland Gate Cottage
Park Row
Knightsbridge SW
7th June 1911.

Sir

I regret that owing to my having been out of town, it has not been possible for me to reply before to your letter No 16597/11 of the 31st May 1911.

Gen 16597

My views on the question

The Under Secretary of State
Colonial Office
Downing Street

question of the exchange of currency notes for gold in the East Africa Protectorate and Uganda, [illegible]

I can only now add to what I have already written that I agree with the views expressed in paragraphs 2 and 4 of Mr Secretary Harcourt's

Harcourt's despatch to the Governor of British East Africa No 384 of the 7th April 1914.

[illegible]/10201

Up to the present time there has been little demand for gold in British East Africa and Uganda and, so long as currency notes for Rs 20, 10 and 5 are available I see no probability of the demand

demand increasing to any appreciable extent.

The representative of the National Bank of India states "although the sovereign has been made a legal tender it does not circulate and is practically useless for current purposes — I entirely agree with him.

Personally I should like to see a

a Gold Standard in British East Africa but I am convinced that unless the majority of [illegible] of [illegible] values of [illegible] accompanied, there must be little demand of the gold. The issue of notes of low values has proved successful in the past and these [illegible] now will

I am quite distinct and figures have varied considerably.

With regard to [illegible] remarkable of the letter from the Chief Agent of the Standard Bank of South Africa, enclosure to despatch (confidential) No 23 from the Governor of British of East Africa [Gov 14638] I must point out

most of the gold referred to was laid down by the National Bank of India when it first obtained notes for circulation, and that so far from the Currency Commissioners having dealt largely in gold prior to the advent of the Standard Bank the this Bank has practically ceased for some time past to

demand

demand gold in exchange for notes--

I consider it of the utmost importance that Uganda and also British East Africa in their present states of development should be kept amply supplied with rupees and that the Government therefore should spare no effort to that end.

I also submit that

that the present time is not a suitable one in which to change the Currency of the two Protectorates, it would be a boon to the Standard Bank and the Cotton Growing Association in England.

I regret that the Standard Bank of South Africa, [illegible] a Gold Standard Bank, should find itself at a disadvantage in a rupee country but I see no reason

reason why the Government
should suddenly
introduce a Gold Standard
on that account and
I suggest that [illegible]
it is necessary for the
Government to [illegible]
see that the reserves
of Gold and Silver
[illegible] the Government
negotiations — Some
such system worked
I think in Ceylon sometime
of a report which was
made on the matter. It
[illegible] might

[illegible] however be
[illegible] to propose that
the reserves of [illegible] may
be required [illegible] from the
[illegible] [illegible]
of the [illegible]
in Shanghai [illegible]
to meet the requirements
of either Bank, on the
understanding that the
amount [illegible] in
each case will be
returned at the earliest
possible opportunity
and that until it is so
returned

returned the Bank that
has withdrawn it will
not be
Exchan
notes f

C

Your a

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30
M.
18763 E. A. P.

The Governor's Draft

Downing Street

DRAFT.

Sir C. Lucas.

Lord Lucas. 28

Mr. Harcourt. 28.6.11

for concurrence

S. of S. Fed. Feb. 2 (on 3016)
Gov. Fed. Feb. 6 (3788)
National Bank of India March 28 (13201)
S. of S. No. 184 April 7 (on)
Gov. No. 23 Conf. April 7 14638
W. Bowring June 4 (18617)
W. Major. June 7 (18763)

...arison as to the particular form of currency which should be accepted by the Currency Commissioners of the East Africa Protectorate for currency notes issued by them and as to the currency in which notes presented to them for payment should be redeemed.

2. Mr. Harcourt ~~learns~~ understands that, when the currency note issue was first instituted

instituted, the National Bank of India, which was at that time the only Bank established in the Protectorate, laid down a very large amount of sovereigns in payment for notes issued to the Bank. Since that time the National Bank has paid in rupees for the notes which it has required. No difficulty appears to have arisen ~~in this connection~~ till the Standard Bank of South Africa recently established a branch in the Protectorate. That Bank which is in a position to import sovereigns more economically than rupees desires, and even claims, to be allowed to pay in sovereigns for the notes which the Currency Commissioners issue to it. As their Lordships are aware, the Indian rupee is the standard coin of the Protectorate, and gold ~~coin~~ is used little, if at all, in the commercial transactions of the country. The Standard Bank, therefore,

desires

desire any notes which they may present for redemption to be cashed in rupees. Moreover, owing to the present course of the business of the two Banks, there is a tendency for the notes issued to the Standard Bank to find their way to the National Bank either direct or by way of the Government account with the National Bank. The National Bank ~~is~~ ~~[illegible]~~ therefore, under the obligation of presenting for payment, which it naturally requires in rupees, notes for which the Standard Bank ... gave sovereigns to ~~purchased from~~ the Currency Commissioners. ~~by the Standard Bank for sovereigns.~~ There is thus every prospect that, if this process continues, the Currency Commissioners will find themselves holding more and more sovereigns for the coin portion of the Note Guarantee ~~Currency~~ Fund, while rupees will continue to be demanded in exchange for the notes

presented

presented for redemption.

3. It is clearly open to the [illegible] to redeem in [illegible] them for pay- [illegible] under para- [illegible] rica and [illegible] 5. To do so [illegible] eavour to put [illegible] urrency [illegible] community [illegible] ordinary course of trade. which could no [illegible]. The [illegible] m the [illegible] of India, if [illegible] [illegible] manner, [illegible] cash cheques [illegible] the [illegible] view [illegible] of Indian and native Government employees the result [illegible] very [illegible]

DRAFT.

4. The action of the Standard Bank in the matter is stated to be based on their view that it is the function of the Government to supply [illegible] the currency, in this case rupees, required by the community, and that [illegible] therefore [illegible] their [illegible] payment for currency notes such form of legal tender currency as may be convenient to them, leaving to the Government the [illegible] of redeeming those notes in such form of legal tender currency as may be convenient to those who present the[m] for redemption. Mr. Harcourt is unable to accept this view of the obligations of the Government when there are already banks established in the Protectorate through ~~whom~~ which supplies of currency can be obtained ~~by those~~ ~~who~~

who need it in the ordinary ~~way~~ processes of

business.

5. It appears that, in view of

the considerations already stated, the

Currency Commissioners have not hitherto

insisted on redeeming notes in gold, but

[illegible] which

[illegible] decide [illegible]

[illegible]

[illegible]

[illegible] currency [illegible]

[illegible] was Rs.[illegible] Against

this the Currency Commissioners held

[illegible]

a coin portion of the Note Guarantee

Fund amounting to Rs.1,580,497. Of the latter

amount Rs.948,000 was in gold and Rs.632,497

in silver. In Mr. Harcourt's opinion

this constitutes a very serious ~~difference~~ position.

The principle on which the division

of the Note Guarantee Fund into an invested

portion and coin portion is based is that

the

the coin portion shall constitute a

fund from which any probable demand

for redemption of notes can be promptly

and safely met. It will be seen from

the figures given above that about

three-fifths of the coin portion of

the fund is actually held in currency

which is useless for the needs of [illegible]

community, which the Banks would [illegible]

fore be unwilling to accept [illegible]

~~tion of notes,~~ and any [illegible]

[illegible]

~~into circulation~~ would [illegible]

in serious embarrassment [illegible]

Government.

6. The temporary [illegible] made

in the Protectorate pending considera-

tion of the matter [illegible] has been

to prescribe that no ~~offer~~ tender of gold in

payment for notes required will be

accepted unless one half of the amount

is paid in London to the Crown Agents

for

for the Colonies for investment ~~for~~ the credit of the invested portion of the Note Guarantee Fund. ~~The object aimed at is apparently to avoid~~ the cost of remitting for the purposes of such investment and so to diminish to some extent the expense which will sooner or later be imposed upon the Currency Commissioners ~~to~~ in export the ~~gold which they receive. This device~~ the device ~~does~~ not, however, appear to meet the case ~~is not sufficient.~~ The Standard Bank ~~and its customers~~ have alone availed itself ~~themselves~~ of this arrangement, makes some charge for ~~what~~ is virtually a And it still remains the ... remittance. ~~The device, moreover, does not meet the difficulty~~ that the coin, actually added to the ~~coin~~ portion of the Guarantee Fund is in sovereigns and not in rupees. ~~The arrangement is also open to the objection that it renders more likely~~

DRAFT.

~~likely a transgression of the rule that~~ at least half of the Note Guarantee Fund shall be kept in coin. If immediately or soon after the prompt investment of one half of the amount paid for notes under this arrangement the Bank found it convenient to present for redemption the whole or the greater part of the notes so purchased, the coin portion of the Guarantee Fund, unless there had previously been a considerable margin, would at once sink below 50 per cent of the total Guarantee Fund. The delay allowed by remittance by the Currency Commissioners for investment in the ordinary course gives an opportunity for classifying more accurately the invested and coin portion of the Fund and this more successfully avoids the ~~danger referred to.~~

7. So

7. So far as Mr. Harcourt can see, the only solution of the difficulty is that indicated in the despatch which he addressed to the Governor of the Protectorate ~~on the subject~~ of the 7th June 1911 of April last, namely, that a limit should be fixed to the amount of the [illegible] portion of the Note Guarantee Fund [illegible] by Mr. Secretary [illegible] that may be kept in gold, and that, ~~once~~ [illegible] to you, to be laid [illegible] ~~point~~ has been reached, the Commissioners [illegible] Commissioners of the [illegible] ~~should then~~ refuse to accept [illegible] corresponding [illegible] in payment for notes. From the [illegible] which [illegible] evidence which has been laid before him [illegible] negligible extent to [illegible] by which gold is used in the Protectorate [illegible] Mr. Harcourt considers that the limit should be very small, say £5,000 (Rs.75,000).

8. This proposal, however, raises at once the question whether the Currency ~~Board~~ Commissioners at present have power to refuse to accept ~~gold coin~~ excessive tender ed in payment

for

for notes. The question would appear to depend upon the interpretation of paragraph 14 (1) of the East Africa and Uganda (Currency) Order 1905, which enacts that, subject to the provisions of the Order, the Currency Board may from time to time provide and issue and re-issue currency notes in exchange for ~~the~~ current coin. The word "may" in this paragraph appears to confer upon the Board a discretion in the exercise of which it might be held that they could refuse to issue notes except for standard coin, that is, rupees. On the other hand it appears to be a possible interpretation that the discretion conferred is exhausted if the Currency Board do not refuse to issue notes and that, if on a particular occasion they consent to issue notes at all, they cannot discriminate between ~~the~~ one form

of

of current coin and another tendered

in payment for the notes. To avoid all

doubt on the subject, Mr. Harcourt is of

opinion that the Order in Council should

be so amen[illegible] currency

[illegible]

[illegible] (Currency) Order [illegible]

[illegible] however [illegible]

9.

the [illegible]

days of [illegible] issue, and

has recently been paid in by the [illegible]

Bank. For the reasons stated above,

would

DRAFT.

would appear to be ~~inexpedient~~ impracticable to

attempt to lower the stock by the method

of redeeming notes in gold until the

gold had fallen to the limit ~~laid down~~ suggested.

Mr. Harcourt would therefore ~~suggest~~ propose

that [illegible] the amount [illegible]

present [illegible] for the limit [illegible]

should be exchanged for rupees [illegible]

manner as may be found most economical [illegible]

expense being regarded [illegible]

[illegible]

[illegible] for sovereigns [illegible]

[illegible] coin [illegible]

[illegible] at £5,000, and then

[illegible] required [illegible]

to [illegible] figure.

10. Mr. Harcourt would be glad

to learn whether their Lordships concur

in

in his view of the situation, and, if

so, whether they would be so good as

to give the necessary directions

for the amendment of the Currency

Order in the manner suggested in the

[illegible] paragraph of this despatch.

[illegible]

[illegible] in this respect [illegible]

[illegible]

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O.D.

Communications on this subject should be addressed to—

THE UNDER SECRETARY OF STATE,
COLONIAL OFFICE,
LONDON, S.W.,

and the following Number quoted. 18763/1911

97?

Mr Fraser 6.7

Downing Street,

8 July, 1911.

Sir,

I am directed by Mr. Secretary Harcourt to transmit to you, to be laid before the Lords Commissioners of the Treasury, a copy of correspondence relating to difficulties which have arisen as to the particular form of currency which should be accepted by the Currency Commissioners of the East Africa Protectorate for currency notes issued by them and as to the currency in which notes presented to them for payment should be redeemed.

S. of S. Telegram January 2nd.

Gov. Telegram February 6th.

National Bank of India, March 28th.

S. of S. No. 184. [illegible] 7th.

[illegible] 7th.

Mr. Bowring June 14th.

Mr. Major. June 7th.

2. Mr. Harcourt understands that, when the currency note issue was first instituted, the National Bank of India, which was at that time the only Bank established in the Protectorate, laid down a very large amount of sovereigns in payment for notes issued to the Bank. Since that time the National Bank has paid in rupees for the notes which it has required. No difficulty appears to have arisen until the Standard Bank of South Africa recently established a branch in the Protectorate. That Bank which is in a position to import sovereigns more economically than rupees, desires and even claims, to be allowed to pay in sovereigns for the

notes

THE SECRETARY
TO THE TREASURY.

notes which the Currency Commissioners issue to it. As their Lordships are aware, the Indian rupee is the standard coin of the Protectorate, and gold coin is used little, if at all, in the commercial transactions of the country. The Standard Bank, therefore, desires any notes which it may present for redemption to be cashed in rupees. Moreover, owing to the present course of the business of the two Banks, there is a tendency for the notes issued to the Standard Bank to find their way to the National Bank either direct or by way of the Government account with the National Bank. The National Bank is, therefore, liable to find itself under the obligation of presenting for payment, which it naturally requires in rupees, notes for which the Standard Bank has tendered sovereigns to the Currency Commissioners. There is thus every prospect that, if this process continues, the Currency Commissioners will find themselves holding more and more sovereigns for the coin portion of the Note Guarantee Fund, while rupees will continue to be demanded in exchange for the notes presented for redemption.

3. It is clearly open to the Currency Commissioners, under paragraph 14 (3) of the East Africa and Uganda (Currency) Order in Council 1905, to redeem in sovereigns notes presented to them for payment. To do so would, however, be to endeavour to put into circulation a form of currency which is not required by the community and which could not

be

be used in the ordinary course of trade. The attempt would, indeed, recoil on the Government, as the National Bank of India, if burdened with gold in this manner, could retaliate by refusing to cash cheques drawn on the Government account with that Bank in any form of currency except sovereigns. If such cheques were drawn, as would frequently be the case, with a view to the payment of large numbers of Indian and native Government employees, the result might be very serious.

4. The action of the Standard Bank in the matter is stated to be based on their view that it is the function of the Government to ensure an adequate supply of the currency, in this case rupees, required by the community, and that they are, therefore, within their rights in presenting in payment for [illegible] notes such form of legal tender currency as [illegible] convenient to them, leaving to the Government the task of redeeming those notes in such form of legal tender currency as may be convenient to those who present the notes for redemption. Mr. Harcourt is unable to accept this view of the obligations of the Government when there are already Banks established in the Protectorate through which supplies of currency can be obtained by the ordinary processes of business.

5. It appears that, in view of the considerations already stated, the Currency Commissioners have not hitherto insisted on redeeming notes in gold, but a point has now been reached at which it is necessary to decide what shall be their future course of action

in

in this respect. On the 10th of May last the total amount of currency notes in circulation was Rs. 28,74,000. Against this the Currency Commissioners held investments to the nominal value of £89,628, and the coin portion of the Note Guarantee Fund amounting to Rs. 15,80,497. Of the latter amount Rs. 948,000 was in gold and Rs. 632,497 in silver. In Mr. Harcourt's opinion this constitutes a very serious position. The principle on which the division of the Note Guarantee Fund into an invested portion and a coin [illegible] the coin portion shall constitute [illegible] probable demand for [illegible] promptly and safely [illegible] figures given above [illegible] the Fund [illegible] currency which is useless for [illegible] the community and which [illegible] would be unwilling to accept, and [illegible] to use this portion of the Fund for [illegible] would probably result in serious [illegible] to the Government.

6. The temporary expedient adopted in the Protectorate pending fuller consideration of the matter has been to prescribe that no tender of gold in payment for notes required will be accepted unless one half of the amount is paid in London to the Crown Agents for the Colonies for investment for the credit of the invested portion of the Note Guarantee Fund.

The

The device does not, however, appear to meet the case. The Standard Bank, which has alone availed itself of this arrangement, makes some charge for what is virtually a remittance. And it still remains the case that the coin actually added to the coin portion of the Guarantee Fund is in sovereigns and not in rupees.

7. ~~So far as Mr. Harcourt can see, the only~~ One solution of the difficulty is that indicated in the despatch which he addressed [illegible] to the Governor of the Protectorate on the 7th of April last, namely, that a limit should be fixed to the amount of the coin portion of the Note Guarantee Fund that may be kept in gold, and that, when that limit has been reached, the Commissioners should refuse to accept gold in payment for notes. ~~In [illegible] the [illegible] has been~~ laid before him as to the negligible extent to which gold is used in the Protectorate, Mr. Harcourt considers that the limit should be very small, say £5,000 (Rs.75,000).

8. This proposal, however, raises at once the question whether the Currency Commissioners at present have power to refuse to accept sovereigns tendered in payment for notes. The question would appear to depend upon the interpretation of paragraph 14 (1) of the East Africa and Uganda (Currency) Order 1905, which enacts that, subject to the provisions of the Order, the Currency Board may from time to time provide and issue and re-issue currency notes in exchange for

current

A

On further consideration, Mr Harcourt is of opinion that the simplest solution would be found in providing that, hereafter, the Currency Commrs shall only receive and issue notes in exchange for standard coins (i.e.) rupees. At the same time he considers that the Commrs might be empowered to issue notes against gold deposited with the Cr. Agents in London at a ~~premium~~ discount sufficient to cover the cost of importing the equivalent in rupees into India. The banks would then have the option of bringing in rupees themselves or of obtaining them from the Commrs through [illegible] the [illegible] against loss on the operation.

current coin. The word "may" in this paragraph appears to confer upon the Board a discretion in the exercise of which it might be held that they could refuse to issue notes except for standard coin, that is, rupees. On the other hand, it appears to be a possible interpretation that the discretion conferred is exhausted if the Currency Board do not refuse to issue notes, and that, if on a particular occasion they consent to issue notes at all, they cannot discriminate between one form of current coin and another tendered in payment for the notes. To avoid all doubt on the subject, Mr. Harcourt is of opinion that the Order in Council should be so amended as to give the Currency Commissioners absolute discretion to refuse to issue notes for sovereigns while issuing them against other current coin.

8. It will still remain to be decided how the present stock of gold held by the Currency Commissioners, ~~which is many times larger than the maximum amount now suggested,~~ should be disposed of. It appears that, of the amount of about £65,000 at present held in gold, £43,000 or £44,000 was laid down by the National Bank of India in the early days of the note issue, and that the balance has recently been paid in by the Standard Bank. For the reasons stated above, it would appear to be impracticable to attempt to lower the stock by ~~the method of~~ redeeming notes in gold ~~until the gold has fallen to the limit suggested~~,

Mr. Harcourt would, therefore, propose that the ~~excess~~

of

transmitted for investment, as opportunity offers,

~~of the amount of~~ gold at present held ~~over the limit of £5,000 should be~~ exchanged for rupees in such manner as may be found ~~most~~ economical, the expense being regarded as incidental to the working of the note issue~~, and that thereafter no notes should be issued for sovereigns except in the event of that part of the coin portion of the Note Guarantee Fund held in gold falling below £5,000, and then only to the extent required to restore it to that figure~~.

10. Mr. Harcourt would be glad to learn whether their Lordships concur in his view of the situation, and, if so, whether they would be so good as to give the necessary directions for the amendment of the Currency Order ~~in the manner suggested in the 8th paragraph of this despatch~~.

I have the honour to be,

Sir,

Your most obedient Servant,

[illegible]

G. V. Fiddes.

Schedule of [illegible]

([illegible])