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"THE EAST AFRICAN CURRENCY BOARD"  
Background and Current Problems.

"The facts are scattered over innumerable Blue Books, Annual Reports and other documents, some of them very difficult to obtain and very few people know the facts or understand how the system works." (1)

Introduction:

Before the ultimate establishment of the East African Currency Board in 1919 - some seven years after the establishment of that for West Africa - there were Currency Commissioners. According to P.W. Bell (2), the function of the Currency Commissioners is simply that of the currency board in another form. They issued small amounts of local coins and had a Crown Agent in London. Also, in East Africa at this time, there was heterogeneity of currency in circulation. In Kenya and Uganda, a considerable amount of imported Indian rupee coins - together with a small amount of locally issued coin but expressed in terms of the Indian rupee - were in circulation. In Tanganyika, which was a German possession up to 1914, the medium of exchange was a local rupee - of fineness and value equal to that of India - plus a token German subsidiary coinage. Zanzibar and Aden had also some form of rupee in circulation. Such was the monetary situation in East Africa prior to the institution of the Currency Board by the Secretary of State for the Colonies in 1919.

The immediate reason which led to the establishment of an East African Currency Board was the fact that after the 1914 War, the Indian rupee suffered exchange fluctuations relative to the pound sterling. And since East Africa, at the time, was so to speak, in the rupee area, the same rupee/sterling exchange variations were also being felt. Consequently, the establishment of the East African Currency Board can be said to have been the direct result of the rupee/sterling exchange variations.

But the reasons that led to the establishment of the West African Currency Board were not, I think, foreign in the case of East Africa. In effect, the satisfactory experience of the West African Board, can be said to have motivated the British Government to establish the East African and the Southern Rhodesian Currency Boards.

ii- The Nature of a Currency Board:

A currency Board has been defined as "a body that issues and redeems currency automatically on demand against sterling or vice versa." (3) This definition is in fact explicit in the East African Board's revised regulations, 1955 and 1961.

6.. "The Board shall issue at their main offices in the Constituent Territories to any person who makes demand in that behalf currency notes or coin equivalent to the value (at the rate of Twenty East African Shillings to One pound sterling) of sums in sterling lodged with the Board in London. The Board shall pay to any person who makes demand in that behalf sterling in London equivalent to the value (calculated as afore-said) of currency notes or coin lodged with the Board at their main offices in the Constituent Territories." (4)

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- (1) G.M. Clauson: Economic Journal, April, 1944.  
(2) Philip W. Bell: The Sterling Area in the Postwar World  
(3) Erwin Blumenthal: Report to the Government of Tanganyika  
(4) Erwin Blumenthal: Report to the Government of Tanganyika  
Appendix IV.

Three characteristics distinguish the currency board from other monetary authority, such as the central bank: (a) rigidly fixed parity of the local currency with the sterling, or in other words, the definition of the local currency with the sterling, or in other words, the definition of the local currency on the sterling standard basis; (b) 100 per cent sterling reserves for the local currency and, (c) automaticity of the currency board's operation in the foreign exchange market. (5)

Of the first two characteristics, we shall discuss later in this paper. What we need to stress upon at the moment is the automatic character of the currency board.

Clearly, fixed parity together with the 100 per cent reserve mean that the operation of the currency board is completely automatic. The board then does not take any initiative either to increase or to decrease the supply of the domestic currency. It only stands prepared to exchange sterling or currency notes for any person who makes demand on that behalf. In practice, however, the board does not deal with individuals, but rather with banks. The only discretion left to the Board is the determination of the minimum amount that it may issue or redeem together with a limited margin of flexibility in the rate of premium that it may charge or levy on transfers to and from London.

Such is, indeed, the essential nature of the currency board. The recent innovations in the Board's functions, have not much done to change the simplicity of the nature of a currency board. Issue and redemption remain the core of its function.

iii- Early Operations of the East African Currency Board:

It was the duty of the newly constituted East African Currency Board to inaugurate a new and homogeneous currency system (the E.A. Shilling) for all the Constituent Territories. Consequently, the first operation was the withdrawal of the rupee from circulation and its replacement by the shilling. The conversion operation, which was done at the rate of 2E.A. Sh to a rupee, proved a very expensive undertaking. The Board incurred a loss of the magnitude of some £903,632 in Kenya and Uganda, and an additional loss of the order of £610,024 in Tanganyika.

The predicament of the Board at its infant state was amplified by the world depression of the nineteen-thirties, due mainly to the great decline of primary products' prices in the world markets. As can be seen from the figures on table II, the reserve fund of the Board fell regularly between 1929 and 1932 when the lowest figure of 9.9% cover was recorded.

By 1932, it was sensed that the Board's means could no longer match its obligations. On its own, the Board raised the rate of premium on London transfers to one and a half per cent. Besides this, the Board also borrowed on the London short-term money market. The total sum of £803,000 was borrowed; with the annual distribution as follows:

	£		£
1930 .....	141,000	1932 .....	344,000
1931 .....	238,000	1933 .....	80,000

(source: Newlyn and Rowan (6))

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(5) Philip W. Bell: Sterling Area in the Postwar World.

(6) W.T. Newlyn & D.C. Rowan: Money and Banking in British Colonial Africa.

Despite these accruals, the resources of the Board left much to be desired. The final incidence of the Board's losses from currency conversion had to fall upon the shoulders of the Constituent Governments themselves. The Secretary of State for the Colonies made a statement that, "steps would be taken to ensure the exchange of the E.A. currency at existing parity." (7) Accordingly, the Secretary of State authorised the three Governments of Kenya, Uganda and Tanganyika to raise sterling loans in London to the amount of £1,500,000 guaranteed. This total amount was shared by the three Governments in the following proportions:

	£
Kenya Colony and Protectorate .....	650,000
Uganda Protectorate .....	350,000
Tanganyika Trust Territory .....	500,000
Total .....	<u>1,500,000</u>

(source: Newlyn and Rowan: op. cit. p.59)

The fact that the Constituent Governments of the day were called upon to aid the Board by their borrowing power is tant-amount to recognition of the Currency Board's original principle that the resources and credit of the Constituent Governments should be the final security for the discharge by the Currency Board of its obligations. Actually, however, the three Governments never had to be called upon to carry out this borrowing. Nevertheless, until the 1943/44 financial year, the £1,500,000 Governments' obligation appeared as an asset in the successive balance-sheets of the Board.

After this difficult period, the Board's situation has improved to the present day. The recuperation of the E.A. exports and the post-depression balance of payments produced a substantial increase in the volume of circulation, as can be seen in Table II.

In spite of the 1931 crisis, it can be said that the Board managed its task with a remarkable success. It sustained the public confidence and avoided the collapse of the system. Credit ought to be equally attributed to Great Britain and to the Governments of Kenya, Uganda and Tanganyika for their far-reaching assistance during the Board's critical period.

#### iv - The Area of the East African Currency Board:

The East African Currency Board, originally constituted in 1919 to "Provide for and control the supply of currency" to Kenya Uganda and Tanganyika, has since experienced an extension of its area of responsibilities. This extension is in accordance with its constituent statutes. Even the revised regulations of 1955 and 1961 say:

"The East African Currency Board will provide for and control the supply of currency to Kenya Colony and Protectorate, Uganda Protectorate, Tanganyika, the Zanzibar Protectorate, Aden Colony and Protectorate, and any other Territories which may be added by the Secretary of State...."

(source: Blumenthal Report: op.cit.)

In accordance with this authority, Zanzibar became a member of the Board in 1936 with the EA. shilling becoming full legal tender there. Unlike the conversion in the mainland territories, the Zanzibar conversion yielded a surplus from the investment cover of the previous currency. Because of this surplus, the Board had to undertake a contractual obligation to pay Zanzibar an annual sum of £2,700 - apart from any contribution to the member Governments out of the Board's surplus income.

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(7) Newlyn and Rowan: op.cit.

The next notable extension of the Board's area of responsibilities came as a result of the World War II. In 1942, the EA. shilling was introduced in the British-occupied Italian Territories, including Ethiopia. However, the shilling did not replace the local currencies there; it only circulated side-by-side. In Aden and Somaliland, the same side-by-side circulation of the EA shilling was also introduced during the War. It was only in October 1951 that the EA. shilling was given the sole legal tender in Aden and Somaliland and fully replaced the local currencies.

The enlargement of the territorial responsibilities of the Board is reflected in the increase in volume of currency outstanding, as shown in the figures of Table II. From 1942 to 1945, the data show large annual increments in the amount of currency outstanding. The marked drop after 1945, was due to the withdrawal of the EA. shilling from Ethiopia and other British occupied Italian territories. Also, in 1961, Somaliland having gained its political independence, withdrew from the Board's membership with the resultant drop of £0.8 million in the volume of currency outstanding.

Looking to the future, the imminent withdrawal of Aden from EA. shilling area is likely to have further consequences for the liabilities of the Board and also for currency in circulation. In its 1963 Report, the Board made the following comment in respect to Aden:

".....no detailed reference has so far been made to Aden which is a constituent territory of the Board in its own right. It was felt that Aden deserved separate mention and that this would also permit a clearer picture of the developments and problems in East Africa. The Government of Aden, which is a member of the Board, became a State in the Federation of South Arabia on the 18th of January 1963. At that stage responsibility for currency matters in the whole area passed to the Federal Government which immediately delegated it to Aden Government in respect of membership of the Board."

"The problems of the 'Aden Currency Area' comprising as it does not only Aden and the other States of the Federation but also the States of the Eastern Protectorate have their special characteristics which differ widely from the situation in East Africa. Recent political trends, both in Arabia and East Africa, make it likely that a common currency between the two will not exist for much longer. However regrettable the fragmentation of the currency area may be in general terms, the different economic aspect of Aden has obliged the Board to treat it increasingly as a separate entity."(8)

We can conclude that with the withdrawal of Aden from the membership of the Board, only Kenya, Uganda, Tanganyika and Zanzibar will remain the responsibility of the Board. But, in the light of the fact that the East African Governments are at present actively discussing the possibility of establishing a Central Bank, it is dubious whether the East African Currency Board will maintain its existence beyond a certain limit of time.

#### v- The East African Currency Board as a Monetary Authority;

Just as a 'central bank' in many independent nations is the creator of cash, so is the East African Currency Board for its member-countries. But this comparison is an unhappy one, and is apt to lead to confusion. Nonetheless, as far as the creation of cash is concerned, the two institutions, i.e. a central bank and a currency board, are identical.

One fundamental difference between a central bank and a currency board is that the latter has no legal power to control the operations of the commercial banks. This is indeed a big lacuna in the overall monetary policy.

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(8) East African Currency Board: Report for the year ended 30th June, 1963.

The fact that a central bank obliges the commercial bank to hold accounts (bankers' accounts) in its Book permits the control of the total money supply in an economy. By manipulating its assets, and therefore the bankers' balances, a central bank is able to regulate money supply. By reducing its earning assets - and increasing bankers' balances - a central bank encourages credit expansion. Contrariwise, credit could be tightened. Such is in fact the central Bank's operation which is known as 'open-market operation.'

Another lacuna is the fact that the East African Currency Board does not act as a banker to the Governments of the Constituent Territories. By controlling its assets, a central bank controls its liabilities. But bankers' balances, which we have seen as regulators of the commercial banks, are not the only liabilities of a central bank. (9) There are also Government Accounts (public balances). If the assets of the central bank remain unchanged, every payment to the Government Account (taxes etc.), would mean a reduction of bankers' balances - and contrariwise. A decline in the bankers' balances means a decline in the cash ratio. Banks will therefore be forced to adjust their balance-sheets in such a way so as to recover their cash-ratio. Generally, the effect is tightening credit supply. But the central bank could upset this effect of increasing Government balance, by buying -rediscounting- bills from the commercial banks.

Here again, we see that the simple effect of being a banker to the Government produces nearly the same result as the open-market operation. Hence, we are led to conclude that the East African Currency Board is only a monetary authority in a very limited sense; or, as Messrs. Newlyn and Rowan put it, "the Board engages only in currency administration." (10)

This conclusion seem not to hold well today. Originally, and at the time Newlyn and Rowan wrote, that was the situation of the Board. In the last few years, however, the East African Currency Board has made some improvements and adjustments in response to the political and economic evolution of the Constituent Territories. Details of these improvements and adjustments are discussed below.

#### vi- Currency in Circulation:

The East African Currency Board is the creator of cash not only for East Africa proper, i.e. Kenya, Uganda, Tanganyika, and Zanzibar, but also for other territories, at different times as discussed above. In most publications, particularly those of the East African Currency Board, no separate data are presented for East Africa proper, with regard to currency in circulation. However, I was able to obtain from the East African Economic and Statistical Bulletins, the data reproduced in Table IIIa. The countries grouped under "others" include Somaliland, British Somaliland, Eritrea, Ethiopia and Aden.

From the data in Table IIIa, I have been able to compile Table IIIb; whose figures refer to currency in circulation in East Africa proper. The aim is to observe at what rate the currency in circulation in East Africa was growing. From the last column of Table IIIb, we see a very irregular annual rate of increase of currency in circulation. Taking a simple average of the annual per cent increase, it is about 8.7%. Whether or not this rate of increase has kept pace with the ever increasing volume of monetary transaction in the Constituent Territories, I do not know. However, detailed study in this field would be interesting and advisable.

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(9) Cf. R.S. Sayers: Modern Banking (Oxf. at the Clarendon Press (1960)

(10) Newlyn and Rowan: op.cit. p.51.

vii - The East African Currency Board as an Earner of Income:

The East African Currency Board is an earner of income. Paragraph 6 of its regulations permits the Board to levy any person obtaining local currency or sterling a commission which would not exceed one half of one per cent. Again, paragraph 14 allows the Board to sell, subscribe buy or guarantee publicly any securities specified therein or approved by the Secretary of State. An examination of the Board's balance-sheet shows that the main sources of income are, in order of importance: dividends, interest yields, commissions for the rediscount of bills, redemption and issue operations and a category of other receipts grouped under the rubric of "miscellaneous." The 1962/63 Balance sheet shows the following:

Profit and Loss Account:

<u>1961/62</u>		<u>1962/3</u>
£EA.		£EA.
1,811,025	Dividends and Interest.....	1,812,112
1,751,045	Other Current Earnings .....	1,299,582
<u>154,674</u>	Miscellaneous .....	<u>135,922</u>
<u>3,696,744</u>	Total .....	<u>3,247,616</u>
 <u>Expenses:</u> 		
£EA.		£EA.
324,883	General expenses .....	262,894
2,000,000	Transfer to Income Distribution .....	2,000,000
<u>1,371,861</u>	Transfer to General Reserve .....	<u>984,722</u>
<u>3,696,744</u>	Total .....	<u>3,247,616</u>

It is because the Board is an earner of income that it has, since the financial year 1950/51, contributed appreciably to the revenues of its Constituent - Governments. One might wonder why only since 1950/51, while the Board was established in 1919? Because of the crisis that befell the Board at its infantile stage - which resulted to a considerable losses in the amounts of the Reserve Fund- the Board judged that it could not permit any distribution of revenues. This was done for the purpose of rebuilding the Currency Reserve Fund.

Two paragraphs of the Board's regulations support this act:

12. "The proceeds of the sale of coin and currency notes and all other revenue of the Board shall, after the necessary deductions have been made for all expenses and for any contributions made to the revenues of the Constituent Territories under paragraph 19 of these Regulations be credited to a fund herein-after referred to as the Currency Reserve Fund. Any losses which may be incurred will be debited to the Fund."
20. "When the Board is satisfied that their reserves are more than sufficient for all the purposes for which such reserves may be required, they may, with the approval of the Secretary of State, pay over the whole or any part of the surplus amount in aid of the revenues of the Constituent Territories."(11)

If we look at Table II, we see that it was only in 1950 that a 100% cover was attained and even surpassed. In that year, the Board distributed the sum of £150,000 in aid to the revenues of the Constituent Territories. Since then, as shown by the figures in Table IV, the Board's income has not distributed its entire income and the rates of reserves to currency outstanding has continued to rise above 100%. According to the Board, such a measure is necessary for prudence.

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(11) E. Blumenthal: op.cit. pp. 62/63.

From the 1950/51 to 1959/60 fiscal years, the distributions to the three mainland territories were unequal. From 1960/61 onward, each mainland country received an equal share. This equal distribution was a result of a new formula adapted by the Board and published in its 1962 Report:-

"Following Somaliland's withdrawal, reported last year, the Board reviewed currency in circulation in the five member countries and agreed upon a new formula for the sharing of the distributable profits. Member countries can broadly be regarded as share-holders of the Board, the amount of capital 'subscribed' by each - and therefore the size of dividend entitlement - being the amount of currency which each has in circulation. This amount cannot, of course, be precisely measured, especially on the mainland of East Africa where the economies are closely integrated and trade moves freely across national boundaries. Under the new formula, Aden has been allocated a larger share in line with an estimated increase in circulation there. It is also important to note that Tanganyika, Kenya and Uganda have been given precisely equal shares." (12)

The total amount of distributed profits during the last twelve years, i.e. 1950/51 to 1962/63, figures at £11,800,000. This is certainly an appreciable contribution to the revenues of the Constituent Governments. But if the 44 years of the Board's existence are taken into consideration, one is bound to say that the Board's contribution has been small.

viii- The Board's Investment Policy:

"Both in the case of Commissioners and in the case of the Boards, the general investment policy is laid down by the Secretary of State for the Colonies, who has ruled that each Authority may invest its funds either in short-dated securities (British Treasury Bills, Demand or Time Deposits with the United Kingdom Banks etc.) or in British Government, British Dominion Government or British Municipal Loans, subject to the proviso that, for greater security, no Authority shall ever invest in loans issued by its own Governments. This means, for instance, that the West African Board may hold East African securities and the East African Board West African securities, but not vice versa. The securities in which investment is permitted are sterling securities only." (13)

It is in these words that Mr. Clauson so well described the investment policy of what he called the "sterling group" of Dependencies, in the early 1940s. Indeed, until 1956, the portfolio of the East African Currency Board contained no local securities.

The E.A.C.B. securities held as of 30th June, 1955, are as shown below:-

Description of securities	Nominal Value	Cost Price	Mean Market Price
	£	£	£
Serial Funding 3% 1955...	3,000,000	3,038,742	2,985,000
Nat. War Bonds 2½% 1954/6	5,000,000	5,153,646	4,925,000
Serial Funding 2½% 1957	5,000,000	4,979,571	4,825,000
Conversion 2% 1958/9	4,800,000	4,814,292	4,488,000
War Loan 3% 1955/9	3,600,000	3,696,880	3,474,000
Exchequer 2% 1960	3,000,000	2,942,199	2,760,000
Funding Loan 2½% 1951/61	7,000,000	7,030,619	6,405,000

(12) E.A.C.B. Report for year ended 30th June, 1962. pp.2-3

(13) G.M. Clauson: op. cit. pp. 1-25.



..... securities continued.

Description of securities	Nominal Value	Cost Price	Mean Market price
	£	£	£
Savings Bonds 2 $\frac{1}{2}$ % 1964/7	3,500,000	4,090,578	3,971,500
Nigeria 3 $\frac{1}{2}$ % 1964/6	250,000	245,414	233,750
Savings Bonds 2 $\frac{1}{2}$ % 1964/7	4,700,000	4,090,578	3,971,500
Funding Loan 3% 1966/8	3,500,000	3,487,285	3,027,500
Funding Loan 3% 1959/69	7,000,000	6,729,292	6,055,000
Savings Bonds 3% 1960/70	1,750,000	1,770,285	1,496,250
N. Rhodesia 4 $\frac{1}{2}$ % 1965/70	100,000	99,300	101,500
Trinidad 3% 1967/71	100,000	83,500	85,500
Savings Bonds 3% 1965/75	2,000,000	1,997,600	1,670,000
Nyasaland 4 $\frac{1}{2}$ % 1971/8	100,000	98,300	104,500
Jamaica 4 $\frac{1}{2}$ % 1973/8	100,000	97,300	98,500
Total	54,500,000	53,943,770	49,908,500

N.B. Cost Price figures are rounded-up.

(source: E.A.C.B. Report for year ended 30th June, 1955.)

It is thus apparent that prior to the revision of its regulations in September, 1955, the Board was literally barred from local investment. It is difficult to comprehend why the then regulations considered local investment as less secure, particularly considering the fact that "the resources and credit of the Constituent Governments should be the final security for the discharge by the Board of its obligations." (14)

With the revision of the Board's regulations in September, 1955, such an investment barrier was finally removed and a fiduciary issue "guaranteed by the government of one of the Constituent Territories or of any authority established to administer services common to two or more of the Constituent Territories," (15) was introduced. The fiduciary issue was to the maximum of £10 million.

Since then, the fiduciary issue has been progressively enlarged. In 1961, it was raised to a maximum of £EA. 20 million plus a maximum of £EA 5 million for crop finance, bringing the total potential fiduciary issue to £EA. 20 million plus a maximum of £EA. 5 million for crop finance, bringing the total potential fiduciary issue to £EA. 25 million. Again in the 1963 Report, the Currency Board reported an enlargement of fiduciary issue for governments from £EA. 20 to £EA. 25 million, and for crop finance from £EA. 5 to £EA. 10 million. The potential total issue against locally-payable assets was thus raised to £EA.35 million.

In practice however, the Board does not invest the total ear-marked "maximum fiduciary issue" as can be seen from the figures in Table V. The reason for such restrictive use of maximum credit is clearly indicated in the Board's 1963 Report:-

"Although these amounts (used fiduciary) are small, the Board's responsibility as a lender of the last resort clearly makes it essential to reserve an unused margin of diduciary issue power for emergencies...."

(source: E.A.C.B. Report 1963)

The new formula, that was mentioned above in connexion with the distributable profits, is applicable by analogy to the distribution of the total fiduciary issue (less the unused margin) amongst the Constituent Governments. The purpose of the unused margin, we have said, is for emergencies. If one member-government, having used its allotted quota, needs more credit, the Board can at its discretion, draw upon the unused margin.

(14) Newlyn and Rowan: op.cit. p.60.

(15) E.A.C.B.: Report for year ended 30th June, 1955. Para.14

Finally, a mention is necessary at this point of the crop finance, which is the Board's other sphere of credit creation. As noted above, the maximum crop finance was raised to £EA.10 million to help finance the ever increasing volume of marketable crops.

Unlike the fiduciary issue, the maximum crop finance has no territorial quotas; it is allotted to East Africa as a whole. This is essential because the Board can then rediscount for whatever bank or banks are under great pressure for liquidity.

In conclusion, we can say that the investment policy of the East African Currency Board is still fundamentally the same as in the early nineteen-forties. The permission of local investment has not much done to change this policy orientation. In fact, the greater volume of the Board's investments have always been, and still are, in the sterling bonds and bills in London. Taking capital from the capital-hungry territory to the opulent one, is difficult to comprehend.

ix- Some improvements in the Board's Functions:

"It has been said that by definition, a currency board is a body which issues and redeems currency automatically on demand against sterling and plays no active part in determining local credit conditions. The present Board retains the strength and much of the simplicity of the old system; but it now undertakes a number of functions in the monetary field normally attributed to central banks. (16)

a) Administrative improvement:

Since its institution in 1919 and until about the last quarter of 1960, the East African Currency Board's Head Office was constitutionally located in London. It had four members all appointed by the Secretary of State for the Colonies.

In August, 1960, the Board's Head Office was transferred to Nairobi. This change also necessitated that of the members of the Board, who presently are: Chairman (Secretary General of the EACSO), an independent central banking expert appointed on personal capacity, and five Treasury officials from each of the participating governments. The evolution of the new constitutional relationship between the U.K. and the East African countries has given the Board a large measure of autonomy.

b) Credit Improvement:

It has already been mentioned that until the fiscal year 1955, there were no local securities of any kind in the investment portfolio of the Board, or in other words, there was no local cover for the outstanding circulation. Such a lacuna was wisely filled by the introduction of the fiduciary issue and crop finance which, as we have seen above, have been progressively enlarged.

c) The East African Currency Board as Lender of the last resort:

This old-fashioned British central banking invention is a characteristic of any central bank today. By being able to provide to commercial banks during critical moments, a central bank can facilitate commercial banks' assumption of credit risks.

In the case of the East African Currency Board, the transition from the simple mechanism of currency issue and redemption to the position of lender of the last resort came about as a result of the local fiduciary issue and crop finance. The mechanism of lending to the commercial banks consist, in the main, of rediscount of Treasury bills and commercial papers on crop finance.

d) The Board as Banker to the commercial banks:

In May, 1962, the Board announced its willingness to open and maintain accounts in its books for the commercial banks. Such a move has no policy implication other than providing commercial banks with "clearing" facilities. In effect, the Board has no legal power to oblige the commercial banks to hold accounts in its books. But simply because clearing facilities avert the risks of excessive cash transfers for inter-bank settlements, many commercial banks have voluntarily opened accounts with the Board. According to the present arrangements, clearing facilities are only available to banks in Nairobi, Kampala and Dar-es-Salaam.

e) Information about East African national economies:

Up to about 1960, the East African Currency Board's Reports contained nothing other than a simple statement of accounts to the Secretary for the Colonies. From 1961 onwards, the Reports have improved- in volume and quality- to include general information on the East African national economies and the general situation of the commercial banks. Such information is useful, and in fact, is one of the role of central banks in the advanced nations.

C O N C L U S I O N

The purpose of this paper is to provide a comprehensive description of the background and present functions of the East African Currency Board. Such description is, in my mind, indispensable for the subsequent study of the monetary policy, because whatever changes we may propose for the Board, must start from its present nature and functions.

B I B L I O G R A P H Y.

A - Books

- 1) W.T. Newlyn & D.C. Rowan: Money and Banking in British Colonial Africa. (Oxf. at the Clarendon, 1954)
- 2) R.S. Sayers: Banking in the British Commonwealth (1952)
- 3) " " " Modern Banking (Oxf. at the Clarendon, 1960)
- 4) J.M. Keynes: Indian Currency and Finance.
- 5) Philip W. Bell: The Sterling Area in the Postwar World. (Oxf. at the Clarendon, 1956)

B - Reports

- 1) E.A.C.B. Reports, L 1950/63
- 2) Erwin Blumenthal: Report to the Government of Tanganyika (Govt. Printer, Dar-es-Salaam, 1963)
- 3) International Bank for Reconstruction and Development:
  - a) Economic Development of Kenya (Nairobi 1962)
  - b) " " " Uganda (Entebbe)
  - c) " " " Tanganyika (Dar-es-Salaam)

C - Journals(articles)

- 1) G.M. Clausen: British Colonial Currency System (Econ. Journal, April, 1944)
- 2) A.R. Conan: Balance of Payments of the Colonies (Banker, April, 1949)
- 3) I.C. Greaves: Sterling Balances and the Colonial Currency System. (Econ. Journal December, 1953)
- 4) H. Hazlewood: Sterling Balances and the Colonial Currency System. (Econ. Journal, December, 1952)

TABLE II.

Currency Liabilities and Reserves of the East African Currency-  
Board 1925 - 1962  
in £'000

<u>Year</u>	<u>Currency Outstanding</u>	<u>Reserve Fund</u>	<u>% Cover</u>
1925	5,607	2,446	43.6
1926	5,301	2,320	43.8
1927	5,255	2,369	45.1
1928	5,073	2,145	42.3
1929	5,074	2,202	43.4
1930	4,664	1,301	27.9
1931	3,993	0,701	17.5
1932	3,569	0,356	9.9
1933	3,822	0,642	16.8
1934	4,152	1,028	24.8
1935	4,265	1,288	30.2
1936	5,107	1,954	38.1
1937	6,006	2,730	45.5
1938	6,500	3,235	49.8
1939	6,500	3,220	49.5
1940	6,927	3,741	54.0
1941	8,224	5,110	62.1
1942	14,055	11,000	78.3
1943	21,119	18,164	86.0
1944	24,828	22,526	90.7
1945	28,578	26,562	93.9
1946	24,548	23,406	95.4
1947	24,369	23,578	96.8
1948	23,679	23,236	98.1
1949	27,239	26,762	98.5
1950	28,578	29,940	101.2
1951	39,307	39,885	101.5
1952	48,349	46,520	96.2
1953	48,602	50,548	103.6
1954	53,334	57,619	108.0
1955	60,412	61,813	102.3
1956	60,724	61,321	101.0
1957	60,690	63,843	105.2
1958	58,653	63,429	108.1
1959	57,257	63,835	111.5
1960	60,438	66,814	110.5
1961	59,173	66,098	111.7
1962	58,494	66,417	113.5

EB. All figures have been approximated to the nearest £' 000 to give a round figure.

Sources: Newlyn & Rowan, op. cit. p. 59 ; Blumenthal Report op. cit. p. 44 and East African Currency Reports.

TABLE .(1) (a)

## E. A. C. B. Currency in Circulation, 1938 / 62.

£' 000

Year at 30.6.	Total Coins	T. Notes	E. Cur.	Territorial distribution of total currency	
				E. Africa	Others
1938	3,300	2,700	6,500	6,500	.....
1939	3,442	3,058	6,500	6,500	.....
1940	3,940	3,437	6,927	6,927	.....
1941	3,927	4,297	8,224	8,224	.....
1942	4,797	9,258	14,055	10,130	3,925
1943	5,828	15,291	21,119	13,773	7,346
1944	6,501	18,277	24,828	15,709	9,119
1945	7,311	21,067	28,378	18,074	10,304
1946	7,231	17,317	24,548	20,858	3,690
1947	7,541	17,029	24,370	20,726	3,644
1948	7,094	16,525	23,679	20,195	3,484
1949	8,374	18,865	27,239	23,949	3,290
1950	8,943	20,635	29,578	25,646	3,932
1951	10,957	28,430	39,387	35,319	4,068
1952	12,779	35,569	48,349	39,875	8,473
1953	11,343	37,259	48,602	41,043	7,559
1954	11,503	41,831	53,334	45,538	7,796
1955	11,330	49,082	60,412	53,713	6,699
1956	11,248	49,476	60,724	54,152	6,572
1957	10,570	50,119	60,690	54,277	6,413
1958	9,947	48,706	58,553	52,156	6,496
1959	9,499	47,759	57,257	50,146	7,111
1960	9,386	51,051	60,433	52,460	7,973
1961	8,720	50,453	59,173	52,738	6,435
1962	8,274	50,220	58,494	53,656	4,838

NB. E. Africa, includes Kenya, Uganda and Tanganyika since 1922 and Zanzibar since 1935.

Others include: Somaliland, Br. Somaliland, Eritrea, Ethiopia and Aden.

Sources: East African Statistical Department, No. 31 March 1956 and No. 5, Dec. 1962.