

Managing British Colonial  
and Post-Colonial Development:  
The Crown Agents, 1914-1974

DAVID SUNDERLAND

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Post-Colonial Development



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For my sister, Mrs Ann Metcalfe



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## Abbreviations

ADM	Bank of England files, Bank of England Archive (see Bibliography)
B of E	Bank of England
BT	Board of Trade files, National Archives (see Bibliography)
B of T	Board of Trade
C	Bank of England files, Bank of England Archive (see Bibliography)
CA	Crown Agent
CA (m)	Crown Agent files, Crown Agent Archive, Sutton (see Bibliography)
CAB	Cabinet Office files, National Archives
CAOG	Crown Agent files, National Archives (see Bibliography)
CDC	Colonial (later Commonwealth) Development Corporation
CO	Colonial Office files, National Archives (see Bibliography)
DTC	Department of Technical Co-operation
EARH	East Africa Railway and Harbour Board
ECGD	Export Credits Guarantee Department
FCO	Foreign and Commonwealth Office files, National Archives (see Bibliography)
Finvest	Finance Department Investment Account
FMI	Four Millbank Investments Ltd
FNFC	First National Finance Corporation Ltd
G	Bank of England files, Bank of England Archive (see Bibliography)
HO	Home Office files, National Archives (see Bibliography)
IC loan	Inter-colonial loan
IR	Inland Revenue files, National Archives (see Bibliography)
JCF	Joint Colonial Fund
JMF	Joint Miscellaneous Fund
L	Crown Agent files, Crown Agent Archive, Liverpool (see Bibliography)
LA	Crown Agent Archive, Liverpool
LCC	London Chamber of Commerce
MTS	Millbank Technical Services
OD	Ministry of Overseas Development files, National Archives (see Bibliography)
ODA	Overseas Development Administration
ODM	Ministry of Overseas Development
OV	Bank of England files, Bank of England Archive (see Bibliography)
NA	The National Archives, Kew, London
PP	Parliamentary Papers
Prem	Prime Minister's Office, National Archives (see Bibliography)
RC	Crown Agent files, Crown Agent Archive, Sutton (see Bibliography)

S Crown Agent files, Crown Agent Archive, Sutton (see Bibliography)  
SA Crown Agent Archive, Sutton  
SF Sinking Fund  
SIS Sterling Industrial Securities Ltd  
T Treasury files, National Archives (see Bibliography)  
WN Crown Agent files, Crown Agent Archive, Liverpool (see Bibliography)

## Introduction

The literature on the British Empire during the twentieth century is now immense. It includes general studies of the operation of the Empire, regional surveys that examine the effects of policy decisions on the periphery, books on the provision of aid and the development of colonies, and countless monographs on decolonisation.<sup>1</sup> In addition, the impact of colonial development on Britain has been discussed at length in books and articles on the growth of the British economy during the period, and there have been a number of works on the financial relationship between colonial administrations and London, largely concentrating on the Empire's role in the maintenance of the sterling area.<sup>2</sup> There has been little investigation, however, of the 'nuts and bolts' of development. Hardly any research has been undertaken on how colonial administrations and their independent successors raised non-aid finance in the UK, how they purchased construction materials and other goods not available locally, how their investments in the London money market were managed, or how they acquired a range of other services that could not be obtained within their own countries.

The reason for this gap in the literature is that, until now, there has been no in-depth study of the twentieth century work of the Office of the Crown Agents for the colonies, which performed these tasks.<sup>3</sup> The Crown Agent office was established in 1833, and, until independence, acted for the administrations of Crown colonies and protectorates, and for public authorities, such as municipalities and utilities boards, that operated in these territories. Thereafter, it worked for the governments of independent countries within and outside the Commonwealth, public corporations, and a number of international aid organizations, such as the World Bank and the United Nations.

<sup>1</sup> For example, P.J. Cain and A. G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914–1990*, London 1993; J. D. B. Miller, *Survey of Commonwealth Affairs: Problems of Expansion and Attrition 1953–1969*, London 1974; Yusuf Bangura, *Britain and Commonwealth Africa: The Politics of Economic Relations 1951–75*, Manchester 1983; D. J. Morgan, *The Official History of Colonial Development, Volumes 1–5*, London 1979–80; John Darwin, 'British decolonisation since 1945: A pattern or a puzzle?', *Journal of Imperial and Commonwealth History*, 12 (2) (1984), pp. 187–209; Max Beloff, *Imperial Sunset: Britain's Liberal Empire, 1897–1921*, London 1989; Ronald Hyam, *Britain's Imperial Century, 1815–1914: A Study of Empire and Expansion*, New York 1976.

<sup>2</sup> For example, Andrew Shonfield, *British Economic Policy Since the War*, Harmondsworth 1958; Alec Cairncross, *The British Economy Since 1945: Economic Policy and Performance, 1945–1990*, Oxford 1992; Catherine R. Schenk, *Britain and the Sterling Area. From Devaluation to Convertibility in the 1950s*, London 1994; Gerold Krozewski, *Money and the End of Empire. British International Economic Policy and the Colonies 1947–58*, London 2001.

<sup>3</sup> The work of the nineteenth century Crown Agents is described in David Sunderland, *Managing the British Empire. The Crown Agents 1833–1914*, London 2004. In 1954, the Office was renamed the Crown Agents for Oversea Governments and Administrations.

Until the late 1970s, it was a quasi-independent body. Although under the supervision of the Colonial Office and the successor departments, which appointed the Agents and monitored their activities, it was administratively and financially independent of the government. It had a wide latitude as to how it conducted its affairs and covered its own salaries and expenses through a system of commissions for work done. Clients were charged fees, generally some percentage of the cost of the work performed, which were fixed at levels sufficient only to cover administration costs and to maintain a Reserve Fund that met pension costs and financed deficits and was pegged at £167,500 in 1929 and £350,000 in 1948. After 1930, any excess revenue was redistributed to customers, each of whom received a sum proportionate to the amount of business it did with the Agents.

From 1920 to 1974, there were 22 Crown Agents, who, on average, served for ten years and decided policy, represented the office in meetings with clients and government officials, and supposedly managed its day-to-day activities, though this task was largely undertaken by departmental heads (Appendix 1). Most were brought up in upper middle class Anglican families in the South East of England and had been educated at public school and University, almost half at the Universities of Oxford and Cambridge. They therefore had assimilated the gentlemanly ethos of fair play and honesty and could easily form close relationships with Governors and Colonial Office officials, who had similar backgrounds and who they met socially.<sup>4</sup> The majority were recruited from the Colonial Office and the colonies – half had worked at the Colonial Office, three as Under-Secretaries, and nine had been employed in some capacity by the colonial service – and the remainder were senior CA staff members who were promoted to the position. They thus had knowledge of the Agency's operations and the problems and needs of its clients, and strong relationships with governors and Colonial Office officials. The Secretary of State was also well aware of their capabilities and could use former colleagues to monitor the activities of the Agency and to ensure that it followed his rulings.

Unfortunately, many of those who came from the Colonial Office and the colonial service lacked financial and engineering skills, and a number could contribute little to the Agency. The position of Crown Agent was seen as a reward for long years of service and as a dumping ground for individuals who were incompetent or could no longer adequately perform their duties because of ill health, lack of drive or 'uncongenial personalities'.<sup>5</sup> Sir Harold Downie (CA 1942–53), for example, came to the Agency 'a worn out man, having been closely involved in protracted and frustrating negotiations about the termination of the mandate for Palestine', and Sir Claude Hayes (1968–74) was 'unloaded' on the CAs because of his 'abrasiveness' and aggression towards his colleagues.<sup>6</sup> Others were moved to the Agency as a result of internal Colonial Office machinations. Sir Henry Lambert (1921–32), for instance, possessed strong views on

<sup>4</sup> Many belonged to the same clubs. See SA, CA (m) 64, Past CAs, no date; NA, CAOG 17/20, Fleming to Beckett, 25 Feb. 1935.

<sup>5</sup> CA (m) 64, Past CAs, no date.

<sup>6</sup> *Ibid.*; CA (m) 67, vol. 1, Abbott, 12 Aug. 1980; NA, OD 18/240, Cohen, 5 April 1968. See also Abbott's comments on Sir William Bottomley (1938–43), Sir Hugh Thornton (1920–43), and Sir J. Flood (1938–40) (CA (m) 64, Past CAs, no date).

South Africa, which were not shared by the Secretary of State, and Sir Hugh Thornton (1920–43) had allied himself far too closely with Lord Milner, with the result that when Milner relinquished his post as Colonial Secretary he found himself ‘marooned at the Colonial Office, who seized an early opportunity of extruding this “foreign body”’.<sup>7</sup> Many of the CAs thus performed their duties poorly, though a very select few were judged to be highly effective. Sir George Beresford-Stooke (1953–54), for example, ‘entered with zest into the procedures and technique of the work and was equally assiduous in the fostering of personal contact both at home and overseas’, and Sir George Seel’s period of office (1953–54) ‘was marked by sustained activity ... infinite common sense and insistence upon ... achieving the highest standard of efficiency’.<sup>8</sup>

To help them complete their work, the Agents employed 276 people in 1914, 790 in 1945, 1,428 in 1955 and 1,637 in 1967, all of whom worked in specialised task orientated departments.<sup>9</sup> Theoretically, their clerical staff was recruited through the Civil Service Commission and had permanent contracts. In reality, because the Commission was unable to meet all of their needs, a large number of their employees, 56 per cent in 1945 and 29 per cent in 1955, were employed on a temporary basis, recruited through press adverts. Prior to and occasionally after 1920, a number of permanent clerks were also appointed as a result of personal recommendation and tended to be friends or relatives of existing employees.<sup>10</sup> Such recruitment was normal practice in the private sector, reduced the cost and difficulty of finding suitable workers, and minimized the likelihood that candidates would lie about their abilities. The Agents had personal knowledge of the capabilities and honesty of their friends and relatives and could be confident that their staff would recommend only competent candidates, as each clerk was aware that a poor recommendation would reflect badly on themselves.

Like the Crown Agents, many of the staff employed performed their work poorly. Those recruited through the Civil Service Commission tended to be young and lacked commercial experience and were often the less impressive candidates, as those who did well in the compulsory exam generally preferred to take up posts in the Home Civil Service.<sup>11</sup> Many of those who opted for the Agency also often stayed a relatively short period of time before moving on to jobs in the private sector. The CAs were required to adopt Civil Service salary scales, which were relatively low, there were few valuable fringe benefits, such as cheap mortgages, and the routine work undertaken was often boring and unsatis-

<sup>7</sup> CA (m) 64, Past CAs, no date.

<sup>8</sup> *Ibid.*

<sup>9</sup> A. W. Abbott, *A Short History of the Crown Agents and their Office*, London 1959 (privately published), pp. 33, 57; CAOG 16/349.

<sup>10</sup> For example, Edward Antrobus, the Chief Accountant and Clerk from 1902–20 was the brother of the Colonial Office official and later CA Sir Reginald Antrobus (1909–18); Henry Purcell, Chief Clerk from 1933–47, was the son of Sir John Purcell, who worked in the Stamps department of the Inland Revenue and recommended him to the CA Sir Percy Ezechiel; Henry Purcell, in turn, recommended the employment of K. W. Barley, Director of Finance from 1966–68, a son of one of his close friends; and, in July 1950, Walter Curtis, a Head of the Purchasing Department, obtained a temporary clerkship for his son, who later became an Executive Officer (Sunderland, *Managing*, p. 26; SA, Pen Portraits, Morris to Knights, Jan. 1991).

<sup>11</sup> LA, L 18/9, p. 11.

ying.<sup>12</sup> As regards the temporary clerks, these lacked motivation, often had poor or no skills, and tended to be relatively old and unproductive, 58 per cent in 1950 being over the age of forty.<sup>13</sup> Like their permanent colleagues, they again tended to work at the Agency for only a short time, though turnovers fell in the 1950s when they were allowed to apply to become permanent members of staff after a given number of years service.<sup>14</sup>

Other reasons for the general staff inefficiency was the pre-1920 recruitment of friends and relatives of existing employees, some of whom completed their work poorly, but received preferential treatment, leading to much resentment, and the Agency's promotion and staff movement policies. Until around 1930, promotion was by seniority and many of those given advancement lacked the skills necessary to complete their new jobs.<sup>15</sup> Thereafter, although promotion was primarily on merit, seniority continued to play an important part in decisions, largely because of pressure placed on the Agents by the relevant trade unions.<sup>16</sup> The CAs also had a policy of moving Executive Officers every few years to a new department, which ensured 'a freshening of ideas and wide experience at the top', but meant that in the first few months of occupying a new post an Executive Officer was relatively unproductive.<sup>17</sup> From the mid-1960s, moreover, the more capable and efficient Executive Officers tended to be 'creamed off' by the Finance Department and Millbank Technical Services Ltd, a private firm created by the Agency to complete some of its engineering business.<sup>18</sup>

Although relatively inefficient, the CAs' clerical staff, nevertheless, strongly identified with their employer and with the interests of its clients. They worked closely and formed deep relationships with colonial administrators and were well aware that the growth and survival of the Agency depended on the fulfilment of their clients' needs. There also existed a very strong office culture. The clerks employed shared similar characteristics – most were male and lower middle class, Anglican, had a conservative political outlook and had been born and brought up in London or the South East of England. Those in executive positions had generally worked for the Agency since leaving school and therefore had fully imbibed its values and goals, formed deep friendships with their colleagues, and were conscious that they had little chance of gaining similar employment elsewhere. Identification with the Agency was further encouraged through the provision of gifts and the development of strong staff bonds. Although they earned relatively low wages, clerks could look forward to good pensions, could purchase household and horticultural goods at cost prices from the CA Horticultural Society and cheap lunches and teas from the CA Refreshment Club, obtained free morning and afternoon tea or coffee, and could make use of a men's and ladies' rest room, a rifle range, a sports ground and a cinema, where lunch time

<sup>12</sup> L 35, meeting, 29 Aug. 1973.

<sup>13</sup> CAOG 16/162, Morris, 1 July 1966; L 18/9, report of sub-committee on CA costs, 23 March 1960, p. 11.

<sup>14</sup> Five years service in 1951 and two years in 1955 (CAOG 16/22, weeding note).

<sup>15</sup> CA (m) 64, Past CAs, no date.

<sup>16</sup> SA, File no. 54, Abbot, 1966; CAOG 16/240, memo, 26 Feb. 1963.

<sup>17</sup> CA (m) 102, note on the Salmon report, 14 July 1949.

<sup>18</sup> L 3, G. Dept. report, Aug. 1967.

concerts were occasionally held.<sup>19</sup> Employee bonds, meanwhile, were generated through the family relationships that existed between some members of staff, the policy of moving Executive Officers between departments, the accommodation of the whole Agency in one office complex at Millbank, London, and the existence of a myriad of clubs, societies and social events. Most staff belonged to a Civil Service trade union, and could attend dances and annual flower and vegetable shows, and join a bridge, a chess, a darts, a language, a rifle and a Sunday football club.<sup>20</sup>

### *Approach and structure of the book*

Turning to the approach and the structure of the study, the book seeks to describe how the Agency performed its various roles and to determine whether its existence was beneficial to its clients or to the UK. Like many of the companies that provided it with supplies or services, it often acted in its own interests rather than in those of its customers. Moreover, it was occasionally prevented from doing the best for its clients by Bank of England, Colonial Office and Treasury officials, who forced it to act in ways that would benefit the British economy or their own organizations.

To aid understanding, the book is roughly divided into four parts. The first two chapters investigate how the Agency raised non-aid funds for its clients. Chapter one concentrates on the sale to UK investors of colonial loan stock. It seeks to explain how the Agents sought to maximize the demand for these securities and ensure that they were sold at a relatively high price, and how their efforts to achieve these goals were obstructed by the Bank of England, the Treasury and a variety of City institutions. The following chapter then looks at the other ways the Agents raised funds and how their attempts to act in the interests of their clients were again hindered by the Bank of England and the Treasury. It also summarises the various other sources of development money available and assesses the impact the outflow of all these funds had on the UK economy.

The second part examines the Agents' other financial role – the management of the sums their clients invested in UK banks and in sterling securities. The money comprised the amounts placed in Colonial Investment Funds, such as Pension Funds and Currency Funds, and in two other Funds – the Joint Colonial Fund (JCF) and the Joint Miscellaneous Fund (JMF). The management of Colonial Investment Funds, which were set up to produce returns that would be used for a specific purpose, such as the payment of pensions, is discussed in chapter three. The chapter considers the ways in which the money was invested, the reasons behind the expansion of these Funds during and after the Second World War and the various proposals put forward for reducing their size, and

<sup>19</sup> CAOG 16/554, memo, 30 Oct. 1930; L 181, 1951. The Horticultural Society in 1966 had a turnover of £15,000 and the Refreshment Club in 1954 served 26,610 meals per year (CAOG 16/554, Knights, 13 May 1966; CAOG 16/401, memo, 6 April 1955).

<sup>20</sup> CAOG 16/554, memo, 30 Oct. 1930; *ibid.*, Knights, 13 May 1966; *ibid.*, memo, 14 Oct. 1930; CAOG 16/401, memo, 4 Oct. 1950; L 181, 1952.

how the Agents retained clients after independence. The spotlight is then turned onto the JCF and the JMF, which largely held the sums clients kept in the UK to pay for goods purchased by the Agency. Chapter four surveys the high risk investment strategy adopted for these Funds and describes the near collapse of the JCF in 1931/2 and in 1951, and the problems it and the JMF faced in 1971 and 1974 as a result of falls in equity prices. Both this and the previous chapter also explore how the returns earned by the colonies from their various investments were reduced by the actions of the Bank of England, the Colonial Office, the Treasury, and various City institutions, all of which put their own or the British economy's interests above those of the colonies.

The third part of the monograph takes a closer look at the Agents' non-financial activities. Chapters five and six concentrate on the purchase of colonial government stores. At the start of the period, colonial regulations required administrations to buy goods that were not manufactured or produced within their own colonies or in adjacent territories from the Crown Agents. Over time, however, this requirement lapsed, and, by the late 1950s, they were free to buy supplies themselves either directly or through local merchants. Chapter five tests the colonial belief that the goods bought by the Agents were relatively expensive by considering the various factors that had an impact on the prices paid, including a bias towards articles manufactured in Britain, and the non-price costs of the goods purchased, for example inspection, packing, insurance and shipping expenses. Chapter six, meanwhile, examines the CAs' tendency to deliver goods relatively late, and explores their response to the fall in their procurement work post independence. After unsuccessfully seeking help from the UK government, they slashed their costs, searched out new customers and offered a range of new services, including the purchase of armaments and goods for international aid organisations.

The other non-financial work performed by the CAs is discussed in chapter seven. The first section describes their personnel duties, which involved recruiting expatriate technical staff and some non-technical employees, such as police officers, arranging the passage of these people to and from their country of employment, and paying some of their pensions and salaries. The Agents' engineering work is then investigated. The CAs examined designs for mechanical and engineering and electrical equipment drawn up by client Public Works Departments, designed small civil engineering structures, employed the consulting engineers and building contractors who worked on large infrastructure schemes, and provided advice on the operation of harbours, railways and other commercial projects. The chapter concludes with a short description of the other tasks they performed – the sale of their clients' stamps, the purchase or rental of London embassies, and the granting of concessions, largely land and mineral rights, to the UK private sector.

Another way in which the Agents protected themselves after independence against the loss of their traditional clients' business was to move into secondary banking and to act not as an agent but on their own account, taking all the profits of the new business and being responsible for its losses. From the mid-1960s, they began to borrow large sums of money from a variety of UK banks and their own clients, some of which they then re-lent to other financial insti-

tutions at interest rates slightly higher than those at which the funds had been borrowed. They also invested large amounts of the borrowed money in gilts, equities and property and used it to trade currencies and commodities and to purchase large and long-term equity holdings in individual companies. Unfortunately, the 1974 secondary banking crisis caused many of the firms in which they had invested to fail, and, in December 1974, the Agency itself was declared bankrupt. Two subsequent government enquiries blamed the collapse largely on the Agents themselves, finding that they had embarked on the new venture out of self-interest and with insufficient experience and inadequate internal controls, had taken unjustified risks, become involved in unethical and illegal activities and were personally corrupt.

The final part of the book investigates the motives and the operation of the CAs' secondary banking venture and the reasons for its failure. Chapter eight argues that many of the criticisms of the Agency expressed by the two enquiries were not justified. Although the Agents partly acted out of self-interest, they genuinely believed that the new venture would help their clients. The income earned would subsidise the provision of their traditional services, enabling them to be improved and extended, administrations that lent funds would earn relatively high returns, and the skills and expertise of the companies in which they invested would be directed at solving their clients' economic and social problems. Likewise, the Agents had far more experience of the City than the enquiries claimed, possessed strong internal controls, though these were sometimes not followed, and took on the same amount of risk and followed the same ethical norms as other secondary banks.

The real reason for the Agency's downfall is revealed in the final chapter, where it is shown that it succumbed to the 1974 banking crisis because it failed to call in loans and continued to lend money to a number of companies that subsequently went bankrupt. Some of the blame for these decisions lies with the Agents, who believed that the market would recover. The Bank of England, however, is equally culpable. Wishing to prevent financial meltdown, Bank officials pressured the Agents to use their own and their clients' funds to support failing institutions, even after they were aware that the Agency itself was insolvent.



*The Public Issue of Loans*

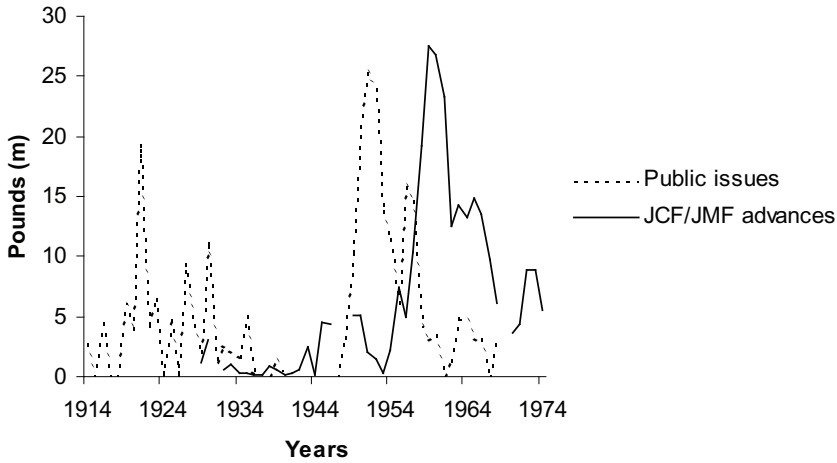
The finance required for development broadly came from four sources. The UK government and later international organizations provided aid in the form of loans and grants. The private sector invested large sums in businesses based in the colonies. Colonial governments financed projects using their own resources, and funds were obtained through the Crown Agents. Money via the Agents came from the public issue of loans in the London market, the sale of stock in the same market, inter-colonial loans and advances from the Joint Colonial Fund (JCF) and the Joint Miscellaneous Fund (JMF), investment Funds managed by the CAs. This chapter concentrates on the public flotation of colonial stock, an activity that has never previously been investigated. The various other means of obtaining development funds are discussed in the following chapter.

From 1914 to 1968, 84 public loans were floated with a total value of £267.5m and an average size of £3.2m (Figure 1.1).<sup>1</sup> Issues peaked in the aftermath of the two world wars, when colonies undertook development projects and maintenance that had been postponed during the war years, and in the early 1950s, when the realization that independence would reduce the appeal of their loans prompted many colonies to take advantage of their colonial status and issue stock. By contrast, few issues were floated during the inter-war slump, during which the fall in commodity prices halted the construction of public works, nor from the mid-1950s, when the approach of independence and the concurrent increase in risk reduced investor demand for colonial securities. Issuers were relatively prosperous colonies possessing easily exploitable resources and well known to the investing public, but lacking large surpluses of revenue (Appendix 2). Sixty two per cent of the stock issued was created for Africa, and, of this, 26 per cent was floated by the East Africa High Commission, 22 per cent by Nigeria and 20 per cent by Kenya. The West Indies was the second largest issuer with 21 per cent of the total, 54 per cent of which was Jamaican stock and 19 per cent Trinidadian, and SE Asia and the Indian Ocean brought up the rear, with the Federated Malay States and Ceylon accounting for 58 per cent and 66 per cent of their regions' issues respectively.

Loans were issued with the help of the Agents' brokers, J. & A. Scrimgeours Ltd, and had a fixed life, though there was usually an early repayment or conversion option, which allowed the CAs in a given year either to repay the sum owed

<sup>1</sup> The average size of dominion loans floated in the same period was £6.38m and that of UK municipal issues £2.051m.

Figure 1.1. Publicly issued loans and JCF/JMF advances, 1914–74



Sources. Loans: CAOG 9/33–CAOG 9/35; CAOG 9/78, memo, no date; CAOG 9/96, weeding note; CAOG 9/97, memo, 29 May 1922; CAOG 9/228; CAOG 9/276–CAOG 9/283; CAOG 9/359; CO 67/246/16, CAs to Cyprus, 30 June 1932; T 233/1425, memo, 14 May 1958; L1, finance reports, 1963 and 1964; WN 13. JCF/JMF: CAOG 1/1; CAOG 1/2; SA, JCF and JMF annual reports; SA, CA Annual reports, 1970–74.

Notes. JCF: 1931 and 1947–8 figures are missing.

or to offer investors the chance to exchange their holdings for new securities. The stock was sold for a set price that was above or below the ‘par’ price (100) at which it would eventually be repaid and offered a given annual rate of interest. After flotation, it was quoted on the Stock Market, which enabled investors to sell and buy holdings, with the resultant changes in supply and demand causing the quoted price to rise or fall. The initial purchasers of the stock were stock-brokers, who, in the fullness of time, sold their allocations at a profit to general investors; financial institutions, which retained their purchases as reserves; and those members of the public who ‘staged’ popular issues, that is bought securities in the hope that the price would rise soon after issue, when they would be immediately re-sold.<sup>2</sup>

When floating loans, the Agents had two goals. First, they aimed to set as high a price as possible for stock. High prices reduced the cost of a loan to the issuing colony, as it had to float less stock to obtain the money it needed and thus paid less annual interest and had a smaller amount to repay at the end of the security’s life. The Agents also had to ensure that all the stock floated was purchased and that the issuer received the sum required. The failure of a loan would prevent the issuing colony undertaking the public works project for which the money was

<sup>2</sup> To prevent staging, some brokers refused to allow clients to withdraw applications and requests for stock in excess of £1,000 had to be in multiples of £1,000 (CAOG 9/107, *The Economist*, 16 Oct. 1943; LA, WN 13, A055803, Scrimgeours to CAs, 4 Dec. 1962).

usually raised; reduce the Agents' income, a large part of which came from the purchase of supplies for the construction of capital works; and damage the CAs' ability to provide other colonies with short-term advances. As will be described later, the proceeds of a loan that were not to be spent immediately were placed in the Joint Colonial Fund, and a proportion then lent to other colonies.

Unfortunately for the Agents, the two goals were inter-related, with price determining demand, which, in turn, affected future prices. The setting of an excessively high price therefore would discourage investors making purchases, stock would remain unsold, and the quoted price would fall, pulling down the price of other colonial securities. Confidence in colonial loans would thus collapse, and, when floating future stock for both the issuing colony and other colonies, the Agents would have to offer more generous terms. The two goals also clashed with those of underwriters and the Bank of England. Underwriters, brokers who agreed to buy all of the stock of an issue not sold in return for a commission, were motivated by self-interest and opposed high prices as they increased the likelihood that a loan would fail and that they would be left with large amounts of unsold securities. The main objective of the Bank, meanwhile, was the smooth functioning of the market. It therefore preferred prices to be set at relatively low levels, which ensured the success of flotations, and that the Agents should take into account other issuers' needs during upturns in the market when demand was high. A failed flotation would prevent other issuing houses successfully floating their stock at a reasonable price and the mass flotation of loans during market upturns would cause the weaker issues to fail and again deflate future prices.

This chapter explores how the Agents fulfilled their goals in the face of City and Bank opposition. The first section discusses the terms of the loans issued by the CAs, paying particular attention to how prices were decided upon. Part two examines the various strategies designed to increase the appeal of the stock offered that were adopted during the issue process and how the Agents made sure that loans were repaid. The success of the Agency in maximizing subscription is then considered, and the chapter concludes with a discussion of the reasons behind the fall in the demand for colonial stock from the mid-1950s and the various solutions proposed and adopted.

### *Loan terms*

The terms of a loan comprised the information that appeared in its prospectus. They thus included its purpose, size, length and the type of asset issued, its annual interest rate and price, the reservation of stock for colonial purchasers, and the provision of instruments that facilitated stock transfer and repayment.

#### *Purpose, size and length of issues*

To attract subscribers, issues had to finance economic development and be relatively large and of an appropriate length. Of the 66 publicly floated loans for which the purpose is known, at least some of the money of 59 (89 per cent) was raised to pay for public works, largely the construction of railways, roads and harbours. Investors understood that such projects would generate large revenues

relatively quickly and improve the export potential of the issuing territory. The price of the stock bought would therefore rise over time and the issuer would have no difficulty meeting annual dividend payments or eventually repaying the debt.<sup>3</sup> Buyers of colonial stock were also relatively content if all or some of the loan proceeds were used to repay UK government loans or previously issued colonial stock, as was the case in 14 of the Agents' issues, or if they were lent to another colony or a municipality (8 loans), provided that they then were used to finance development. Occasionally, if a colony failed to spend all the money raised on a project, the CAs allowed the unspent balance to be used for another of the purposes listed in the prospectus, and, in the case of the 1929 Nigeria issue, permitted £550,000 obtained to finance the construction of the Lagos sewerage scheme to be used to build a railway and a college.<sup>4</sup> The employment of funds for purposes not stated in a prospectus was forbidden by the Stock Exchange, and, to circumvent this ruling, the Agents transferred the sum to the colony's Supplementary Sinking Fund, which was permitted, and then to the colony's Surplus Fund, from which it was spent.<sup>5</sup>

Ideally, loans were large, meeting the issuer's financial needs for a number of years, and were of a suitable length. Large loans attracted greater publicity and were more marketable than smaller ones, the unspent portion of their proceeds could be advanced to other colonies through the JCF, and issues of under £100,000 were not quoted on the Stock Exchange and were therefore difficult to trade.<sup>6</sup> The length or currency of the stock issued varied from 9 to 60 years and averaged 24.8 years, with the currency of issues floated from 1953 to 1963, when independence loomed, averaging 19.6 years, as compared to an average of 33.8 years for loans floated from 1923 to 1933. Many securities additionally possessed an option clause that allowed the issuer to repay or convert the stock early, on average after 17.7 years, from 1923 to 1933 after 23.3 years, and, from 1953 to 1963, after 16 years. Loan length was primarily determined by the purpose of the issue, the prevailing state of the market, and the currency of the colony's other debts. Loans raised for unremunerative projects or short lived capital works tended to have relatively short lives; whereas those that financed large remunerative schemes that would benefit future generations had far longer currencies. Likewise, if interest rates were unusually high, issuers tended to prefer short loans with early repayment/conversion clauses to reduce the period during which the high rates had to be paid, and, if rates were abnormally low, they sought longer currencies.<sup>7</sup> In order to prevent a colony having to repay a number of loans over a relatively short period, which could lead to financial difficulties, the Agents also tried to spread maturities so that repayments occurred at well spaced intervals.<sup>8</sup>

<sup>3</sup> CAOG 9/324, notes for Lord Hailey's committee, 1941, p. 13.

<sup>4</sup> WN 13, A822802; SA, S 1, A171.

<sup>5</sup> S 1, A171.

<sup>6</sup> L 1, Finance Dept. report, 1963; BE, G 1/202, No. 4, Norman to Hopkins, 18 Nov. 1930.

<sup>7</sup> CAOG 9/324, notes, pp. 16, 40, 43.

<sup>8</sup> BE, OV 44/73, No. 100, Hicks to Wilson, 29 June 1955.

*Type of asset created*

The Agents issued stock. At the start of the period, inscribed stock was used, the ownership of which was recorded, and, from 1952, registered stock, which was more secure, as investors additionally obtained certificates without which their holdings could not be sold.<sup>9</sup> Debentures, bearer securities whose ownership was not recorded, were used on only three occasions. Nigeria and Kenya, in 1915 and 1921 respectively, issued 10 year debentures convertible to longer dated stock by a given date, and, in 1966, subscribers to a Jamaican loan were given the option of buying either short-term stock or debentures.<sup>10</sup> Although debentures were popular with brokers, they were disliked by the public, as they were liable to theft or misappropriation, and, to obtain dividends, coupons attached to the certificate had to be sent to the issuing house.<sup>11</sup> They were therefore only used when public demand for a loan was expected to be weak and underwriters would only provide support if they were offered.

The stock issued was usually identical to previous securities floated by a borrower, and, in the case of Crown colony loans, had a trustee status. The flotation of loans with the same interest rate and dividend and repayment dates as previous issues encouraged existing holders of the stock to subscribe, as the security was familiar and the holdings of new and old stock could be sold together, reducing selling fees. The size of the resultant large block of stock also increased its marketability, and the identical dividend/repayment dates simplified the management of the loans, reducing the Agents' costs. Such stock, however, could only be used if it had previously been issued relatively recently, as otherwise the lifespan was too short for the sum required for repayment to be generated.<sup>12</sup>

Trustee status denoted that a loan could be purchased by trustees, those who managed financial trusts. Since trusts bought large amounts of securities, the status greatly increased demand and allowed higher prices to be set. Until the late 1920s, protectorates were denied this privilege, and the Agents and the Colonial Office had to adopt various stratagems to maximise price when floating their loans. Where a protectorate was closely allied to a colony, securities were issued in the name of the colony, and, in the case of the Federated Malay States (FMS) in 1921, a loan was floated by the Straits Settlements, which then lent the proceeds to the FMS. When a protectorate had no colony linkages, finance was acquired via the inter-colonial loan scheme or from the Joint Colonial Fund, or through the issue of guaranteed loans.<sup>13</sup> These carried guarantees from the UK government that it would repay the capital and meet the dividend payments of loans if the issuers defaulted, which had the same impact on price as trustee status. In the case of the East African Protectorate, more desperate measures were adopted. Unable to obtain help from the Treasury, because of the territory's existing debts,

<sup>9</sup> CA (m) 60.

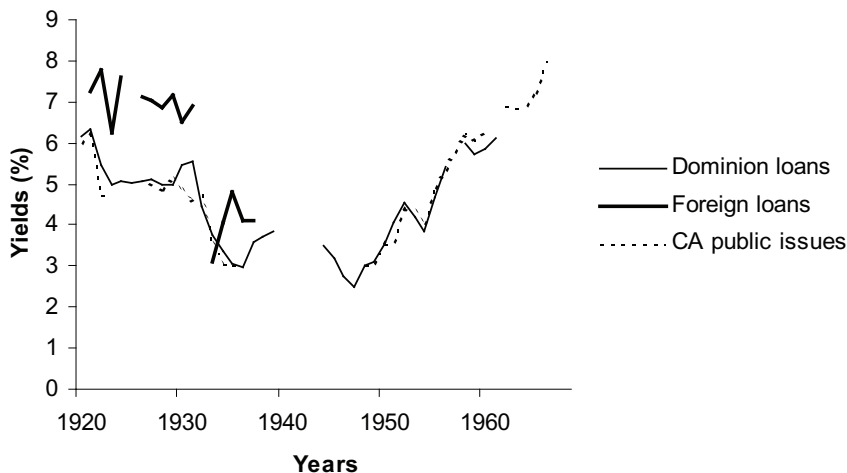
<sup>10</sup> CAOG 9/324, notes, p. 2; CAOG 9/78, Scrimgeours to CAs, 12 Oct. 1921; L 2, Finance Dept. reports, Sept. 1966.

<sup>11</sup> CAOG 9/324, notes, p. 3. The attraction of short-term debentures to brokers was that they could be easily sold to other City institutions and they could be used as collateral for advances (*ibid.*).

<sup>12</sup> CA (m) 25, p. 10.

<sup>13</sup> CAOG 9/88, CO memo, 1928.

Figure 1.2. Annual average yields, 1920–69



Sources. CAOG 9/33–CAOG 9/35; CAOG 9/78, memo, no date; CAOG 9/96, weeding note; CAOG 9/97, memo, 29 May 1922; CAOG 9/228; CAOG 9/276–CAOG 9/283; CAOG 9/359; CO 67/246/16, CAs to Cyprus, 30 June 1932; T 233/1425, memo, 14 May 1958; WN 13; L1, finance reports 1963 and 1964; Stock Exchange, Stock Exchange Official Intelligence, London, 1921–32, 1939, 1953, 1962.

Notes. Yield = interest rate/price x 100.

unbalanced budget and severe economic problems, and having obtained £1m of advances from the Joint Colonial Fund, the Colonial Office decided to annex the interior of the protectorate to form the Crown colony of Kenya, for which a loan was issued in November 1921.<sup>14</sup>

Demands by the CAs and the CO for the 1900 Colonial Stocks Act be amended to give protectorates trustee status were initially resisted by the Treasury, which feared that such a move would depreciate the value of the privilege.<sup>15</sup> However, aware that its intransigence was stoking antipathy towards the UK and slowing development and increasing the dependence of such territories on the Exchequer, the Treasury eventually gave way.<sup>16</sup> The 1929 Colonial Development Act allowed stock issued by protectorates and mandated territories to be bought by trusts provided that their governments issued orders-in-council. Over the following few years, Bechuanaland, FMS, Northern Rhodesia, Nyasaland, Swaziland, Uganda and Zanzibar all passed such ordinances. Unfortunately, the Act's provisions failed to extend to the East African Commission, a common interests authority, which had to wait until the 1948 Colonial Stocks Act before it was able to issue on equal terms with colonies.<sup>17</sup>

<sup>14</sup> Stephen Constantine, *The Making of British Colonial Development Policy, 1914–40*, London 1984, pp. 49–50.

<sup>15</sup> CO 323/839/2832, minutes, 10–19 Dec. 1919, *ibid.*, Amery to Chamberlain, 4 March 1920; *ibid.*, Chamberlain to Amery, 25 March 1920.

<sup>16</sup> CAOG 9/88, CO memo, 1928.

<sup>17</sup> CA (m) 25, p. 6.

*Interest rate and prices*

The annual yields of Crown colony loans, that is the annual dividend taking into account the price at issue, were far lower than those of foreign loans and slightly less than dominion issues (Figure 1.2). Colonial issuers thus paid relatively less for the money that they borrowed than their counterparts. The interest rate set was generally that ruling at the time of issue. After the First World War, pressure on the loan market forced rates up to 6 per cent. As demand eased, rates then fell to 4 per cent, rising to 5 per cent during the early 1930s financial crisis, but then returning to 4 per cent, followed by 3 per cent. In the aftermath of the Second World War, the government's cheap money policy prevented a repeat of the post-WWI rate rise and rates fell to as low as 2.5 per cent, gradually rising to 6 per cent as colonial independence approached and the demand for loans fell.<sup>18</sup> The Agents ignored the ruling interest rate on just two occasions: in 1923 and 1952 when they set excessively low prices and rates for respectively a Nigerian and a Ugandan loan. It was believed that a combination of low prices and rates appealed to investors, such as insurance companies, who were more interested in the return they would make when a loan was redeemed at par than in annual yield, which was heavily taxed. Although alluring to insurance companies, however, the terms held little attraction to non-tax paying Pension Funds and trusts and both loans failed. The issues also generated much anger at the Treasury, which regarded them as tax dodges that sought to defraud the Exchequer and feared that they would lead to trade union disquiet.<sup>19</sup>

The loan prices set by the Agents were relatively high and generally were just below those of British government stock.<sup>20</sup> One reason was that colonial government finances were supervised by the Colonial Office and imprudent behaviour was therefore unlikely, and it was accepted in the market that the UK government would not allow any colony to default on its debts. Non-payment would reflect badly on the effectiveness of its management of the Empire and would damage the credit of all the crown colonies, making it difficult for them to raise loans and forcing them to fall back on the Imperial Exchequer for financial support.<sup>21</sup>

Other explanations for the high prices are the various strategies adopted by the Agents to ensure that demand for colonial stock remained high, and the purchase by the CAs of a proportion of each loan at the time of issue for the colonial investment Funds that they managed, a procedure known as 'buying firm'. The purchases were noted in the prospectus, and, by reflecting the Agents' confidence in the project to be financed and reducing the amount of stock to be sold to the public, encouraged others to subscribe. They also simplified the conversion of loans to lower interest stock, helped to attract underwriters by minimizing the risks involved in supporting loans, and cut costs. From 1928, the stock bought was not underwritten, and, when purchases occurred, Scrimgeours reduced their overriding commission (the fee they obtained for organizing underwriting) by

<sup>18</sup> CA (mc) 60.

<sup>19</sup> CAOG 9/324, notes, p. 14; CO 323/985/19, *The Times*, cutting, 1952.

<sup>20</sup> CO 323/957/4, memo, Ezechiel, 1926.

<sup>21</sup> CAOG 9/101, memo, 18 July 1935; CAOG 9/324, notes, p. 21.

20 per cent.<sup>22</sup> Inevitably, the Bank of England disparaged the practice, which it referred to as ‘colonies taking in one another’s washing’.<sup>23</sup> Nevertheless, the Agents bought portions of 50 loans, purchasing £41.2m of stock or 15 per cent of that issued. On average, they took 23 per cent of each loan, the amount bought being restricted by Stock Exchange rules and related to the likely public demand, the amount of money available for investment, and whether the stock was suitable for the Funds with cash to spare and likely to give a more favourable return than similar securities offered on the open market.<sup>24</sup>

In setting prices, the Agents followed a number of general rules. First, the price of an issue had to be below the market price of the issuing colony’s existing stock. This allowed those brokers who purchased issues to make a profit, known as a ‘turn’, when they resold the stock onto the public.<sup>25</sup> Secondly, prices had to be below par (100), the price at which the stock was repaid at the end of its life. Trustees were averse to purchasing stock at a considerable premium, and, if they managed trusts with less than fifteen years to run, they were prohibited by law from buying securities priced at above par.<sup>26</sup> Third, the CAs had to take account of the views of underwriters, who would only underwrite a loan if the price was fixed at a level which would attract subscribers.

The prices fixed for loans were remarkably similar, despite the differing prospects of issuers. The investing public had ‘little acquaintance with individual colonies and the conditions prevalent in them’ and viewed the Crown colonies as a single entity to which it attached a single worth.<sup>27</sup> Nevertheless, when deciding on a price, the Agents did have to take some account of the circumstances of the flotation and the nature of the issuing territory. Prices tended to be set relatively low when large numbers of loans were being issued, as after the two World Wars, or when colonial stock prices were falling, for example in the early 1950s.<sup>28</sup> Large loans were also usually sold relatively cheaply, to avoid underwriters being left with large amounts of unsold stock, as were those issued by colonies that had not previously borrowed on the market and were therefore an unknown quantity to investors.<sup>29</sup> On the other hand, high prices were attached to the issues of prosperous colonies, and the competition between issuing houses for clients in the 1920s prompted the Agents to increase the prices of all colonial loans in order to prevent defections to their rivals.<sup>30</sup>

A further influence on price was the Bank of England, which began to seek to influence the terms set in the 1920s. Its interventions reached a peak in 1926 and 1927. In 1926, immediately before the flotation of a Nigerian loan at 99.5, the

<sup>22</sup> CAOG 9/324, notes, p. 13; BE, ADM 14/51, No. 8, memo, 7 Oct. 1958; CAOG 9/288, memo, ‘How the colonies benefited in 1934 from the CAs’ financial policy’.

<sup>23</sup> SA, IF 231/239/01, Part A, pp. 96–102.

<sup>24</sup> CAOG 9/324, notes, p. 13; CAOG 9/105, Scrimgeours to CAs, 19 Dec. 1927.

<sup>25</sup> CAOG 9/40, Colonial circular, 10 July 1925.

<sup>26</sup> CAOG 9/324, notes, p. 14.

<sup>27</sup> *Ibid.*, p. 12.

<sup>28</sup> CAOG 9/113, memo, 19 July 1923; CAOG 9/101, memo, Scrimgeours, 5 May 1952.

<sup>29</sup> CAOG 9/324, notes, pp. 12, 13. To reduce the loss to the issuer, first loans were relatively small (*ibid.*, p. 12).

<sup>30</sup> CAOG 9/101, *The Times*, 25 Nov. 1925.

Bank's Governor, Montague Norman, advised the Agents that the price should not be more than 99. Not wishing to deprive the colony of the loan proceeds that would be lost if the price was lowered, the CAs postponed the issue, which eventually took place three months later priced at 100, at which it was oversubscribed.<sup>31</sup> A year later, the Agents fixed the price of a Kenyan loan at 95, only to be told by the Governor that they were taking 'an unjustifiable risk' and that it should be 94.5. Assured that their 'brokers ... the Bank of England's own brokers, the underwriters and the market' all disagreed with the Governor, the CAs disregarded his advice and went ahead with the issue, which was again oversubscribed. Norman, astonished that the Agents had had the temerity to ignore his instructions, made official complaints about their behaviour to both the Colonial Office and the Treasury and demanded that he be given some control over the Agency's prices.<sup>32</sup>

The Bank believed that such control was essential for the smooth functioning of the market. If an excessively priced Crown colony loan failed, other issuers would have difficulty successfully floating their stock at a reasonable price. The failure of the loan would reduce the credit of the market and underwriters would be left with large amounts of unsold stock. If they decided to hold their allocations until they offloaded them onto the public, they would have insufficient funds to underwrite and purchase new loans. Whereas, if they dumped them onto the market, the price of colonial stock and other securities would fall, forcing the issuers of fresh loans to set more generous terms. The resultant 'clogging' of the market would also 'queer the pitch' for Treasury issues, reducing the funds available to the UK government, and lead to the failure of foreign government flotations, encouraging them to turn to other markets for their finance.<sup>33</sup>

In response, the Agents argued that the prices that the Bank wished them to set were far too low and would reduce the money colonies received from issues, and that the failure of an issue would not necessarily obstruct the flotation of other loans. Colonial issues were relatively small in size and made at long intervals, large amounts of stock were bought by colonial investment Funds on a 'firm' basis, and, in the event of failure, they prevented price falls by purchasing stock from underwriters. The Agents, rather, suspected that the Bank's concern about their prices was motivated by self-interest. Many of the Bank's clients were underwriters, who would withdraw their business if it failed to protect their interests, and it was itself an issuing house.<sup>34</sup> The high prices commanded by Crown colony issues reflected badly on its own lower priced loans and the clogging of the market by the CAs threatened the success of its issues. The Agents also believed that Bank officials had an 'acquisitive eye for the loaves and fishes' of their loan business and that they deliberately sought to depreciate the terms of colonial loans in order to encourage colonies to abandon the Agency and move their business to the Bank.<sup>35</sup>

<sup>31</sup> CAOG 9/300, CAs to Wilson, 8 Dec. 1927.

<sup>32</sup> CAOG 9/58, CAs to CO, 14 May 1928.

<sup>33</sup> CAOG 9/300, CAs to Wilson, 8 Dec. 1927; CAOG 9/58, CAs to CO, 14 May 1928.

<sup>34</sup> CAOG 9/300, CAs to Wilson, 8 Dec. 1927.

<sup>35</sup> CA (m) 61, p. 7; CA (mc) 60, p. 16, appendix 1.

In normal times, the Bank's demand for more control over prices would have fallen on deaf ears. Unfortunately for the Agents, as will be discussed in chapter three, in early 1931 poor investments led to the near bankruptcy of the Joint Colonial Fund and severely damaged the Colonial Office's confidence in the CAs' financial abilities. In 1932, therefore, the Secretary of State acquiesced to the Bank's request that the Agents inform the Governor of the intended price of each issue and seriously consider the advice proffered.<sup>36</sup> Thereafter, although they occasionally failed to provide details of terms, the CAs always set prices that were acceptable to the Bank, and, in 1935, declined to join UK municipal issuers who sought to reduce the Bank's influence on prices.<sup>37</sup>

### *Reservation of stock*

In the early 1920s, the Agents were keen to increase the number of securities bought by residents of issuing colonies. Such purchases reduced the amount of stock that had to be disposed of in Britain and it was believed that they would encourage the development of local financial markets and enable colonial governments to issue loans in their own countries.<sup>38</sup> From 1922, therefore, if they suspected there was sufficient demand, the CAs began to reserve a certain proportion of flotations for those who lived in the issuing colonies. If the number of applications exceeded the amount set aside, allotments were scaled down, and, if they were less, the balance was sold to London applicants.<sup>39</sup> Up to 1964, 28 loans had local reservations, on average 10 per cent or £341,438 of issues was set aside, and colonial subscribers, in total, bought £9.6m of stock. The majority of applications were from local insurance companies and local government departments and officials, with a relatively small proportion coming from ordinary residents.<sup>40</sup> In 1964, the Agents additionally reserved £50,000 of stock of a Jamaican loan for Jamaicans resident in the UK. 'The experiment was not particularly successful' and it was not repeated.<sup>41</sup>

Colonial reservations had two drawbacks. There were complaints that the payment of dividends and the registration of transfers were relatively slow, largely because the stock was registered by the CAs in London. To speed up both activities, the Agents began to create local registers of locally held stock, which allowed them to transfer the performance of these services to the local Treasury.<sup>42</sup> A more important difficulty was that many colonial applicants failed to obtain stock, as, by the time the Agents received their applications, the flotation was over. Colonies were sent the terms of loans only a few days before a flotation

<sup>36</sup> CAOG 9/230, meeting, 23 Feb. 1932.

<sup>37</sup> G 1/202, No. 47, Norman to Ezechiel, 30 May 1932; CAOG 9/300, *Financial Times*, 13 June 1935; *ibid.*, CAs to Trinidad, 16 Aug. 1935; *ibid.*, CAs to Ceylon, 18 Dec. 1935.

<sup>38</sup> CAOG 9/358, CAs to Scrimgeours, 19 Sept. 1952.

<sup>39</sup> CAOG 9/111, CAs to Nigeria, 10 Feb. 1922.

<sup>40</sup> For example, the Jamaica Mutual Life Insurance Society obtained 41.2 per cent of the reserved portion of the 1923 Jamaica loan, the Native Administrations bought 68 per cent of this part of the 1927 Nigeria issue, and 35 per cent of the reserved stock of the 1923 Nigeria loan was acquired by employees of the government (CAOG 9/79, Jamaica to CAs, 29 March 1923; CAOG 9/18; CAOG 9/93).

<sup>41</sup> L 1, Finance Dept. report, 1964.

<sup>42</sup> CA (m) 25, p. 8.