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A. THE NATURE OF THE MONETARY AUTHORITY IN EAST AFRICA.

The monetary system in East Africa is administered by the East African Currency Board (hereafter referred to as E.A.C.B.) Its main task can be said to consist of the selling and the buying of East African currency in exchange for sterling at a fixed rate of £1 - 20s. (excluding commission charges which do not surpass 3/8 percent.)

The E.A.C.B. can hardly be considered as a monetary authority in the strict sense of the word. It exercises no control over any monetary parameter, and in fact, has almost no power of discretionary action. The only exception is its limited fiduciary issue which in 1955 was £10M. and doubled in 1957. The larger proportion of E.A.C.B. consists of U.K. Government securities and Treasury Bills which can be sold in the London Market in the event of any deficit, with the resulting reduction of East African currency in circulation. This gives a total holding of sterling assets of some £ 56m. or 95% of the total currency liabilities.

The E.A.C.B. is now authorized to cover its liabilities with non-sterling assets up to a ceiling of £25m., £20 fiduciary issue and £5m. to support seasonal agriculture credit.

For the reason that most foreign transactions are paid for in sterling, it seems that any divorce with the sterling area would present difficulties for East African Countries. However, a comparative study of what will happen in the event of East Africa joining the International Monetary Fund and the World Bank. (source of information, (1) and (2).

B. THE NATURE OF THE COMMERCIAL BANKS.

East Africa as a whole is being served by mostly expatriate commercial banks and other financial institutions. This is due to the inevitable colonial rule. The 'Big Three' are: Barclays, National and Grindlays and the Standard Bank. The Standard Bank has 56 branches throughout East Africa; Barclays 95 branches and the National Grindlays 44 branches. The other banks, equally foreign are: Nederlandsche Handel-Maatschappij, Ottoman Bank, Habib bank, Bank of Baroda and Bank of India.

Local banks include Land and Agricultural Banks in Kenya and Tanganyika, Uganda Credit and Savings Bank.

C. OTHER FINANCIAL INSTITUTIONS.

These include the Post Office Savings Banks, building societies, insurance companies and hire purchase houses, equally predominantly expatriates.

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Classification	

Mead: Yale Economic Essays Spring 1963.
Economic Development of Kenya (Govt. Printer, Nairobi 1962).



i) The International Character of the Commercial Banks.

The international characters of the East African commercial banks offer some benefit to East Africa. As a matter of emphasis, Standard bank has 815 branches throughout the world (particularly South And Central Africa); Barclays has 1,175 branches and National and Grindlays 94 branches throughout the world.

Presently, these banks hold some foreign reserves which added to the sterling assets of the EACB. increase the volume of East African foreign reserves. Secondly, these banks can mobilize the foreign reserves of their other branches for East African foreign payments purposes and also for East African Credit facilities. This does not of course mean that these banks have no disadvantages, for there are:

ii) Expatriate banks and Credit Supply in East Africa.

In the past, these expatriate banks have been passive in the supply of credit. But according to the Blumenthal Report, they took an active part from 1960 onwards. Loans and advances exceeded demand deposits in the entire region; in Uganda they even exceeded total deposits (the explanation being that part of credits for Uganda are made available by banks in Kenya...)

However, the most commonly critic against the banks is their selective credit supply. Most of the credit went to the Europeans and Asians while Africans are unfavourably neglected. (sources of informations: (3 and 4).

REPROACHES OF THE EAST AFRICAN CURRENCY BOARD.

1) Foreign Decisions:

Under the regulations governing the activities of the EACB, the board is subordinated to the U.K. Secretary of State for the Colonies. This is not acceptable because such foreign decisions have a higher probability of neglecting local considerations.

2) Non-flexibility in the supply of money:

- a) limited fiduciary issue,
- b) limited credit to the agriculture.
- c) limited money-supply to the commercial banks,
- d) fixed rate of exchange (for sterling).
- e) lack of proper monetary supervision,
- f) lack of government legislation on foreign exchange control,
- g) absence of reliable data on the amount of money in circulation in each of the constituent territories.
- h) lack of geographical union, the area of the currency board including Aden.

(3) Tanganyika - East Africa: Blumenthal Report (Govt. Printer Dar-es-Salaam, 1963.

(4) The Economic Development of Uganda, October, 1961.

REPROACHES OF THE COMMERCIAL BANKS IN EAST AFRICA:

- a) their credit supply is being influenced by the activity of the London market,
- b) the selective character of the credit supply oriented mostly to trade - including their geographical concentration in certain spots - mostly towns.
- c) their unfriendly attitude towards Africans
- d) their high rate of interest - 7 to 10 per cent.

Remark: In the light of all these and the East African Governments desire to establish an East African Central Bank, as laid in the Draft Constitution of the Bank, I propose the following for our discussion. I hope that your suggestions will be a big contribution to help me shape my final plan of research. (source of information (5))

PROPOSED PROGRAMME OF RESEARCH.

I. The Central Bank as a Monetary Authority.

- i) will the central bank have the monopoly of the monetary policies or is there likelihood of conflict with the treasuries or the state banks ?
- ii) what compromise would be possible in case of conflict of function with the treasuries.?

II. The Central Bank and the supply of money:

In a developing country like East Africa, an adequate supply and only adequate supply of money is essential. This therefore leads us to examine the following :

- i) what will be the fiduciary issue power of the central bank ?
- ii) to control the supply of credit internally, will the traditional tools of control be effective ? If not what are the possible substitute tools ?
- iii) what are the Central Bank's methods of control in other underdeveloped economies ?

III. The Central Bank and the Commercial Banks in East Africa.

- i) What line of action will the central bank take to obliterate the reproaches of the present commercial banks in East Africa (see p. 4).
- ii) Hitherto, commercial banks have not been subjected to strict monetary supervision. They have been free to hold sterling assets and are free to get additional credit from their head offices abroad. In the case of firm control, what will be the reaction of these commercial banks as regards the supply of credit ?

(5) Blumenthal. Report to the Government of Tanganyika, The Government Printer, Dar-es-Salaam, 1963.

- iii) It has been suggested that the central bank will have to encourage the growth of indigenous banking system what will be the reaction of the expatriate banks ?

IV. CENTRAL BANK AND INTER-TERRITORIAL MONETARY MOVEMENTS:

- i) Hitherto, no estimates have been done of the amount of currency in circulation in each of the territories of the EACB. Will it be the duty of the central bank to do this or it will be the duty of each state Bank ?
- ii) Besides being the clearing house for the commercial banks, will the central bank be the clearing house for the inter-territorial monetary movements ?

V. THE CENTRAL BANK AND THE INTERNATIONAL EXCHANGE RATE.

- i) will it be wise for the EA central bank to maintain the present fixed rate of exchange for the sterling ?
- ii) will the flexible rate of exchange be an advantage ?

VI. THE CENTRAL BANK AND THE BALANCE OF PAYMENTS:

- i) the relationship between balance of payments with the local currency supply,
- ii) the rise of the money supply and the imports propensity,
- iii) the fall of the money supply and exports propensity,
- iv) balance of payments and capital movements:
 - a) private capital movements,
 - b) public loans to governments.
- v) national income fluctuations and the balance of payments,
- vi) the influence of surplus balance of payments on the national economies of East Africa - development and prices.
- vii) the influence of deficit balance of payments.

VII. THE CENTRAL BANK AND THE FOREIGN EXCHANGE RESERVES.

- i) will East Africa maintain the present firm monetary tie with the sterling area, and if not what will be the consequence in the event of balances of payments difficulties ?
- ii) how can East Africa best attract foreign reserves ?
- iii) In the event of East Africa joining the International monetary Fund (which is very probable), what will be her share of credit ?

VIII. SOCIAL CUSTOMS AND THE SUPPLY OF MONEY TO THE ECONOMY:

- i) the passage of present subsistence economy to monetary transaction economy and its influence on monetary supply,
- ii) public banking practices and commercial banks credit supply:
 - a) current accounts
 - b) deposit accounts.
- iii) public response to the central bank's credit operations.

IX. THE QUANTITATIVE THEORY OF MONEY APPLIED TO EAST AFRICA.

- i) the volume of money and the volume of national production,
- ii) rate of increase of monetary supply and the increase in the national output.
- iii) danger of inflation and deflation.

CONCLUSION.

This programme is not as detailed as I would have wanted it to be. I had previously intended to present a limited one, and that was inevitably due to the fact that I have not had enough time for thorough documentation. I hope however, that this global approach will aid our discussion and I am confident that your suggestions will lay ground for my final programme.

Thanks in anticipation.